

For CA FINAL
Group I – PAPER 3
ADVANCE AUDITING
ASSURANCE
AND
PROFESSIONAL ETHICS
CHAPTERWISE COMPILER

Edition – 2

KEY FEATURES:

- ✓ Based on the Institute's New Module for May 2025 Exam Onwards
- ✓ Updated Content of All Chapters
- ✓ Helpful for Revision
- ✓ All Answers in Point Form – Easy to grasp & understand
- ✓ Simple and Lucid Language

CA CS Amit Tated
FCA, CS, DISA



For C.A. Final

Advanced Auditing, Assurance & Professional Ethics

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CA. AMIT TATED

Founder: A. T. Academy

Preface

It gives me immense pleasure to present the Second Edition on CHAPTERWISE COMPLIER of Advanced Auditing, Assurance & Professional Ethics. This edition has updated syllabus which is applicable from JAN 2026 exam and onwards.

This book has everything which student may require to Revise, Recall and Reproduce Audit. The book has been developed keeping in mind the technicality of the subject, so that student can revise easily.

This book will suffice to go with institute language to revise the content.

In recent exam papers we saw that the questions asked are more practical. Thus, students need to understand the concepts and logical reasoning of the Chapter. Only mugging-up shall not suffice to score in this subject.

For Question Bank & Revision, student can refer Amit Tated YouTube Channel.

(CA Amit Tated, CA Amit Tated Classes & Amit Tated Motivates)

Every effort has been made to avoid any errors and omissions in this book. Despite all the efforts we believe some errors might have crept in. The students are welcome to point out any errors / suggestions.

Best wishes,

CA CS Amit Tated
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August, 2025

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I would like to acknowledge my Parents (Vijay & Shobha), Manish, Allan, Ritesh, Bhavesh & Sumeet for all their support towards my journey of studies, career & experience.

Special Thanks to my wife Manali, daughter Ritika and son Aditya.

And My Friends Vinod and Prashant.

Above all, a Big Thank You to all my students, you have been an inspiration and my guiding force.

INDEX

Chapter No.	Name	Page No.
1.	QUALITY CONTROL	1.1 - 1.13
2.	GENERAL AUDITING PRINCIPLES & AUDITORS RESPONSIBILITIES	2.1 - 2.13
3.	AUDIT PLANNING, STRATEGY & EXECUTION	3.1 - 3.13
4.	MATERIALITY, RISK ASSESSMENT AND INTERNAL CONTROL	4.1 - 4.5
5.	AUDIT EVIDENCE	5.1 - 5.12
6.	COMPLETION AND REVIEW	6.1 - 6.14
7.	REPORTING	7.1 - 7.30
8.	SPECIALISED AREAS	8.1 - 8.4
9.	AUDIT - RELATED SERVICES	9.1 - 9.8
10.	REVIEW OF FINANCIAL INFORMATION	10.1 - 10.6
11.	PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES	11.1 - 11.5
12.	DIGITAL AUDITING & ASSURANCE	12.1 - 12.12
13.	GROUP AUDITS	13.1 - 13.9
14.	SPECIAL FEATURES OF AUDIT OF BANKS AND NON-BANKING FINANCIAL COMPANIES (UNIT - 1 BANKING)	14.1 - 14.8
15.	SPECIAL FEATURES OF AUDIT OF BANKS AND NON-BANKING FINANCIAL COMPANIES (UNIT - 2 NON - BANKING)	15.1 - 15.7
16.	OVERVIEW OF AUDIT OF PUBLIC SECTOR UNDERTAKING	16.1 - 16.8
17.	INTERNAL AUDIT	17.1 - 17.5
18.	DUE DILIGENCE, INVESTIGATION & FORENSIC AUDIT	18.1 - 18.12
19.	EMERGING AREAS SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT	19.1 - 19.11
20.	PROFESSIONAL ETHICS	20.1 - 20.34

PAPER PATTERN FOR CA FINAL AUDIT

- MCQ'S 30 marks
- Theory 70 marks compulsory including options 88 Marks
- Q. 1 is Compulsory always.
- You need to attempt Any 4 from 5 questions for 14 marks each.

YEAR WISE	MAY 2024	NOVEMBER 2024	MAY 2025
SR. NO.	THEORY	THEORY	THEORY
1.	10	5	5
2.	9		5
3.		10	5
4.	4		5
5.		5	
6.	5		
7.	10	10	14
8.	4	5	
9.	5	5	4
10.	5	4	
11.		5	4
12.	5	4	4
13.	5		
14.			5
15.	4	5	5
16.		4	
17.			5
18.	5	4	4
19.	4	4	5
20.	13	18	18
Total	88	88	88

1. QUALITY CONTROL

Q.1. Rajni Ltd., a listed company, has appointed M/s Amit & Co. as its statutory auditor. CA Sunil, who recently joined the firm, has been appointed as the engagement partner for the first time. While preparing for the audit, he realises the importance of ensuring the audit team's independence, as required by standard audit practices. However, when reviewing the firm's framework, he is unable to find any documented policies or procedures addressing independence compliance.

What steps should CA Sunil take to ensure compliance with independence requirements for the audit engagement? Why is it necessary for an audit firm to have well-documented policies and procedures to maintain independence? Discuss with reference to the relevant Standards on Auditing. [MTP - 1 MAY 25] (05)

Q.2. PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement & acceptance letter. CA. R is the engagement partner & is planning to issue the acceptance letter. During the current financial year, there was a search by the Income Tax authorities on the company, & certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the promoters' brother, is contemplating to contest in the ensuring elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates & is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector. Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues. [MAY 24] (05)

Q.3. SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified

and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. [MTP - 1 NOV 24] (05)

Q.3.A Sun & Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the company shared the appointment letter with Sun & Associates, seeking acknowledgement and acceptance letter. CA S is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA S noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left Sun & Associates and is planning to provide some accounting services to one of the associate companies. Sun & Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector. Elaborate the matters to be considered by Sun and Associates with respect to acceptance and continuance of client relationships considering the above issues.

[MTP - 11 MAY 25] (05)

Q.4. CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associate is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?

Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri & the engagement partner.

[MAY 24] (05)

Q-5. TPX & Co., Chartered Accountants is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view above situation from point of view of quality control system in audit firm? Analyse.

[MTP - 1 MAY 24] (05)

Q-6 STA and Associates, Chartered Accountants, is an upcoming firm its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC.

[NOV 24] (05)

Q-6-A M/s JinKushal & Co. has been appointed as an auditor of SC Ltd. for the financial year 2023-24. CA Jin, one of the partners of M/s JinKushal & Co., completed entire routine audit work by 19th June, 2024. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA Kushal, another partner of M/s JinKushal & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA Jin.

State with reasons whether CA Kushal is right in expressing an opinion on financial statements, the audit of which is performed by another auditor. [RTP MAY 25]

Q-7 Pine & Associates is the statutory auditor of BB Ltd., a listed company and started its operations 6 years ago. The fieldwork during the audit of the financial statements of the company for the year ended 31st March, 2023 was completed on 1st May, 2023. The auditor's report was dated 15th May, 2023. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 18th May, 2023. The engagement partner had completed his reviews in entirety by 12th May, 2023. Comment [MTP - 11 MAY 24] (04)

ANSWERS

1. As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," the firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:

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

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

In doing so, the engagement partner shall:

- (i) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;

	(ii) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
	(iii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
2.	Acceptance and Continuance of Client Relationships: As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," a firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about:- • Integrity of Client, promoters, and key managerial personnel. • Competence (including capabilities, time, and resources) to perform engagement. • Compliance with ethical requirements. The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved. Further, as per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence. In view of the above, PQR Associates should:
✓	follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating the integrity of the client, assessing potential risks associated with the engagement, and ensuring the firm has the necessary resources and expertise to

	perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions.
✓	communicate clearly with the client regarding the scope of the engagement, the responsibilities of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client.
✓	Independence & objectivity throughout the engagement. Any potential threats to independence, such as relationships with the client's affiliates or involvement in political activities by related parties, should be evaluated and mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit & examine the relevant ethical/independence requirements.
✓	continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.
✓	ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left PQR Associates, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.
3.	As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where

it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, SPS & Associates, Chartered Accountants, statutory auditors of Grec Limited for the last two years, came to know that the company has expanded its operations into a new segment as well as in new country. SPS & Associates does not possess the necessary expertise for the same, therefore, SPS & Associates wish to withdraw from the engagement and client relationship. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.

If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.

Considering whether there is a professional, regulatory, or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Documenting significant issues, consultations, conclusions, & the basis for the conclusions.

SPS & Associates should address the above issues before deciding to withdraw.

3A. **Acceptance and Continuance of Client Relationships:** As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," a firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about:-

- Integrity of Client, promoters, and key managerial personnel.
- Competence (including capabilities, time, and resources) to perform engagement.
- Compliance with ethical requirements.

The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

Further, as per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence.

In view of the above, Sun & Associates should:

- ✓ follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating the integrity of the client, assessing potential risks associated with the engagement, and ensuring the firm has the necessary resources and expertise to perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions.
- ✓ communicate clearly with the client regarding the scope of the engagement, the responsibilities of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client.
- ✓ independence and objectivity throughout the engagement. Any potential threats to independence, such as relationships with the client's affiliates or
- ✓ involvement in political activities by related parties, should be evaluated and mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements.
- ✓ continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the

	organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.
✓	ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left Sun & Associates, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.
4.	As per SA 220, "Quality Control for an Audit of Financial Statements", for audits of financial statements of listed entities, CA. Giri, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
(i)	The engagement team's evaluation of the firm's independence in relation to the audit engagement;
(ii)	Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations;
(iii)	Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.
	As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," there might be difference of opinion within engagement team, with those consulted and between engagement partner and engagement quality control reviewer. The report should only be issued after resolution of such differences. In case, recommendations of engagement quality control reviewer are not accepted by engagement partner and matter is not resolved to reviewer's satisfaction, the matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.
	In the given situation, under completion of review, CA. Giri, Engagement Quality Control Reviewer has identified certain issues. However, the view of CA Giri, the EQCR are not

accepted by the Engagement Partner. This difference of opinion among the CA Giri and Engagement Partner should be resolved with abovementioned manner as per SQC 1.

5. In accordance with SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" the firm should establish policies and procedures designed to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

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

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

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

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

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

6.	<i>Factors considered for Monitoring Quality Control Engagements: As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," factors to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC:</i> <i>Deciding whether the quality control system of the firm has been appropriately designed and effectively implemented.</i> <i>Examining whether new developments in the professional standards, legal, and regulatory requirements have been reflected in the quality control policies.</i> <i>Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm.</i> <i>Dealing with complaints and allegations against the firm or any employees of it of noncompliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.</i> <i>Taking appropriate remedial actions against the personnel who did not conform to quality control policies.</i> <i>Taking action when deficiencies in the design or operation of the firm's quality control policies & procedures, or non-compliance with the firm's system of quality control are identified.</i>
6A.	<i>Relying on Work Performed by Another Auditor: As per SA 220 "Quality Control for an Audit of Financial Statements", an engagement partner taking over an audit during the engagement may apply the review procedures such as the work has been performed in accordance with professional standards and regulatory and legal requirements; significant matters have been raised for further consideration; appropriate consultations have taken place and the resulting conclusions have been documented and implemented; there is a need to revise the nature, timing and extent of work performed; the work performed supports the conclusions reached and is appropriately documented; the evidence obtained is sufficient and appropriate to support the auditor's report; and the objectives of the engagement procedures have been achieved.</i> <i>Further, as per the Code of Ethics it is the auditor's professional responsibilities and should be complied with that when the auditor delegates work to assistants or uses</i>

work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. However, the auditor should carefully direct, supervise and review the work delegated. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose. In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA Jin. However, the report could not be signed by him due to his unfortunate death. Later on, CA Kushal signed the report relying on the work performed by CA Jin. Here, CA Kushal is allowed to sign the audit report, though, will be responsible for expressing the opinion. He may rely on the work performed by CA Jin provided he further exercises adequate skill and due care and review the work performed by him.

7. As per SA 220, "Quality Control for an Audit of Financial Statement", the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.

For audits of financial statements of listed entities, the engagement partner shall:

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

Further, SA 700," Forming an Opinion and Reporting on Financial Statements", requires the auditor's report to be dated not earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

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

In this case, the audit of BB Ltd. for the year ending on 31st March 2023 was conducted by Pine & Associates and was completed on 1st May, 2023. Subsequently, the engagement partner reviewed the audit by 12th May, 2023. The audit report issued by Pine and Associates was dated 15th May, 2023. However, the engagement quality control review was finalized on 18th May, 2023, which is later than the date of the audit report. In view of above, the date of auditors' report before the completion of the engagement quality control review, is not correct.

2. GENERAL AUDITING PRINCIPLES & AUDITORS RESPONSIBILITIES

Q-1. Aditya Ltd. was engaged in the business of owning and managing hotels and resorts, selling tourism packages and performing airline bookings for corporate and individuals. It appointed Sanjay & Co. as its statutory auditor for the financial year 2022-23. While planning the audit, the audit team decided that the risk of improper revenue recognition from hotel business should not be treated as a fraud risk. This conclusion was based on the assessment of earlier years, wherein no fraud was identified in revenue recorded from such business. While testing the internal financial controls over the process of revenue recognition, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. As a result, the audit team decided to perform additional substantive testing. However, the audit team still were to the conclusion that there is no risk of fraud in revenue recognition. During the course of substantive testing, it was identified that the management did not account for revenue received from corporate hotel bookings amounting to ₹ 43 crore. These amounts were partially received in the company's bank accounts and partially received in the CFO's personal account. The amounts received in the bank account of the company were disclosed as advances received against the future bookings. In the light of above scenario, kindly guide the statutory auditors with respect to their responsibility relating to fraud in an audit of a financial statement.

[MTP - 11 MAY 24] (05)

Q-2. You are appointed as Statutory Auditor of Supreme Ltd. and are in the midst of conducting Annual Audit for the financial year ending on 31st March, 2023. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.50 crores from a company incorporated on 18th March, 2023. Upon further inquiry, you discover that purchases have been booked at the instance of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation?

[RTP MAY 24]

Q.3. Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ₹ 700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ₹49 crore and the unaudited turnover was ₹ 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour of the company.

Accordingly, no provision has been created for such notices.”

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter.

[MTP - 11 MAY 24] (05)

Q.4 While conducting the audit of Quantum Mechanics Limited, Mr. Manoj, the audit manager, identified significant payments made by the company for legal and retainership fees related to litigation. The litigation pertained to the Thirunelly manufacturing plant, situated on forest land reserved for the Elephant Corridor, which was declared illegally constructed. The company had received a notice to decommission the plant by 31-05-2022, but it had challenged decommissioning

order in the High Court and matter was still pending there. The company had not disclosed any information related to the litigation in its financial statements for Financial Year 2022-23. The Thirunelly plant accounted for over 75% of the company's annual production, and the audit team expressed concerns that decommissioning could significantly disrupt operations and potentially lead to bankruptcy. The audit was near to completion. When Mr. Manoj sought advice from audit partner Mr. Shalabh on this matter, he suggested that no immediate action was necessary from the auditors, as the matter was still pending in Kerala High Court. However, Mr. Manoj feels that situation requires action from auditors and to be indicated in the report. Whose view seems to be appropriate? Comment with reference to applicable Standards on Auditing. [RTP MAY 24]

Q.5. Studio Ltd. appointed AB & Associates and CD & Co. as joint auditors for conducting the audit for the year ending on 31st March 2024. During the audit, it was observed that there is a significant understatement in the value of trade receivables. The trade receivable valuation work was looked after by AB & Associates, however, there was no documentation outlining the division of the work between the joint auditors. Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing. [MTP - II NOV 24] (05)

Q.6. STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company. The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.

(a)	Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which engagement and quality control standard casts such kind of responsibility upon the auditor? [RTP MAY 24]
Q-7.	During the audit of Indo limited, CA Harish observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk. Discuss with reference to the relevant Standards on Auditing. [MTP - 1 NOV 24] (04)
Q-8.	Happy Hospital is a very renowned hospital for Orthopedic Surgeries in Mumbai having sophisticated infrastructure. Happy Hospital has started using a novice system which includes complete record of Indoor Patient i.e. their diagnosis, their treatment, their billings, and receipts thereon which is developed and managed by CT Contractors. CA Z is a statutory auditor of Happy Hospital. CA Z came to know about this system while auditing. CA Z is concerned whether the controls at CT Contractors Associates are operating effectively or not. For this purpose, CA Z demanded from CT Contractors, an assurance report from a practicing chartered accountant about their opinion on the description of CT Contractor's system, and the effectiveness of the control. Which type of report should be obtained by CA Z in terms of relevant Standard on Auditing? What aspects are to be considered by CA Z in using such assurance report as audit evidence that controls at CT Contractors are operating effectively? [MTP - 1 MAY 25] [MAY 24] (05)
Q-9.	FAB Limited is availing the services of Atiya Private Limited for its payroll operations. Payroll cost accounts for 63% of total cost for FAB Limited. Atiya Limited has provided the type 2 report as specified under SA 402 for its description, design, and operating effectiveness of control.

Atiya Private Limited has also outsourced a material part of payroll operation M/s RST & Associates in such a way that M/s RST & Associates is sub-service organization to FAB Limited. The Type 2 report which was provided by Atiya Private Limited was based on carve-out method as specified under SA 402.

CA. Akram while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor.

CA. Akram hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA. Akram is correct in removing the reference of the work done by service auditor?

[MTP - 1 MAY 24] (04)

ANSWERS

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

In accordance with SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" and SA 330, "The Auditor's Responses to Assessed Risks" the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level and assertion level. The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property. However, when there is a complex revenue structure or when there is lack of controls on revenue recognition, then there is a high probability of fraud risk in revenue recognition.

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

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

Therefore, the auditor while performing the risk assessment procedures should consider the complexity and nature of the revenue for determining the fraud risks in revenue recognition. Also, there were no adequate controls addressing the risk of improper revenue recognition or fraud risk, the audit team rebutted the fraud risk. Moreover, the audit team should have recognised fraud risk by identifying the deficiencies of internal control over the revenue recognition process and should have treated the risk of improper revenue recognition as a significant risk. Also, as per Section 143(12), the auditor is required to report all the frauds identified during the course of the audit involving amounts above ₹ 1 crore within the prescribed time frame to the Central Government.

2. SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," emphasize that fraud can be perpetrated by management override of controls, such as the creation of fictitious journal entries, particularly towards the end of an accounting period, to manipulate operating results or achieve specific objectives. In the case of Supreme Ltd., where purchases of ₹ 1.50 crore were recorded at year-end without supporting evidence, it became apparent during the investigation that the company had entered fictitious journal entries to manipulate the operating results. Given this situation, the auditor would align their approach based on the impact of the misstatement resulting from such fictitious journal entries. If, due to fraud or suspected fraud, the auditor encounters exceptional circumstances that cast doubt on

their ability to continue the audit, they must assess the professional and legal responsibilities applicable. This includes considering reporting obligations to those who appointed the auditor or, in some cases, to regulatory authorities. The appropriateness of withdrawal from the engagement is also a consideration, where legally permitted. Furthermore, the auditor is mandated to report in accordance with Section 143(12) of the Companies Act, 2013. According to Section 143(12) read with Rule 13 of Companies (Audit & Auditor's) Rules, 2014, if the auditor, during the performance of their duties, has reason to believe that an offence of fraud involving an amount of ₹1 crore or more has been committed by the company's officers or employees, reporting to the Central Government is required in the prescribed manner. Additionally, reporting obligations extend to Clause (xi) of Paragraph 3 of Companies (Auditor's Report) Order, 2020. The auditor is obligated to disclose whether any fraud by the company or against the company by its officers or employees has been observed or reported during the year. If affirmative, the nature and amount involved are to be indicated. This comprehensive reporting framework ensures transparency, adherence to legal requirements, and protection of stakeholders' interests in the face of potential fraudulent activities.

3. As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor is required to obtain an understanding and need to evaluate the impact of other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:
- (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and

- (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities
As per section 143(3)(j) read with Rule 11(a), the auditor is required to report whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement.
As per SA 570, "Going Concern", if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
- (i) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (ii) Disclose clearly that there is material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall (a) Express a Qualified opinion or Adverse opinion, as appropriate, in accordance with SA 705; and (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
In the current scenario, Nandini Ltd. has received a show cause notice from the National Green Tribunal of an amount which is more than the net profit and the turnover of the company for the year. In the event of an unfavourable order for Nandini Ltd., there will be an impact on Nandini Ltd.'s ability to continue as a going concern.
As a result, appropriate disclosure should be provided by management for such events, which cast significant doubt on the entity's ability to continue as a going concern. As no appropriate disclosure has been provided by Nandini Ltd. for such show cause notice, Vasu & Co. should report this matter in their audit report under "Going Concern Para" as per SA 570 and under clause (j) of section 143(3) of the Companies Act, 2013. Also, the auditor is required to issue an Adverse opinion as per SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

4. In accordance with SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", if the auditor concludes that the non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", express a qualified or adverse opinion on the financial statements.

In the specific case of Quantum Mechanics Limited, where significant legal and retainership fees have been paid related to a lawsuit concerning the Thirunelly manufacturing plant, the auditor needs to assess the impact of non-compliance on the financial statements. Given that the Thirunelly plant constitutes over 75% of the company's annual production and the audit team believes that decommissioning the plant could potentially lead to bankruptcy, the non-disclosure of such a significant matter would have a material and pervasive impact on the financial statements.

Contrary to the audit partner's suggestion that no action is necessary as the matter is pending in the Kerala High Court, the requirements of SA 250 and SA 705 necessitate a different approach. The auditor should express either a qualified or an adverse opinion on the financial statements based on the level of impact of non-disclosure. Further, above situation involves pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity may not be able to satisfy. It is an example of events or conditions that may cast a significant doubt on entity's ability to continue as a going concern. However, no disclosure is made in financial statements about the material uncertainty. SA 570, "Going Concern" also mandates auditor to express a qualified or an adverse opinion in accordance with SA 705, if adequate disclosure is not made about material uncertainty in financial statements. As a non-disclosure of such a significant matter would have material and pervasive impact of financial statements, adverse opinion in this situation appears appropriate. Therefore, Mr. Manoj's view seems to be proper.

5. **Responsibility and Co-ordination among Joint Auditors:** As per SA 299, "Joint Audit of Financial Statements", where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of the work would usually be in terms of audit identifiable units or specified area. In some cases, due to

the nature of the business entity under audit, such a division of the work may not be possible. In such situations, the division of the work may be with reference to items of assets or liabilities or income or expenditure or with reference to period of time. The division of the work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.

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

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

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

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

In the instant case, Studio Ltd. appointed two CA Firms AB & Associates and CD & Co. as joint auditors for conducting audit. As observed during the course of audit that there is a significant understatement in the value of trade receivable and valuation of trade receivable work was looked after by AB & Associates.

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

6. When the user entity uses the services of a service organisation, objectives of auditor of user entity are:

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

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

7. As per SA 402 "Audit Considerations relating to an Entity using a Service Organization", when obtaining an understanding of the user entity in accordance with SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment", the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:

- (i) The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;
- (ii) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
- (iii) The degree of interaction between the activities of the service organisation and those of the user entity; and
- (iv) The nature of the relationship between the user entity & the service organisation,

	including the relevant contractual terms for the activities undertaken by the service organization.
	Based on above, while conducting the audit, CA Harish will assess the effect on the audit risk and take necessary steps.
8.	In the given scenario, CA Z, as the statutory auditor of Happy Hospital, is concerned about the effectiveness of controls at the service organization, specifically the system managed by CT Contractors. To address this concern, CT Contractors should provide a Type 2 assurance report from a practicing chartered accountant as per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation". This report will offer an opinion on the description of the system in use at Happy Hospital, as well as evaluate the effectiveness of the controls implemented by CT Contractors. Using a Type 2 report as audit evidence that controls at the service organisation are operating effectively: If, the user auditor plans to use a Type 2 report as audit evidence that controls at the service organisation are operating effectively, the user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by: (a) Evaluating whether the description, design, and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes; (b) Determining whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness; (c) Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and (d) Evaluating whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment.

9. *Reporting by the User Auditor: As per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation", the user auditor shall modify the opinion in the user auditor's report in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements.*
- The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.*
- Thus, in view of the above, contention of CA. Akram in removing reference of the work done by service auditor is in order as in case of unmodified audit report, user auditor cannot refer to the work done by service auditor.*

3. AUDIT PLANNING, STRATEGY AND EXECUTION

Q-1 Naveen Ltd. is a chair manufacturing company having its corporate office in Maharashtra. The company is in the process of expansion and has acquired five companies during the year. Soni & Co. is the principal auditor of the company while the audit of all the companies acquired during the year is being conducted by Rahul K & Associates. During the course of audit, CA. Soni, the engagement partner asked the management of Naveen Ltd. at the corporate office that in order to conduct the audit of the consolidated financial statements, his audit firm is required to conduct audit of the financial statements of all the components also (Companies acquired during the year). To this, the management asked CA. Soni to consider the audit reports of the component auditor already provided to his audit team and to communicate with the component auditor for any discussion they wish to have. CA. Soni contended that for the purpose of audit of consolidated financial statements either his firm is required to conduct an audit of all the component's financial statements, or he needs the working papers of the component auditors. Is the contention of CA. Soni correct?

[MTP - 11 MAY 24] (05)

Q-2. MK Electronics Limited is a listed company with eight subsidiaries spread across various states. The financial statements of MK Electronics Ltd. are audited by CA Amar, the principal auditor. CA Amar relies on the work of other auditors for auditing the financial statements of subsidiaries. You are required to:

(i) Explain the procedures that CA Amar will perform to obtain sufficient appropriate audit evidence to ensure that the work of other auditors is adequate for his purpose.

(ii) Explain how he will document the working papers with respect to the subsidiaries audited by other auditors. What matters need to be documented if the other auditor's report is modified.

[NOV 24] (05)

Q-3. Rishi is appointed as internal auditor for a SPOM Limited, a medium-sized manufacturing company, while CA Nitin is the statutory auditor of the SPOM Limited. CA Nitin asked Rishi to provide direct assistance to him regarding evaluating the appropriateness of management's use of the going concern assumption. In view of

Standards on Auditing, whether Nitin can ask direct assistance from Rishi as stated above? [RTP NOV 24]

Q.4. Rajveer & Associates have been the statutory auditors of Ish and Vish Ltd., a listed company. CA Vishav, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These assertions were not examined by him in previous years due to materiality or risk considerations. Mr. Yug leads the internal audit department of the company and reports to the company's audit committee. During the audit, a senior member of the engagement team decides to engage Mr. Yug to provide direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing. Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance. [MTP - 1 MAY 25] (04)

Q.5. STU & Associates have been the statutory auditors of the listed company "First and Last Ltd.," operating in the petrochemical industry, for the past three years. CA. K, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These particular assertions were not examined by him in previous years due to materiality or risk considerations. Mr. X leads the internal audit department of the company and reports to the company's audit committee. During the course of audit, a senior member of the engagement team decides to engage Mr. X for providing direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing. Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance. [MTP - 11 MAY 24] (05)

Q.6. RPS Ltd., at its annual general meeting, appointed Mr. R, Mr. P, and Mr. S as joint auditors to conduct the audit for the financial year 2023-24. For the valuation of the newly constructed infrastructure project of the company, Mr. R, Mr. P, and

Mr. S decided to consult their own known engineers. Due to differences of opinion, each joint auditor sought advice from their respective engineers. As a result, significant discrepancies were found in the valuation reports provided by the engineers. However, Mr. R agreed with the report provided by Mr. P's engineer, while Mr. S did not. Mr. R argues that report of Mr. P's engineer should be included in the audit report due to the majority of votes. Now, Mr. S is in a dilemma.

What would be the responsibility of the auditors if the report provided by Mr. P's engineer is later found to be faulty?

[RTP NOV 24]

Q-7. Jagdish Pvt. Ltd. is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Comment

[MTP - I MAY 24] (04)

Q-8 CA Raj has been appointed as the auditor of MARCO Pvt. Ltd., a private real estate company. During the audit, he requested information from the management to review the outcome of accounting estimates—such as estimated costs considered for percentage completion—used in the prior period financial statements. His objective was to assess their subsequent re-estimation for the current period. However, the management refused to provide the requested information, arguing that the auditor should not review prior period estimates. Please advise how should Raj deal with this situation?

[MTP - I MAY 25] (04)

Q-9 Surya Pvt. Ltd., engaged in the business of real estate, appointed CA Amit as the auditor for F.Y. 2023-24. During the audit, CA Amit requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

[MTP - 11 MAY 25] (04)

Q-10. While assessing the impact of uncorrected misstatements in the audit of MINI Builders Private Limited, Mr. Gautam encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of MINI Builders as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged.

The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, the last month's actual sales represented only 30% of the estimated sales. Now, Mr. Gautam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Gautam in the light of relevant Standards on Auditing.

[MTP - 11 NOV 24] [RTP MAY 24] (05)

ANSWERS

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

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

The principal auditor may consider it appropriate to discuss with the other auditor

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

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

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

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

Accordingly, it is the discretion of the component auditor as the working papers with respect to the components examined by the component auditor are the property of the component auditor.

So, the contention of CA. Soni is not correct.

2.

(i) The principal auditor CA. Amar should perform procedures to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes. When using the work of another auditor, CA. Amar the principal auditor should ordinarily perform the procedures given below:

(1) advise the other auditor regarding use of his (other auditor) work and report and make sufficient arrangements for co-ordination at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of intercomponent transactions that may require disclosure and the timetable for completion of audit;

(2)	advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.
(ii)	CA Amar should document in his working papers, the components whose financial information audited by other auditors. CA Amar should also document the procedures performed and the conclusions reached. For example, the auditor would document the results of discussions with the other auditor and review of the written summary of the other auditor's procedures.
	Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.
3.	As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.
	Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make significant judgments in the audit engagement.
	Significant judgments include the following:
	- Assessing the risks of material misstatement; - Evaluating the sufficiency of tests performed; - Evaluating the appropriateness of management's use of the going concern assumption; - Evaluating significant accounting estimates; and - Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.
	In view of the above, CA Nitin cannot ask direct assistance from internal auditors regarding evaluating the appropriateness of management's use of the going concern assumption in accordance with SA 610.
4.	As per SA 610, "Using the Work of Internal Auditors", prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
(i)	Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that

the entity will not intervene in the work the internal auditor performs for the external auditor; and

- (ii) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. The external auditor shall not use an internal auditor to provide direct assistance if: (a) There are significant threats to the objectivity of the internal auditor; or (b) The internal auditor lacks sufficient competence to perform the proposed work.

In the current scenario, Rajveer & Associates are the statutory auditors of Ish and Vish Ltd., a listed company. CA. Vishav, the engagement partner, designed certain substantive procedures on some selected assertions in response to the assessed risks of material misstatements for the year, which were not previously examined. Mr. Yug, head of the internal audit department, reports to the audit committee. A senior audit team member decides to involve Mr. Yug in performing these substantive procedures.

As a result, the Rajveer & Associates is required to obtain written agreements from both the entity and the internal auditors regarding their cooperation and confidentiality. Further, using an internal auditor to provide direct assistance could prove to be counter-productive and defeat the very purpose of designing such substantive procedures. Hence, the decision of senior engagement team member to use Mr. Yug to provide direct assistance on above said matters is not in order as it is not in accordance with SA 610.

5. SA 610, "Using the Work of Internal Auditor" states that in determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide

direct assistance include the discussion of fraud risks, determination of unannounced audit procedures as addressed in SA 240 etc.

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

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

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

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

6. **Using the work of an Auditor's Expert:** As per SA 620 "Using the Work of an Auditor's Expert", the expertise of an expert may be required in the valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired etc., however, the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's

purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence as per SA 500.

Further, in view of SA 620, if the expert's work involves use of significant assumptions and methods, then the relevance and reasonableness of those assumptions and methods must be ensured by the auditor and if the expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data in the circumstances must be verified by the auditor.

In the instant case, Mr. R, Mr. P and Mr. S, jointly appointed as auditors of RPS Ltd., referred their own known engineer for valuation of the newly constructed infrastructure project. Engineers are an auditor's expert as per SA 620. Mr. P's referred Engineer has provided the valuation report, which was later found faulty. Further, Mr. S is not in agreement with this report, therefore, he submitted a separate audit report specifically for such a valuation.

In such a situation, it was the duty of Mr. R, Mr. P & Mr. S, before using the valuation report provided by engineer, to ensure the relevance & reasonableness of assumptions & methods used. They were also required to examine the relevance, completeness & accuracy of source data used for such a report before expressing their opinion.

Mr. R and Mr. P will be held responsible for gross negligence and using such faulty report without examining the adequacy of expert engineer's work whereas Mr. S will not be held liable for the same due to separate opinion expressed by him.

7. As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment

procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.
- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time.

In the given case, the management is not correct in refusing the relevant information to the auditor.

8. As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.

- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time. In the given case, the management is not correct in refusing the relevant information to the auditor.

9. As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.

- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures. However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time. In the given case, the management is not correct in refusing the relevant information to the auditor.

10. As per SA 450, "Evaluation of Misstatements Identified during the Audit", the auditor is required to reassess materiality, in accordance with SA 320 "Materiality in Planning and Performing an Audit", before evaluating the impact of uncorrected misstatements. This reassessment is crucial to confirm the ongoing appropriateness of materiality in light of the entity's actual financial results.

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

SA 320 outlines that, as the audit progresses, materiality may be revised for the financial statements as a whole or for specific classes of transactions, account balances, or disclosures. This revision is prompted by the auditor's awareness of information that would have led to a different initial determination. Typically, significant revisions occur before the evaluation of uncorrected misstatements. However, if the reassessment of materiality under SA 320 results in a lower amount, the auditor must reconsider performance materiality and the appropriateness of the audit procedures' nature, timing, and extent. This is crucial for obtaining sufficient and appropriate audit evidence on which to base the audit opinion.

In the present case involving MINI Builders Private Limited, it has been identified that the materiality calculated at the beginning of the audit for revenue was based on estimates provided by the management. The management extrapolated sales for the

full year using the actual amount of 11 months, but since the company experiences significant monthly variations in sales, the actual sales for the last month were only 30% of the estimated figure. This discrepancy arose due to an unexpected slowdown in project completions.

In this audit scenario, Mr. Gautam, the auditor, must review and re-assess the materiality initially determined under SA 320 to ensure its continued validity in light of the actual financial results. If the re-assessed materiality is lower than the previously calculated amount, Mr. Gautam must reconsider performance materiality and the appropriateness of the nature, timing, and extent of further audit procedures. This meticulous approach is essential to gather sufficient and appropriate audit evidence, enabling Mr. Gautam to form an independent and objective opinion on the financial statements of MINI Builders Private Limited.

4. MATERIALITY, RISK ASSESSMENT AND INTERNAL CONTROL

Q-1. Suneel was appointed as the auditor of PCM Ltd. for the financial year 2022-23. During the course of planning for the audit, CA. Suneel intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA. Suneel, if PCM Ltd. is engaged in:

- (i) the manufacture and sale of air conditioners and is having regular profits.
- (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic.

[MTP - II MAY 24] (05)

Q-2. Deepti & Co., Chartered Accountants, during the audit of a Magma Ltd. found that certain machinery had been imported for production of new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? [MTP - I NOV 24] (04)

Q-3. Ananya & Co., Chartered Accountants, during the audit of Krishna Ltd. found that certain machinery had been imported for the production of a new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? [MTP - II MAY 25] (04)

Q-4. AMRO Ltd. is a manufacturing and trading Company of leather goods since last 10 years. You are the internal auditor of the company for the year 2023-24. In order to review internal controls of the company, you visited the departments and noticed:

- (1) The head of procurement, Mr. Amit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.

- (2) The company's staff has been working in the same roles for over five years without any rotation. The finance manager, Mr. Sachin, in particular, has never had his duties rotated since joining the company.
- (3) The store manager, Mr. Gupta, who is responsible for maintaining the inventory, also keeps the inventory records.
- (a) Briefly discuss the general conditions pertaining to the internal check system to be ensure by you as an auditor.
- (b) Do you think that general conditions pertaining to the internal check system are violated in the given situation? [RTP NOV 24]

ANSWERS

1. **Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole:**
As per SA 320, "Materiality in Planning and Performing an Audit" determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.
- Factors that may affect the identification of an appropriate benchmark include the following:
- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
 - Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
 - The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
 - The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
 - The relative volatility of the benchmark.
- Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

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

In case if PCM Ltd. is engaged in the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic: CA. Suneel, the auditor may consider Revenue or Gross Profit as benchmarking. Alternatively, CA. Suneel, the auditor may consider the criteria relevant for audit of the entities doing public utility programs/ projects, Total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for that particular program/project activity. Where an entity has custody of the assets, assets may be an appropriate benchmark.

2. As per SA 320, "Materiality in Planning and Performing an Audit", when establishing the overall audit strategy, the auditor shall determine materiality for the financial statement as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

If the auditor concludes a lower materiality for the same, he shall determine whether it is necessary to revise performance materiality and whether the nature, timing and extent of the further audit procedures remain appropriate.

In the given case, Deepti & Co., as an auditor has applied the concept of materiality for the financial statements as a whole. But they want to re-evaluate the materiality concept on the basis of additional information of import of machinery for production of new product which draws attention to a particular aspect of the company's business.

Thus, Deepti & Co. can re-evaluate the materiality concepts after considering the necessity of such revision.

3. As per SA 320, "Materiality in Planning and Performing an Audit", when establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

If the auditor concludes a lower materiality for the same, he shall determine whether it is necessary to revise performance materiality and whether the nature, timing and extent of the further audit procedures remain appropriate.

In the given case, Ananya & Co., as an auditor has applied the concept of materiality for the financial statements as a whole. But they want to re-evaluate the materiality concept on the basis of additional information of import of machinery for production of new product which draws attention to a particular aspect of the company's business.

Thus, Ananya & Co. can re-evaluate the materiality concepts after considering the necessity of such revision.

4. (a) **Internal Check System:** The general condition pertaining to the internal check system may be summarized as under:

- (i) no single person should have complete control over any important aspect of the business operation. Every employee's action should come under the review of another person.

(ii)	Staff duties should be rotated from time to time so that members do not perform the same function for a considerable length of time.
(iii)	Every member of the staff should be encouraged to go on leave at least once a year.
(iv)	Persons having physical custody of assets must not be permitted to have access to the books of accounts.
(v)	There should exist an accounting control in respect of each class of assets, in addition, there should be periodical inspection so as to establish their physical condition.
(vi)	Mechanical devices should be used, wherever practicable, to prevent loss or misappropriation of cash.
(vii)	Budgetary control should be exercised, and wide deviations observed should be reconciled.
(viii)	For inventory taking, at the close of the year, trading activities should, if possible be suspended, and it should be done by staff belonging to several sections of the organization.
(ix)	The financial and administrative powers should be distributed very judiciously among different officers and the manner in which those are actually exercised should be reviewed periodically.
(x)	Procedures should be laid down for periodical verification and testing of different sections of accounting records to ensure that they are accurate.
(b)	Yes, in the given situation general conditions pertaining to the internal check system are violated as follows:
(1)	The head of procurement, Mr. Amit, having complete control over the procurement process without oversight violates the principle that no single person should control any important aspect of the business operation.
(2)	The lack of staff rotation for over five years violates the principle that staff duties should be rotated periodically to prevent any single person from performing the same function for too long.
(3)	Allowing Mr. Gupta, the store manager, to maintain inventory records while also having custody of the inventory violates the principle that those with physical custody of assets should not have access to accounting records.

5. AUDIT EVIDENCE

Q-1. Mr. Atharv, while conducting the audit of Black Mountain Mining Ltd., which is involved in phosphate mining, decided to engage an auditor's expert to assess environmental liabilities and site clean-up costs. Black Mountain Mining Ltd. re-appointed Mr. Aman as an independent expert for this task. For the past five years, the management has consistently re-appointed Mr. Aman. He calculated the environmental liabilities for both completed mining sites and sites scheduled for closure in the near future, including provisions for clean-up costs. Management accepted his assessment.

Mr. Atharv, 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. Aman 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.

Guide the audit partner and Mr. Atharv with respect to requirements pertaining to evaluating the objectivity of the management expert. [MTP - 11 NOV 24] (05)

Q-2 As auditor of Growth Limited, you have sent positive confirmation requests to 45 creditors of the company in March 2024. All of the creditors in the informal sector are small concerns. You choose to send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with the CFO of the company. The CFO is cooperative and does not raise any hassles in the matter.

Responses to confirmation requests are received within a week's time. Your articled clerk informs you that out of above 45 creditors, GST registrations of 38 concerns have been cancelled during financial year 2023-24 itself by collating information from GST portal. He further informs you that there are no fresh registrations pertaining to PANs of these parties.

How would you proceed to deal with the situation as auditor of the company?

[MTP - 1 NOV 24] (05)

Q-3	While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2024. The company is engaged in business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in area of about 20 acres located in National Capital Region (NCR). Paddy contained in jute bags of nearly standard sizes is purchased from dealers/agents. It is stored in heaps on pallets (kind of wooden structures) in open area covered by protective sheets and in steel silos (silos are huge steel containers with measuring strain gauges) in company's premises. The company mainly produces three rice brands viz. "Raja" & "Shehzada" (both for the domestic market) & "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading & sorting, packaging which is accomplished by means of various types of machineries installed in plant. The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under:- • The physical inventory count process is to be supervised by a responsible officer of company responsible for storage functions. • There should be no disturbance to the routine process of receiving goods and despatch during the counting time period. • Counting process is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods. • Paddy in steel silos is to be estimated using their capacity. • Quantity of work in progress is to be estimated considering plant capacity as whole. • The responsible officer should ensure that stocks have been counted/verified in all areas. Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA. Careful as stated above. You may suggest modification, addition or removal of such instructions to ensure effective count process. [MTP - 1 MAY 24] (05)
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Q.3.A	The Engagement Partner of the audit team of High Inventory Limited assessed that the inventory is material with respect to the audit of the financial statement for the current period. Upon inquiring with the management, the Engagement Partner identified that the management will be performing an annual physical inventory count at all the warehouses where the entity stores and maintains its inventory. Moreover, management confirmed in its written representation that they will be performing a 100% physical count of inventory for the current period. As a result, the Engagement Partner decided not to perform any physical count of inventory as it will be a duplication of the work. Moreover, he decided that the written representation from management stating "the inventory exists and is in appropriate physical condition" will be sufficient and appropriate with respect to audit evidence to conclude that the inventory balance in the financial statement is free from any material misstatement. In the light of SA 501, evaluate whether the decision taken by the Engagement Partner is appropriate or not. [MTP - 11 MAY 25] (05)
Q.3.B	During the audit of Goldy Ltd., a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ₹ 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation. [MTP - 11 MAY 25] (05)
Q.4	CA. Jin, a recently qualified practicing Chartered Accountant, got his first audit assignment of Ordinary (P) Ltd. for the financial year 2023-24. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Jin left failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 250 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

	Relying merely on the management's affirmation that there were no receipts or further credits during the year, CA Rohan excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been audited by the predecessor auditor. Comment on the appropriateness of CA Rohan's approach. [MTP - 1 MAY 25] (05)
Q-5	During the audit of the financial statements of Looks Limited for the year ended March 31, 2024, CA Suyash, the statutory auditor requested external confirmation for certain trade receivables and trade payables as part of audit procedures in accordance with SA 505: (i) CA Suyash sent a confirmation request to a debtor for balance of ₹ 15,50,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated. (ii) He also sent a confirmation request to a creditor with an outstanding balance of ₹ 13,25,000 requesting a response only if there was a disagreement with the stated amount. CA Suyash received responses from the aforementioned debtor and creditor in following manner: - The debtor confirmed that, as per their records, they owed ₹ 14,90,000 to Looks Limited instead of ₹ 15,50,000 as per the company's books. - The creditor did not respond to the confirmation request. Identify and explain the type of confirmation request sent by the auditor to the debtor and creditor. Also, discuss the course of action the auditor should take for the discrepancy in the confirmation received from the debtor and non-receipt of confirmation from the creditor.
Q-6	PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties under terms and conditions that are outside PQR Ltd.'s normal course of business, suggestive of the indications about existence of

related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. [NOV 24] (05)

ANSWERS

1. 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, Black Mountain Mining Ltd. re-appointed Mr. Aman 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 Atharva is correct in his view.
2.	SA 505, "External Confirmations", states that if the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, & on the related nature, timing and extent of other audit procedures. In the instant case, GST registrations of 38 concerns have been cancelled in the year 2023-24. It indicates that businesses at those addresses were closed. Further, there are no fresh registrations pertaining to the PANs of these parties. However, the auditor sent external confirmation requests in March 2024, which were duly responded. It raises questions on the reliability of responses received. SA 500, "Audit Evidence" indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include: • Was received by the auditor indirectly or • Appeared not to come from the originally intended confirming party. Keeping in view the circumstances described in the given situation, there is a risk that the response has not come from the originally intended confirming party. Unreliable responses may indicate a fraud risk factor that requires evaluation.
3.	The set of instructions and procedures given in the case scenario are incomplete and not properly followed, which are discussed as under:

- The physical inventory count process should be supervised by a responsible officer of the company, preferably from finance department. The supervision of the count process should not be done by person responsible for storage function. However, storage in-charge of each area should be present during inventory count process for co-ordination and facilitation.
- During inventory count process, inward and outward movement of goods should not be allowed as allowing such movement may distort the results or make it difficult to arrive at proper results.
- The instruction relating to the constitution of teams for counting process does not specify that counting shall be undertaken by members drawn from departments not connected with storage function. For example, these members may be from the finance department. Further, within each team, duties should be fixed separately for counting and recording on serially numbered count sheets. It is nowhere stated that once counting in an area is complete, certain distinctive marks or tags are required to be put.
- Count sheets should contain description of products in accordance with inventory records of company.
- The management's instructions are silent about how team members would proceed with their work. Team members should be provided with lay out plans for different sections/ storage areas so that all areas are covered.
- The management's instructions are silent on how paddy lying in open is to be counted and verified. Paddy in jute bags lying in open in heaps should be verified by counting number of bags in one heap. As each bag is of nearly standard size, the quantity of paddy can be determined by counting number of bags in a heap & correlating it with the weight of standard bag.
- Paddy in steel silos should be determined using measuring strain gauges on silos. Determining quantity in silos based on silo capacity may lead to wrong results as paddy may have been used from such silos.
- Quantities of work in progress should be estimated at each stage of production and not for the plant as a whole. Estimating WIP inventories for plant as a whole would give inaccurate picture of work in progress inventories.
- Finished goods inventories need to be counted category wise. Rice bags should be verified by checking the name of brand.

- There is no instruction regarding damaged or obsolete stock items particularly in the case of finished goods i.e. rice. Damaged/obsolete inventories should be counted and shifted to a separate area for assessment of their condition and to prevent mix-up with other standard inventories.
- Count sheets need to be signed by each team member.
- The responsible officer should ensure that stocks have been counted/verified in all areas and distinctive marks are put to confirm completion of counting.

3A. As per SA 501, "Audit Evidence - Specific Considerations for Selected Items", when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

- i. Attendance at physical inventory counting, unless impracticable, to
 - 1. Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting.
 - 2. Observe the performance of management's count procedures.
 - 3. Inspect the inventory; and
 - 4. Perform test counts; and
- ii. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Attendance at physical inventory counting involves:

- i. Inspecting the inventory to ascertain its existence and evaluate its condition and perform test counts.
- ii. Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and
- iii. Obtaining audit evidence as to the reliability of management's count procedures.

Hence in the given case, the approach of Engagement Partner is not appropriate as when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. This should be done by performing various audit procedures which also includes attending physical count, observing the count, inspecting the inventory and reperforming physical counts.

3B.	As per SA 505, "External Confirmations", negative confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations. The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise. In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Goldy Limited. One of the old outstanding of ₹ 20 lakh has not sent the confirmation on the credit balance. In case of non-response, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further non-response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.
4.	Verification of Accounts Receivable: As per SA 510, "Initial Audit Engagements - Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-
(i)	Opening balances contain misstatements that materially affect the current period's financial statements; and
(ii)	Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable

financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets & liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable during the current period will provide some audit evidence of their existence, rights & obligations, completeness & valuation at the beginning of the period.

In addition, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of Ordinary (P) Ltd. has restrained CA. Jin, its auditor, from obtaining appropriate audit evidence for balances of Accounts Receivable outstanding as it is from the preceding year. CA. Jin, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA. Jin should have requested the management to provide written representation for their views and expressions; and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme. Consequently, CA. Jin shall also be held guilty for professional misconduct for not exercising due diligence, or grossly negligence in the conduct of his professional duties as per the Code of Ethics.

5.	Positive confirmation request: A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request or providing the requested information. Exception - A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party. The exception needs to be assessed to the entire population after analyzing the reason for difference. In the given situation, the auditor has sent the positive confirmation request for the amount of ₹ 15,50,000 to a debtor which was outstanding for more than 6 months, however, due to difference between information requested to be confirmed, or contained in the entity's records (i.e. ₹ 15,50,000), and information provided by the confirming party (i.e. ₹ 14,90,000) is forming situation of exception confirmation. The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether performing further audit procedures is necessary, as required by SA 330 in case a response is indicating an exception. The company should be asked to investigate and reconcile the discrepancy indicated by the confirming party. Negative confirmation request - A request that the confirming party respond directly to the auditor only if the confirming party disagrees. In the given case, the auditor has sent the negative confirmation request for ₹ 13,25,000 to a creditor. Non-response by the creditor implies that creditor agrees with the amount. Thus, an auditor is not required to take any action in this case.
6.	As per SA 550, "Related Parties," M/s ST & Co. should take the following steps upon identifying previously undisclosed related party transactions: ➤ Verify whether the circumstances substantiate the existence of such transactions. ➤ Ensure timely communication of the relevant information to all members of the engagement team. ➤ Confirm that appropriate substantive audit procedures have been conducted. ➤ Inquire why the entity's controls failed to identify or disclose the related party relationships or transactions.

- *Carry out substantive audit procedures specifically for these newly identified related parties or significant related party transactions.*
- *Reassess risks associated with other related parties.*
- *Request management to identify all transactions involving the newly identified related parties.*
- *If it appears that management intentionally did not disclose such transactions, evaluate the implications for the audit.*

6. COMPLETION AND REVIEW

Q-1 The audit report of Rare (P) Ltd for F.Y. 2022-23 was issued by SRM & Co. on 23rd July, 2023. However, a case was filed against Rare (P) Ltd on 9th August, 2023, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2023, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

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

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

In the context of aforesaid case-scenario, please answer to the following questions: Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd? [MTP - 1 MAY 24]

Q-2 CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2024. However, it becomes known to CA Shobit that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss, how, CA Shobit should proceed to deal with above issue. [MTP - 1 NOV 24] (04)

Q-3 Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ₹ 700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ₹ 49 crore and the unaudited turnover was ₹ 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour of the company. Accordingly, no provision has been created for such notices.”

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter.

[MTP - 11 MAY 24] (05)

Q-4 Fun Fiesta Ltd., an entertainment company that operates a traveling circus, has been facing a significant decline in popularity over the past few years, with attendance reportedly dropping by as much as 75% in the current financial year. The circus has also been continuously targeted by animal rights activists for its use of animals like elephants in performances. The CEO observed that audiences were shifting to other entertainment options, making the business model unsustainable due to the high costs of moving the show from city to city. As a result, several key managerial personnel resigned, there were delays in the payment of wages and salaries, and the bank from

which the company had obtained funds decided not to extend further financing or fund additional working capital requirements.

During discussions with management, the statutory auditor understood that Fun Fiesta Ltd. had no action plan to address these financial difficulties, making the use of the going concern assumption inappropriate. However, these critical circumstances were not disclosed in the company's financial statements. What course of action should the statutory auditor take in the auditor's report in such situation? Discuss with reference to the applicable Standards on Auditing. [MTP - 1 MAY 25] (05)

Q.5 Mudit & Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2023-24. The company is into the business of Health Club, Fitness Centre and gym costumes. CA M is the Engagement Partner for the audit assignment. CA M observed the following points while auditing:

- (i) Customer's base is reducing continuously due to tough competition and discount war existing in the market.
- (ii) Payments of creditors are delayed and made with overdue interest.
- (iii) Company has not been able to pay the salaries of staff and trainers on time.
- (iv) Key financial ratios of the company, like current ratio, debt-service coverage ratio, are in the red and have deteriorated considerably as compared to last year.
- (v) The company has requested its bankers to provide it with additional working capital credit facilities of ₹ 1.5 Crores, but bankers are not considering the company's proposal favorably. What audit procedures should be followed by CA M considering the above circumstances as per SA 570-"Going Concern"? How auditor should deal if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made in the financial statements? [RTP NOV 24]

Q.6 Pratibha Ltd. is a company engaged in the manufacturing of iron doors. JLN & Associates are the statutory auditors of Pratibha Ltd. for the Financial Year 2023-24. During the course of audit, CA Shiv, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2024. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a

material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Shiv express in case of Pratibha Ltd.?

[MTP - 11 NOV 24] (05)

Q-6-A CA Ashish is carrying out an audit of restated financial statements of Krop Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Ashish is planning to issue an Audit Report on 2nd August, 2024 covering these restated financial statements. Before issuing the audit report, CA Ashish requested a Management Representation Letter from the management of the company for this assignment. The management of the company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period. How would CA Ashish deal with the above situation as per relevant Standard on Auditing?

[MTP - 11 MAY 25] (05)

Q-6-B Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of ₹ 1,200 crores and profits of ₹ 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that:

(i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and

(ii) All transactions have been recorded and are reflected in the financial statements

As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests.

- (a) Whether the contention of auditor for seeking written representation letter is justified?
- (b) What should be the form of such written representation?
- (c) How should the auditor proceed if management refuses to provide the written representation?

Q-7 CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA N is planning to issue an Audit Report on 5th August, 2024 covering these restated financial statements. Before issuing the audit report, CA N requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period.

How would CA N deal with the above situation as per relevant Standard on Auditing?

[MAY 24] (05)

ANSWERS

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

- (1) Discuss the matter with management and, where appropriate, those charge
- (2) Determine whether the financial statements need amendment and, if so,
- (3) Inquire how management intends to address the matter in the financial statements.

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

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

2. In the given case, the auditor has come to know the legal claim against the company before the issuance of the audit report. It has also come to his knowledge that the management of the company has agreed to an out of court settlement of ₹ 4 crore. This is an example of a subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements. Further as per SA 560, "Subsequent Events", the auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all the events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

CA Shobit should ensure that appropriate adjustments and disclosures are made by the management. In the absence of the same, he should consider the impact of the said event and report accordingly.

3. As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor is required to obtain an understanding and need to evaluate the impact of other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:

- (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
- (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities
- As per section 143(3)(j) read with Rule 11(a), the auditor is required to report whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement.
- As per SA 570, "Going Concern", if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
- (i) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (ii) Disclose clearly that there is material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall (a) Express a Qualified opinion or Adverse opinion, as appropriate, in accordance with SA 705; and (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
- In the current scenario, Nandini Ltd. has received a show cause notice from the National Green Tribunal of an amount which is more than the net profit and the turnover of the company for the year. In the event of an unfavourable order for Nandini Ltd., there will be an impact on Nandini Ltd.'s ability to continue as a going concern.
- As a result, appropriate disclosure should be provided by management for such events, which cast significant doubt on the entity's ability to continue as a going concern. As no appropriate disclosure has been provided by Nandini Ltd. for such show cause notice, Vasu & Co. should report this matter in their audit report under "Going Concern Para" as per SA 570 and under clause (j) of section 143(3) of the Companies Act,

	2013. Also, the auditor is required to issue an Adverse opinion as per SA 705, "Modifications to the Opinion in the Independent Auditor's Report".
4.	SA 570, "Going Concern", deals with the auditor's responsibilities in the audit of financial statements relating to going concern & the implications for the auditor's report. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. When the use of going concern basis of accounting is inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern & that the financial statements do not adequately disclose this matter. In the present case, the following circumstances indicate the inability of Fun Fiesta Ltd. to continue as a going concern: • Losing popularity over the past few years. • Animal Rights activists continuously targeting the circus. • Audience abandoning the circus due to their expanding entertainment options. • High Cost of moving the show from city to city making the business model untenable. • Key Managerial Personnel leaving the Company. • Banks decided not to extend further finance and not to fund the working capital requirements of the Company. • Non availability of sound action plan to mitigate such circumstances. Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company.

As such, the statutory auditor of Fun Fiesta Ltd. should:

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

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

5. As per SA 570, "Going Concern" if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.
- In the given case, CA M has observed such points that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, CA M should follow audit procedures such as:
- Review of management's assessment of the company's ability to continue as a going concern.
 - Examine & challenge the reasonableness of the company's cash flow forecasts & key assumptions.
 - Review events after the reporting period that might affect the going concern assumption, such as further financial deterioration or inability to secure financing.
 - Analysis of the company's key financial ratios and compliance with loan agreements to assess liquidity and solvency.
 - Review of the company's challenges and efforts to secure additional financing and the reasons for the bank's reluctance to provide further credit.
 - Assess the impact of declining customer base, delayed payments, and other operational challenges on the company's ability to continue as a going concern.
- Further, as per SA 570 if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:
- (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.
6. In the present case based on the audit evidence obtained, CA Shiv has concluded that a material uncertainty exists related to the outcome of the legal dispute, which is

uncertain, but if it results in an unfavorable judgment, it could severely impact the Company's financial position and cash flows. In such circumstances, CA Shiv should express an adverse opinion because the effects on the financial statements of such omission are material and pervasive.

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

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, the financial position of the entity as at March 31, 2024, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

The financing arrangements of Pratibha Ltd. has expired, and the amount outstanding was payable on March 31, 2024. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

6A. According to SA 580, "Written Representations", written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

Further, as per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the audit.

Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management was not present during all the periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.

In the given situation, CA Ashish is carrying out an audit of restated financial statements of Krop Limited for the past 3 financial years i.e., 2023-24, 2022-23 and 2021-22 so he requested a Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2023-24 as they were not in place during that period.

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580, CA Ashish should take written representation letter from management of Krop Limited for the financial year 2022-23 and 2021-22 also.

In case the management of Krop Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

- 6B. (a) As per SA 580, "Written Representations", the auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial

	reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.
	Further, the auditor shall request management to provide a written representation that:
(i)	It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement
(ii)	All transactions have been recorded and are reflected in the financial statements.
	In the given case, Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. Thus, in view of above the contention of auditor is correct.
(b)	The written representations as per SA 580, shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter.
(c)	As per SA 580, if management does not provide one or more of the requested written representations, the auditor shall:
(i)	Discuss the matter with management;
(ii)	Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
(iii)	Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 (Revised).
	Furthermore, the auditor shall disclaim an opinion on the financial statements in accordance with SA 705 (Revised) if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable or management does not provide the written representations required. Thus, refusal to provide a written representation could impact the auditor's ability to obtain sufficient appropriate audit evidence, potentially leading to a modified audit report.
7.	In the given situation, CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e., 2023-24, 2022-23 and 2021-22 so he requested Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the

Company provided the Management Representation Letter only for the financial year 2023-24 as they were not in place during that period.

As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

As per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580 CA. N should take written representation letter from management of BQR Limited for the financial year 2022-23 and 2021-22 also.

In case the management of BQR Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

7. REPORTING

Q-1 While conducting audit of CGX Limited, a listed company, for year 2022-23, CA. Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under: -

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

The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstanding's were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare. [MTP - 1 MAY 24] (05)

Q-2 Mr. Arjun was appointed as the engagement partner for conducting the audit of Kurukshetra Tech Ltd. for financial year 2023-24, on behalf of NEMI & Associates. Mr. Krishna was appointed as the engagement quality control reviewer (EQCR) by the firm for the said audit.

During financial year 2023-24, Kurukshetra Tech Ltd. implemented an ERP system in phases, leading to the automation of certain business processes. This implementation had a substantial impact on the auditor's overall audit strategy. Mr. Arjun discussed the implementation of such a system with Mr. Krishna and also told him that such matter may be a key audit matter to be reported in the audit report.

Mr. Krishna considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements & so there was no need to disclose such matter as a key audit matter. Whether the contention of Mr. Krishna is appropriate with respect to the matters to be communicated as a key audit matter? [MTP - 11 NOV 24] (05)

Q-3 M/s JPP & Associates have been appointed as auditors of ABC Ltd., an ISO certified listed Indian multinational Jewellery Company having headquarters at Mumbai for F.Y. 2024 - 25. The company has more than 100 showrooms in India and 60 showrooms across the globe. During the course of audit, from the matters communicated with those charged with governance the auditors determined certain matters as most significant in the audit of the financial statements of the current period which are related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA). Public disclosure of this specific matter by the auditor is not precluded by authorities under PMLA since the same may not prejudice investigation which has already been under PMLA since the same may not prejudice investigation which has already been officially completed and settled on 30th September 2024. What would be the considerations of M/s JPP & Associates in determining the matter requiring significant attention in performing the audit? State the introductory language that JPP & Associates would use while communicating such matter in their audit report as per relevant Standard on Auditing. [NOV 24] (05)

Q-4. BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the recently concluded financial year. After making significant progress in the audit, the auditors made the following observations:
Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to the flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.

You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?

[MTP - 11 MAY 24] (04)

Q.5 CA. Navya is the statutory auditor of Lakshay Ltd. for the Financial year 2022-23. In respect of loans and advances of ₹ 75 Lakh given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya and in the absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.

Justify the type of opinion which CA. Navya should give in such a situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph.

[MTP - 1 MAY 24] (05)

Q.6 Spice Ltd., FMCG company, having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in South Africa and Vietnam. M/s Dharam & Associates are the statutory auditors of the company for the financial year 2023-24. During the audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statements being Joint venture investment in Croptop Ltd. representing over 89% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Croptop Ltd. is carried at ₹ 120 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report.

[MTP - 1 NOV 24] (05)

Q.7 The extract of the financial statements of Nex Limited for the financial year 2023-24 is as follows:

Particulars	Rupees (in Crores)
Trade Receivable - Unsecured considered Good	225.00
Provision for Bad and Doubtful Debts	50.00
Stock of Raw Materials	180.00
Stock of Finished Goods	250.00
Total of Assets	950.00

CA Yash is the statutory auditor of Nex Ltd. for the FY 2023-24. During the course of audit CA Yash noticed the following:

- i. With respect to the debtors amounting to ₹ 175 crore, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The company has created a provision for doubtful debts to the tune of ₹ 50 crore during the year under audit. The company has stated that the provision is based on receivables which are older than 36 months, which according to the audit team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.
 - ii. Further, in respect of inventories (which constitutes 45% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.
- What kind of opinion should be given by CA Yash in the given situation? Draft a suitable Opinion and Basis of Opinion paragraph. (RTP NOV 24)

Q.7.A CA Ram is the Statutory Auditor of RJ Ltd. for the financial year 2023-24. The company is engaged in the production of electronic products. During the audit, CA Ram obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the financial statements. Discuss how CA Ram should deal with the situation in the auditor's report and the different options which can be considered? [MTP - II MAY 25] (05)

Q-8	Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited. During the year 2023-24, Delhi Branch of Fancy Limited have prepared its financial statements on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the financial statements. Delhi Branch has incorporated above matter in detailed form in Note XX to the financial statement. You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the Financial statement regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report. Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard. [MAY 24] (05)
Q-9	The audit report of Rare (P) Ltd for F.Y. 2022-23 was issued by SRM & Co. on 23rd July, 2023. However, a case was filed against Rare (P) Ltd on 9th August, 2023, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2023, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

	Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2022 -23. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.
	The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.
	In the context of aforesaid case-scenario, please answer to the following questions:
(i)	Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?
(ii)	Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the financial statements? [MTP - 1 MAY 24] (05)
Q-10	Groof Limited is engaged in the business of executing construction contracts for its clients. As on 31st March, 2024, the company's financial statements reflect non-current receivables outstanding amount of ₹ 500 crore. Such amounts arise from claims raised by the company on its clients due to cost overruns caused by project delays, change in work specifications and related matters. Besides negotiations, the company has also gone for arbitration in some of the said cases.
	The management has stated in the notes to account that these amounts are fully recoverable.
	CA Arohan, auditor of the company, has relied only upon management representation in this regard. Additionally, he has decided to include this matter in "Emphasis of Matter Paragraph" in audit report.
	Evaluate the appropriateness of the auditor's decision to include this matter in "Emphasis of Matter Paragraph"? [MTP - 1 MAY 25] (05)
Q-10.A	Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in

active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Management of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statement.

Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statement the audit team decided to disclose the same in Other Matter Paragraph.

You as an Engagement Partner are required to guide the Audit Team with respect to reporting of the said matter in Audit Report. [MTP - II MAY 25] (04)

Q-11 Neptune Ltd. is a company that holds significant investments in a portfolio of equity securities. Due to a decline in market values, the company's investments have suffered a notable diminution in value. For the financial year ended 31st March 2023, the audit report of Neptune Ltd. included a qualification regarding the non-provision of ₹ 70 lakh for the diminution in the value of these investments. As the auditor for the financial year 2023-24, how would you report in the following situations:

(i) If the company does not make a provision for the diminution in the value of investments in the year 2023-24?

(ii) If the company makes an adequate provision for the diminution in the year 2023-24?

[MTP - II NOV 24] (05)

Q-12 Jinchandra & Co., Chartered Accountants, has been appointed statutory auditor of Gurudeva Ltd. for the F.Y. 2022-23. The audit team has completed the audit and is in the process of preparing the audit report. Management of the company has also prepared draft annual report.

The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who in reply said that auditors are not covered with such disclosures made

by the management in its annual report, it being the responsibility of the management.
Do you think that the partner is correct in his approach on this issue? Discuss with reference to the relevant Standard on Auditing the Auditor's duties with regard to reporting.

[MTP - 11 MAY 24] (05)

Q-13 Kailash & Co., Chartered Accountants, has been appointed as statutory auditor of Diksha Ltd. for the F.Y. 2023-24. The audit team has completed the audit and is in the process of preparing the audit report. The management of the company has also prepared a draft annual report.
The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management. Is the partner's approach appropriate in this situation? Analyse the issue with reference to the relevant Standard on Auditing and the auditor's duties with regard to reporting.

[MTP - 1 MAY 25] (05)

Q-14 During the course of audit of PEC Limited, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Is CA Guru under statutory obligation to report the above matter to Central government by filing prescribed form on MCA Portal? How should he proceed to report above said matter?

[MTP - 11 NOV 24] (04)

Q-15 TEA Ltd., a public company is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year 2023-24, it had availed credit facilities from Kuber Bank Ltd. The bank had sanctioned a working capital cash credit facility on 21st April, 2023, for a limit of ₹ 4.50 crore and Letter of Credit facility for a limit of ₹ 2.50 crores aggregating to ₹ 7 crore on the basis of the hypothecation of stocks and book debts of the company against which utilisation of the limits by

TEA Ltd during the year in the case of cash credit facility was ₹ 3.90 crore and of Letter of credit was ₹ 1.05 crore aggregating to ₹ 4.95 crore. During the year under review, the company had faced sluggish market conditions for its various brands of teas due to its inability to cater to the requirements of its customers' expectations. It faced severe cash crunch and found it difficult to manage working capital stress. In order that the bank does not reduce its drawing power of working capital limit, the management decided to peg up the values of the stock statements it submitted to bank by a hike of 15% during the quarters ended June 2023, September 2023 and December 2023. When an engagement partner leading the audit team happened to review the stock statements submitted to the bank, it was noticed that the stock figures declared were not in agreement with book figures and had been hiked as above. The matter was taken up with CFO of the company who contended that auditors need not examine and compare the quarterly statements with the books of accounts as the utilisation of working capital limits is less than the specified sanctioned limit as on 31st March, 2024 & hence this case is beyond the scope of reporting under CARO, 2020. Is the contention of CFO correct? Analyse the issue and discuss the reporting responsibilities of the auditor. [NOV 24] (05)

Q-16 Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:

- (i) In the financial year 2023-2024, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd. Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company in exchange for a larger plot owned by Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land. Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.
- (ii) On 15th May, 2023, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey

team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as “assessee in default”. The company has not deposited demand raised and filed appeal against impugned order on 1st March, 2024 under e-appeals scheme with JCIT (Appeals). **[MTP - I NOV 24] (05)**

Q-17 You are appointed as a Statutory Auditor of SDA Limited for the year 2023-24 in the place of CA T. During audit you found an order dated 01.05.2023 under section 148 of the Income Tax Act, 1961 wherein tax of ₹ 50 lakhs were demanded owing to undisclosed cash sales of ₹ 150 lakhs for the financial year 2020-21 which was accepted by the company & the applicable tax was paid by the Company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. On further inquiring the matter with CA T, you came to know that CA T resigned due to non-recording of such transaction by the company. Is there any reporting responsibility casted on you regarding the above matters under CARO, 2020 for the year 2023-24? **[MAY 24] (05)**

Q-18 Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29th March 2024. The company appointed Mr. Yuvan as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020? **[MTP - II NOV 24] (05)**

Q-19 Comment with reference to the provisions of CARO, 2020:

(a) Relon Limited has a turnover of ₹ 650 crores during the financial year 2023-24. It has outstanding dues towards income-tax of ₹ 15 lakhs since July 2023. When inquired by the auditor, the company's management informed him that they have filed an objection letter for the said demand with the Income-tax Authorities, however, no response is received from the department. Is there any reporting responsibility of auditor under CARO, 2020?

- (b) During the audit, CA Kunal found that physical verification of inventories of the company has been conducted by management on regular interval. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts as at the year-end:

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2,500	2,790
Stores and spares	220	180
Total	4,290	4,580

ANSWERS

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

- (a) settle the obligation by negotiating a release from the obligation;
- (b) transfer the obligation to a third party; or
- (c) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

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

In the given situation, the company has written back liabilities due to creditors unilaterally. The company has not settled the obligation by negotiating a release from the obligation from respective creditors. Such an accounting treatment by management is questionable & against the conceptual framework for financial reporting under Ind AS. CA Srishti wanted to send external confirmations in accordance with SA 505, "External Confirmations" but management informed her that sending such requests may be used by creditors as proof of existence of liability. In fact, she should display professional skepticism and be alert to the possibility of misstatements in financial statements, if restrained by management from obtaining external confirmations. The reasons advanced

by management do not appear to be valid and reasonable. In accordance with SA 505, she should reassess risks and perform alternative audit procedures to mitigate such risks. Besides, she should consider implications of same for her audit opinion.

Further, SA 705, "Modifications to the Opinion in the Independent Auditor's Report" requires that the auditor shall modify the opinion in the auditor's report when:-

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

SA 705 also states that misstatements in financial statements arise when selected accounting policies are not in accordance with an applicable financial reporting framework. It also states that examples of an inability to obtain sufficient appropriate audit evidence arise from a limitation on the scope of audit imposed by management when management prevents the auditor from requesting external confirmation of specific account balances. Therefore, she needs to issue a modified opinion.

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

2. As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- a. Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- b. Significant auditor judgments relating to areas in the financial statements that involved

significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

- c. The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the aforesaid matters considered were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

These aforesaid considerations focus on the nature of matters communicated with those charged with governance. Such matters are often linked to matters disclosed in the financial statements and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users.

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

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

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

As per Mr. Arjun, Engagement Partner, above mentioned matter can be considered as a key audit matter and should be reported in the audit report since it requires significant attention that had affected his overall audit strategy. Mr. Krishna, EQCR, considered the significance of said matter, however, he was of the opinion that ERP

implementation did not appear to link with the matters disclosed in the financial statements, therefore, no need to disclose such matter as a key audit matter.

In view of the above, the contention of Mr. Krishna is not appropriate as matters that do not link with the matters disclosed in the financial statements can also be considered as a key audit matter, if it requires significant attention.

3. *Communicating Key Audit Matters in the Independent Auditor's Report: As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, M/s JPP & Associates shall take into account the following:*

- (i) *Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315*
- (ii) *Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.*
- (iii) *The effect on the audit of significant events or transactions that occurred during the period.*

In view of the above, the matter related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA) is a key audit matter, and the same shall be communicated in the auditor's report KAM.

The introductory language that M/s JPP & Associates would use while communicating matters in this section of the auditor's report shall state that:

- (i) *Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and*
- (ii) *These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.*

4. **Observation 1** - The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material. As per SA 706, "Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report", an Emphasis of Matter Paragraph refers to matter appropriately disclosed in the financials, that in the auditor's judgement is of such importance that it is fundamental to users' understanding of the financials. Hence, in this case, the auditor shall report about the consequences of the flood which affected the company's warehouse under Emphasis of Matter Paragraph.

Observation 2 - Due to flood, few records maintained by the Company with respect to a particular transaction were destroyed and no duplicate records were maintained by the Company. However, those details were not pervasive, but material. As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", where the auditor is unable to obtain sufficient and appropriate audit evidence and where such matter is material but not pervasive, the auditor shall issue a Qualified opinion.

Thus, in the given situation, on account of flood few records pertaining to particular transactions were completely destroyed and in the absence of duplicate records, the auditor was unable to obtain sufficient and appropriate audit evidence and those details were material but not pervasive. Therefore, in accordance with SA 705, the auditor is required to issue Qualified opinion.

5. In the present case, with respect to the loans and advances of ₹ 75 Lacs given to Hariharan Pvt. Limited, the Company has not furnished any agreement to CA. Navya. In the absence of such an agreement, CA. Navya is unable to verify the terms of repayment, chargeability of interest and other terms. For an auditor, while verifying any loans and advances, one of the most important audit evidence is the loan agreement. Therefore, the absence of such a document in the present case, tantamount to a material misstatement in the financial statements of the company. However, the inability of CA. Navya to obtain such audit evidence is though material but not pervasive so as to require him to give a disclaimer of opinion.

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

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

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements of Lakshay Ltd. give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31-03-2023 and profit/ loss for the year ended on that date.

Basis for Qualified Opinion

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

6. M/s Dharam & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 89% of the group's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements. Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion paragraph and basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We were engaged to audit the accompanying consolidated financial statements of Spice Ltd., (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the consolidated balance sheet as at March 31, 2024, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements").

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

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Croptop Ltd. company is carried at ₹ 120 crore on the Group's consolidated balance sheet, which represents over 89% of the Group's net assets as at March 31, 2024. We were not allowed access to the management and the auditors of Croptop Ltd., including audit documentation of auditors of Croptop Ltd. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Croptop Ltd.'s assets that it controls jointly, its proportional share of Croptop Ltd.'s liabilities for which it is jointly responsible, its proportional share of Croptop Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

7. In the present case, CA Yash is unable to obtain sufficient and appropriate audit evidence with respect to the following:

- i. The balance confirmation with respect to debtors amounting to ₹ 175 crores are not available. Further there has been default in payment by the debtors and the provision so made is not adequate. The audit team is also unable to ascertain the carrying value of trade receivables.
- ii. With respect to 45% of the company's inventory, neither the physical verification has been done by the management nor adequate inventory records are maintained. The audit team is also unable to undertake the physical inventory count as such the value of inventory could not be verified.

In the above two circumstances the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Thus, CA Yash should give a Disclaimer of Opinion.

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

Disclaimer of Opinion

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

Basis for Disclaimer of Opinion

We are unable to obtain balance confirmation with respect to the debtors amounting to ₹ 175 crore. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The company has created a provision for doubtful debts of ₹ 50 crore during the year under audit which is inadequate in the circumstances of the company. The carrying value of trade receivables could not be ascertained.

Further, in respect of inventories (which constitute 45% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the company has not maintained adequate inventory records at the factory. We were unable to undertake the physical inventory count and as such the value of inventory could not be verified.

7A. **Auditor's duties in case of inconsistency in Audit evidence:** SA 705, "Modifications to the Opinion in the Independent Auditor's Report", deals with auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

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

- (i) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (ii) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.

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

In the present case, during the audit, CA Ram obtained certain audit evidence which was not consistent with the affirmation made in financial statements. Therefore, CA Ram should modify his report in accordance with SA 705.

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

- CA Ram shall express Qualified opinion when, having obtained sufficient appropriate audit evidence, he concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
- CA Ram shall express an Adverse opinion, where the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually, or in the aggregate, are both material and pervasive to the financial statements.

8. Drafting of Opinion Paragraph and basis thereof along with disclosure of Note XX:

INDEPENDENT AUDITOR'S REPORT

To the Members of Delhi Branch Office of Fancy Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Delhi Branch Office of Fancy Limited ("the Company"), which comprise the balance sheet as at March 31, 2024, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, give a true and fair view, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Delhi Branch Office of the Company as at March 31, 2024 and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note XX regarding Delhi Branch Office management's intention to close the operations of the Branch Office subject to regulatory approvals. Accordingly, the financial statements have been prepared on the basis that the Delhi Branch Office does not continue to be a going concern and provisions have been made in the books of account for the losses arising or likely to arise on account of closure of operations including the losses on the realizability of current assets. Our opinion is not modified in respect of this matter.

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

- (1) Discuss the matter with management and, where appropriate, those charged with governance.
 - (2) Determine whether the financial statements need amendment and, if so,
 - (3) Inquire how management intends to address the matter in the financial statements.
- In the given case, on becoming aware of the court case filed against Rare (P) Ltd., Mr. Rishabh discussed the said matter with the management, and was determined to amend the financial statements. Also, he inquired how the management intended to address the said matter in the financial statements.

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

(ii) As per SA 706, 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report', an Emphasis of Matter paragraph is not a substitute for:

(a) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement;

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or

(c) Reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

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

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

10. In accordance with SA 706, Emphasis of Matter Paragraph is 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.

As per SA 706, the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to: -

(a)	A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or
(b)	As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Further, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter. In the given situation, auditor has relied upon management representation letter only. He has not performed any other audit procedures like verifying contracts with customers, status of arbitration proceedings etc. Since management representations by themselves do not constitute sufficient appropriate evidence, performing necessary audit procedures may lead auditor to conclude that modification in opinion is necessary. In such circumstances, matter cannot be included in Emphasis of matter Paragraph. Therefore, CA Arohan should form his opinion by performing necessary audit procedures and obtaining sufficient appropriate evidence. It is only when he concludes that modification of opinion is not required as a result of said matter in terms of SA 705, the said matter may be included in Emphasis of Matter paragraph.
10A.	As per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to draw users' attention to a matter 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, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:
(i)	The auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter; and
(ii)	When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. In the instant case, since Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients, would now require production capacity license which will restrict the production of companies, due to change in laws and regulations.

Management of the Act Pharma Limited assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statements.

Audit team of the Act Pharma Limited evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statements the audit team decided to disclose the same.

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

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

11. As per SA 710, "Comparative Information - Corresponding Figures and Comparative Financial Statements", when the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

SA 710 further states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- (i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
- (ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

In the instant case, if Neptune Ltd. does not make provision for diminution in the value of investment to the extent of ₹ 70 lakh, the auditor will have to modify his report for both the current and previous year's figures as mentioned above. If, however, the provision is made, the auditor need not refer to the earlier year's modification.

12. **Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists:** As per SA 720, "The Auditor's Responsibility in Relation to Other Information", descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other items that may be included in the other information.

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

Auditor's duties with regard to reporting in the given case are given hereunder: As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information.

If management:

(1) Agrees to make the correction, the auditor shall determine that the correction has been made; or

(2) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

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

13. **Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists:** As per SA 720, "The Auditor's Responsibility in Relation to Other

Information", descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other items that may be included in the other information. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

Auditor's duties with regard to reporting in the given case are given hereunder: As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information.

If management:

- (1) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (2) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

In the given case, while reviewing the draft annual report, the audit in-charge noticed that the company reported a decline in market prices of key raw materials compared to the previous year. However, the company's reported profit margins in the financial statements showed an increasing trend.

The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management.

Therefore, it can be concluded that the partner's approach is not appropriate.

14. As per section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed in the company by its officers or employees,

the auditor shall report the matter to the Central Government within such time and in such manner as prescribed.

In the given case, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Therefore, he is under no statutory obligation to report this matter to Central Government by filing prescribed Form (ADT-4) on MCA portal.

In case of a fraud involving lesser than the specified amount [i.e. less than ₹ 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed. Besides, auditor has obligation to report matters pertaining to fraud under clause (xi) of paragraph 3 of CARO, 2020.

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

The above clause requires the auditor to comment on whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹ 5 crores in aggregate. Tea Ltd. has been sanctioned a working capital cash credit facilities for a limit of ₹ 4.50 crore and for Letter of Credit facility for a limit of ₹ 2.50 crores aggregating working capital facilities/limit of ₹ 7 crores which is apparently in excess of ₹ 5 crores. based on the security of current assets i.e. Hypothecation of stocks and book debts of the company.

In addition, the auditor is required to ensure that whether the quarterly returns filed by the Tea Ltd. company with Kuber Bank Ltd. are in agreement with the book of accounts of the company.

In the instant situation, management of Tea Ltd. submitted its Stock Statement by a hike of 15% during the quarter ended June 2023, September 2023 and December 2023, to peg up the values of the stock due to fear of reduction in the drawing

power of working capital limit. The auditor noticed that the stock figures declared by Tea Ltd. were not in agreement with the book figures and had been hiked as above. Thus, the contention of CFO is not correct regarding applicability of CARO, 2020 as the working capital is more than specified sanctioned limit as on 31st March, 2024. Hence the auditor is required to report the same in accordance with Clause (ii) (b) of Paragraph 3 of CARO, 2020.

16. (i) The auditor is required to report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020 which states that whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with. Further, as per Clause (xiii) of Paragraph 3 of the CARO, 2020, auditor should report whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards. In the given situation, Candy Ltd. has entered into non-cash transactions with one of the directors, Mr. Sidhant during the year, by transferring the property (by Mr. Sidhant) in favour of the Company in a deed of exchange of a site owned by the company. Thus, the auditor is required to report the same as per Clause (xv) and Clause (xiii) of Paragraph 3 of the CARO, 2020.
- (ii) As per clause (vii) (b) of Paragraph 3 of CARO, 2020, the auditor is required to report where statutory dues have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. In the given situation, the survey team pointed out certain lapses regarding non-deduction of TDS and demand raised by DCIT (TDS). TDS dues are in the nature of statutory dues and the company has filed appeal against order of DCIT (TDS) raising a demand of ₹ 25 lacs with JCIT (Appeals). Therefore, these are in the nature of disputed statutory dues. Thus, it should be reported in accordance with Clause (vii) (b) of Paragraph 3 of CARO, 2020.

17. **Reporting under Paragraph 3 of CARO, 2020:** Clause (viii) of Paragraph 3 of CARO, 2020 requires the auditor to report whether any transactions not recorded in the

books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income-tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

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

In the given situation, during audit an order dated 01-05-2023 under section 148 of the Income-tax Act, 1961 was noticed wherein tax of ₹ 50 lakh were demanded owing to undisclosed cash sales of ₹ 150 lakh for the financial year 2020-21 which was accepted by the company and the applicable tax was paid by the company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. The auditor would be required to report as per Clause (viii) of Paragraph 3 of CARO, 2020.

Further CA T, the auditor of SDA Limited resigned due to non-recording of such undisclosed income in their books of account. The auditor would be required to report the same in CARO, 2020 as per Clause (xviii) of Paragraph 3 of CARO, 2020.

Hence, the auditor would be required to report as per Clause (viii) and Clause (xviii) of Paragraph 3 of CARO 2020 for the year 2023-24.

18. As per Clause (xvi) of Paragraph 3 of CARO 2020, the auditor is required to report that "whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained." The auditor is required to examine whether the company is engaged in the business which attracts the requirement of the registration. The registration is required where the financing activity is a principal business of the company. The RBI restrict companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration.

Audit Procedures and Reporting:

- (i) The auditor should examine the transactions of the company with relation to the activities covered under the RBI Act & directions related to the Non-Banking Financial Companies.

(ii)	The financial statements should be examined to ascertain whether company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.
(iii)	Whether the company has net owned funds as required for the registration as NBFC.
(iv)	Whether the company has obtained the registration as NBFC, if not, the reasons should be sought from the management and documented.
(v)	The auditor should report incorporating the following:-
(1)	Whether the registration is required under section 45-IA of the RBI Act, 1934.
(2)	If so, whether it has obtained the registration.
(3)	If the registration not obtained, reasons thereof.
	In the given case, Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) which is less in comparison to the prescribed limit i.e. 2 crore rupees and was also not having registration certificate from RBI (though applied for it on 29th March 2024). The auditor is required to report on the same as per Clause (xvi) of Paragraph 3 of CARO 2020.
19.	Reporting responsibility of the auditor under paragraph 3 of CARO, 2020: The auditor is required to report as per clause (vii) (a) of Paragraph 3 of CARO, 2020 that whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; Further, the auditor is also required to report as per Clause (vii) (b) of Paragraph 3 of CARO, 2020, where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute).

In the given case, Relon Limited has an outstanding Income-tax liability of ₹ 15 lakhs since July 2023. Although the management has filed an objection letter, no formal dispute has been raised, and the dues remain unpaid for more than six months. Therefore, the auditor is required to report the same under clause (vii)(a) of Para 3 of CARO, 2020.

8. SPECIALISED AREAS

Q-1 CA Rajni is appointed as the statutory auditor of STS Ltd for the financial year 2023-24 for auditing complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Rajni as a separate engagement for the financial year 2023-24. While drafting the audit report of complete set of financial statements, CA Rajni decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.

Comment with reference to the relevant Standard of Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment.

[NOV 24] (05)

Q-2 Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment. Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing.

[MAY 24] (04)

Q-3 CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited financial statements for the financial year 2023-24. Now, the management of the company has prepared summary financial statements derived from the audited financial statements and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary financial statements?

[MTP - 1 NOV 24] (04)

Q-4 When auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which

other matters shall the auditor's report on the summary financial statements contain in addition to elements of auditor's report described in SA 810?

If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor's opinion on summary financial statements?

[MTP - 1 MAY 24] (05)

ANSWERS

1. *Audit Report of Separate Engagement of Audit of PPE: As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:*
 - (i) *The auditor is not prohibited by law or regulation from doing so;*
 - (ii) *That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and*
 - (iii) *The specific element does not constitute a major portion of the entity's complete set of financial statements.*

In the given situation, CA Rajni is statutory auditor of STS Ltd. for the financial year 2023-24 for the complete set of financial statements and has also assigned the audit of PPE as a separate engagement for the same financial year. Considering the same, it can be concluded that CA Rajni can give separate opinion on separate engagement i.e. adverse opinion for statutory audit and unmodified opinion for separate engagement provided the above conditions are satisfied.

2.	In the given situation, Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK, wants to determine whether the applied criteria are acceptable before accepting such assignment. As per SA 810, "Engagements to Report on Summary Financial Statements", before accepting an engagement to report on summary of financial statements, the auditor shall determine whether applied criteria are acceptable. 'Applied criteria' refers to the criteria applied by management in the preparation of the summary financial statements. Factors affecting the auditor's determination of the acceptability of the applied criteria are: ➤ The nature of the entity; ➤ The purpose of the summary financial statements; ➤ The information needs of the intended users of the summary financial statements; and ➤ Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.
3.	As per SA 810, "Engagements to Report on Summary Financial Statements", when the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally: (a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion; (b) Describe the basis for that adverse opinion or disclaimer of opinion; and State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.
4.	When the auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements of auditor's report on summary financial statements described in SA 810: -

- (a) State that the auditor's report on the audited financial statements contains a qualified opinion and
- (b) Describe:
- (i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; and
- (ii) The effect thereof on the summary financial statements, if any
- If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.

9. AUDIT - RELATED SERVICES

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

(a) By explaining nature of engagement described above, discuss whether it was proper for her to accept such engagement.

(b) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope? [RTP MAY 24]

Q-2 ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd. and submit a detailed report for the same. As the engagement partner, you are responsible for drafting the engagement letter. Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd.?

[NOV 24] (05)

Q-3 MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit

	engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differ from assurance engagements. Give your views on the applicability of SQC 1 to this engagement. [MAY 24] (05)
Q-4	The practitioner shall not accept the compilation engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. In view of the above, mention the responsibilities of the management to be agreed on for the compilation engagement in accordance with SRS 4410. [MTP - 11 NOV 24] (04)
Q-5	You have been appointed to compile the financial statements of the Kings & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards on accounting. On pointing out the same, the partners of the Kings & Co., inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment. [MTP - 11 MAY 24] (05)
Q-5-A	Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.
(i)	For what purposes may the financial information prepared under such an engagement be required?
(ii)	Briefly discuss the elements of Practitioner's report for such engagement. [RTP MAY 25]
Q-6	KSN and Co., Chartered Accountants, have been appointed by Nature Ltd. to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework and issuing a report. CA L has been appointed as the engagement partner for the assignment.

What are the responsibilities of CA L and which documentation requirements related to Engagement Level Quality Control should CA L ensure compliance with in such an engagement?

[MTP - 11 MAY 25] (05)

ANSWERS

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

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

(b) While reporting, she should take following precautions so that readers of report do not misunderstand its scope: -

- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- A statement that, had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole.

2. As per SRS 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information", matter to be agreed and would be included in the engagement letter are given as under:

A. Matters to be agreed include the following:

(a)	Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
(b)	Stated purpose for the engagement.
(c)	Identification of the financial information to which the agreed upon procedures will be applied.
(d)	Nature, timing and extent of the specific procedures to be applied.
(e)	Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.
B.	Matters that would be included in the engagement letter include:
	- A listing of the procedures to be performed as agreed upon between the parties. - A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.
3.	As per SRS 4410, Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report. Management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. Financial information that is the subject of a compilation engagement may be required for various purposes including:- - To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or - For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:- ✓ For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use). ✓ For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).

✓ For transactional purposes, for example to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).

"Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.

A compilation engagement is not an assurance engagement. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on the preparation of the financial information.

Further, SQC 1 is applicable to all Engagement and Quality Control Standards. Since SRS 4410 is also one of Engagement and Quality Control Standards, SQC 1 applies to firms in respect of firm's compilation engagements too which is covered in Related Services.

4. The practitioner shall not accept the compilation engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. In accordance with SRS 4410, "Compilation Engagement", the responsibilities of the management to be agreed on for the compilation engagement are that:

- (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users
- (ii) Design, implementation & maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- (iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and

	(iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement.
5.	As per SRS 4410, "Compilation Engagements", if the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. If the practitioner becomes aware during the course of the engagement that:
	(a) The compiled financial information does not adequately refer to or describe the applicable financial reporting framework
	(b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or
	(c) The compiled financial information is otherwise misleading
	the practitioner shall propose the appropriate amendments to management. If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing. If withdrawal from the engagement is not possible, the practitioner shall determine the professional and legal responsibilities applicable in the circumstances. The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information.
5A.	As per SRS 4410, "Compilation Engagements", financial information that is the subject of a compilation engagement may be required for various purposes including:
	• To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or
	• For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:

→	For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
→	For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
→	For transactional purposes, for example, to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).
(ii)	The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -
(a)	The report title;
(b)	The addressee(s), as required by the terms of the engagement;
(c)	A statement that the practitioner has compiled the financial information based on information provided by management;
(d)	A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;
(e)	Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
(f)	Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
(g)	A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;
(h)	A description of what a compilation engagement entails in accordance with this SRS;
(i)	Explanations that: -
	(i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and

	(ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
(j)	If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:
	(i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
	(ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;
(k)	The date of the practitioner's report;
(l)	The practitioner's signature; and
(m)	The place of signature.
6.	The engagement partner shall take responsibility for: -
(i)	The overall quality of each compilation engagement to which that partner is assigned and
(ii)	The engagement being performed in accordance with the firm's quality control policies and procedures.
	The practitioner shall include in the engagement documentation: -
(i)	Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner.
(ii)	A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and
(iii)	A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.
	The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

10. REVIEW OF FINANCIAL INFORMATION

Q-1 Best Textiles Ltd makes an investment in Prime Textiles Ltd with a view to expand its business, capture more market share and to earn higher returns. While forming an agreement for the same, Best Textiles Ltd. puts a clause in the contract that Prime Textiles Ltd will get its financial statements reviewed on a quarterly basis for a period of 2 years from the commencement of the contract i.e. 01-04-2023. To comply with the provisions of the contract the management of Prime Textiles Ltd. appoints CA Sumit to conduct the quarterly review of financial statements for the first quarter of the financial year 2023-24. Discuss from the practitioner's point of view, the preconditions for accepting a review engagement in accordance with the relevant SRE. [NOV 24] (04)

Q-2 Adboot & Co., a firm of Chartered Accountants, has been approached by Mix Ltd. to conduct a review engagement of its financial statements for the year ending 31st March 2024. Before accepting the engagement, the engagement partner, CA Jai, wants to ensure that the necessary preconditions for a review engagement are met. What preconditions should CA Jai evaluate before accepting the engagement? Discuss the responsibilities of Mix Ltd.'s management in this context and the necessary agreements that must be obtained from them. [MTP - 1 MAY 25] (05)

Q-3 In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss importance of these procedures in a review engagement. Practitioner's report containing outcome of review engagement in form of "conclusion" also contains a description of a review of financial statements and its limitations. Which statements in this respect are to be included in practitioner's report in accordance with SRE 2400? [MTP - 1 MAY 24] (05)

Q-4 A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the

entity's ability to continue as a going concern. Enumerate the steps to be taken by the practitioner for the same. [MTP - 11 NOV 24] (04)

Q.5 GAK Limited has compiled the interim financial information, as per the Listing agreement requirements and submitted to the auditors for their review. CA Reena, has been assigned on the engagement to review the interim financial information of GAK Limited. Based on the inquiries and other review procedures carried out, CA Reena, assessed that GAK Limited, has been facing continuous working capital shortages. No financial institutions or banks are ready to lend additional funding limits to GAK Limited, since the company has been continuously incurring losses for over 3 years and the company has defaulted payment of loan instalments & interest over the last one year and operations have been curtailed significantly. Under such circumstances CA Reena, who is doing the review for the first time, noted that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties. Given the situation, please advise CA Reena, what kind of review report is required to be issued? If, GAK Limited has disclosed information relating to material uncertainty, can CA Reena give a clean report? Discuss. [MAY 24] (05)

ANSWERS

1. Preconditions for Accepting Review Engagement As per SRE: As per SRE 2400, Engagement to Review Historical Financial Statements, the preconditions for accepting a review engagement are:
 - (1) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and;
 - (2) Obtain the agreement of management that it acknowledges and understands its responsibilities:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
 - (ii) For such internal control as management determines is necessary to enable the

	preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
	To provide the practitioner with: -
(a)	Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation & other matters;
(b)	Additional information that the practitioner may request from management for the purpose of the review; and
(c)	Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.
2.	Preconditions for Accepting a Review Engagement: Prior to accepting a review engagement, the practitioner shall: -
(1)	Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and
(2)	Obtain the agreement of management that it acknowledges and understands its responsibilities:
(i)	For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
(ii)	For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
(iii)	To provide the practitioner with: -
a.	Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation & other matters;
b.	Additional information that the practitioner may request from management for the purpose of the review; and
c.	Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

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

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

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

- Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

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

- (i) A review engagement under this SRE is a limited assurance engagement.

(ii)	The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained and
(iii)	The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.
4.	As per SRE 2400, "Engagements to Review Historical Financial Statements", a review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:
(i)	Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes that the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern.
(ii)	Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:-
(1)	Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern or
(2)	Conclude whether the financial statements are materially misstated or are otherwise misleading regarding the entity's ability to continue as a going concern.
(iii)	Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.
5.	Going Concern and Significant Uncertainties: As per SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made

in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

In view of above, in the given situation, GAK Limited has compiled the interim financial information, as per the Listing agreement requirements and submitted to the auditors for their review. CA Reena, has been assigned on the engagement to review the interim financial information of GAK Limited. CA Reena noticed that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties that casts significant doubt about the entity's ability to continue as a going concern. Thus, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty. If GAK Limited has disclosed information relating to material uncertainties, CA Reena, should modify the review report by adding an emphasis of matter paragraph.

11. PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

Q-1 SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400. [MTP - 11 MAY 24] (05)

Q-2 Mr. Vineet, an auditor, has been approached by Qub Ltd. to examine the prospective financial information of the company. What factors should an auditor consider before accepting an engagement to examine prospective financial information, and under what conditions should the auditor decline or withdraw from such an engagement? Additionally, what steps should be taken to formalize the terms of the engagement? [RTP NOV 24]

Q-3 You are engaged by M/s Viva Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state. The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same? [MTP - 1 NOV 24] (05)

Q-4 PQ Pharma Limited, a company dealing in research & development and manufacture of pharmaceuticals is coming up with an Initial Public Offer (IPO). PQ Pharma Ltd has prepared the prospective financial statements for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit & loss and cash flow statements, which are prepared on the basis of several key assumptions like favourable government

regulations, planned research & development of more effective medicines at reasonable prices, etc.

The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment.

[NOV 24] (05)

Q.5 STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

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

(a) Which type of report should be provided by the auditors of Little Solutions? Justify with reasons.

(b) State matters on which opinion is to be provided by the auditors of Little Solutions.

[RTP MAY 24]

ANSWERS

1. Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five- year projection.

“Forecast” means prospective financial information prepared on the basis of:

- Assumptions as to future events which management expects to take place and
- The actions management expects to take as of the date the information is prepared (best-estimate assumptions- an assumption that reflects anticipated experience with no provision for risk of adverse deviation).

Example- In present market conditions, supply availability, historical buying patterns and seasonal trends, the CFO of X Ltd. expects sales to increase by 5% over the next

quarter. Therefore, a 5% sales increase is his financial forecast for the period.

“Projection” means prospective financial information prepared on the basis of:

- Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or

- A mixture of best-estimate and hypothetical assumptions (imagined or suggested)

Example- X Ltd. may project a course of action to take when one or more hypothetical situations arise, such as creating a new product to meet the demand of expected market growth. As a result of assuming the possibility of different events occurring, financial projections typically serve as an outline for evaluating the desired outcomes X Ltd. expects to see, including its financial, cash flow and operational outcomes.

Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. Therefore, an opinion as to whether the results shown in the prospective financial information will be achieved cannot be expressed.

2. Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- The intended use of the information;
- Whether the information will be for general or limited distribution;
- The nature of the assumptions, that is, whether they are best estimates or hypothetical assumptions;
- The elements to be included in the information; and
- The period covered by the information.

The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified.

	<i>To formalize the terms of the engagement, it is essential to agree on the terms with the client by sending an engagement letter, like in other engagements.</i>
3.	<i>As per SAE 3400, "The Examination of Prospective Financial Information", when determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:</i>
(i)	<i>the knowledge obtained during any previous engagements;</i>
(ii)	<i>management's competence regarding the preparation of prospective financial information;</i>
(iii)	<i>the likelihood of material misstatement;</i>
(iv)	<i>the extent to which the prospective financial information is affected by the management's judgment;</i>
(v)	<i>the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;</i>
(vi)	<i>the stability of entity's business; and</i>
(vii)	<i>the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.</i>
4.	<i>When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether: -</i>
(i)	<i>the presentation of prospective financial information is informative and not misleading</i>
(ii)	<i>the accounting policies are clearly disclosed in the notes to the prospective financial information</i>
(iii)	<i>the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed</i>
(iv)	<i>the date as of which the prospective financial information was prepared is disclosed.</i>

	Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time
(v)	the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range and
(vi)	if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change & the effect of such change on the prospective financial information has been adequately disclosed.
5.	When the user entity uses the services of a service organisation, objectives of auditor of user entity are:
(a)	To design and perform audit procedures responsive to those risks.
	Therefore, it is in line with above requirements, that auditors of STAR Limited require an assurance report from auditors of Little Solutions Private Limited. SA 402 casts such responsibility on user auditors.
	In accordance with requirements of SAE 3402, auditors of Little Solutions Private Limited should provide a type 2 report to auditors of STAR Limited. As auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions Pvt. Ltd. throughout the year and type 2 report deals with such matters, type 2 report should be provided by the auditors of the Little Solutions Pvt. Ltd. Type 2 report is a report on the description, design and operating effectiveness of controls at a service organization whereas type 1 report is a report on the description and design of controls at a service organization.
(b)	The opinion of auditors of Little Solutions Pvt. Ltd. would state whether, in all material respects, based on suitable criteria:-
	• The description fairly presents the service organization's system that had been designed and implemented throughout the specified period; • The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and • The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.

12. DIGITAL AUDITING AND ASSURANCE

Q-1 MNC Limited, is engaged in manufacture & sale of FMCG products. It has manufacturing locations across various states in India and engages dealer channels to sell its products. One dealer is appointed for each district within the state and products are despatched from the nearest manufacturing location to the dealer. Considering the voluminous transactions, MNC Limited has a robust ERP network, for recording the transactions. As statutory auditors of MNC Ltd., your firm is about to commence the current year audit. The audit team includes certain IT experts and discussions are underway amongst the team members. As an IT manager of the engagement team, explain the key areas for an auditor to understand IT environment.

[MAY 24] (05)

Q-2 Gravity Ltd. is a medium-sized manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Ravi as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organization. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

[MTP - 11 MAY 24] (04)

Q-2.A Focus Ltd. is a manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Raman as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organisation. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

[MTP - 11 MAY 25] (05)

Q-3 IT dependencies also arise due to "system generated reports" and "interfaces". How do such IT dependencies arise? Why it is important to identify IT dependencies to develop an effective and efficient audit approach?

[MTP - 1 MAY 24] (04)

Q.3.A	Yuvi, a finance manager at DCB Ltd., received a text message on his mobile phone claiming to be from his bank. The message states that: “Dear Customer, Your account has been temporarily suspended due to suspicious activity. To reactivate, please verify your details by clicking on the following link: [sendyourinfo-link.com]. Failure to do so within 24 hours will result in account deactivation. Thank you for banking with us”. Yuvi is worried about his account security. Which type of phishing cyberattack Yuvi fell victim to? Also explain other types of such phishing attack. [RTP MAY 25]
Q.4	ABC Bank recently faced a cyber-attack where hackers attempted to steal customer data. This raised concerns about their cybersecurity measures. Regulators now require financial institutions to assess their cyber risk management and improve their defence against such threats. To handle cyber risks effectively, it is important to understand its key stages. Elucidate the stages of cyber risks that any organisations should focus on? [MTP - 1 MAY 25] (05)
Q.5	Remote audit is an audit where the auditor uses the online or electronic means to conduct the same. It could be partially or completely virtual, auditor engages using technology to obtain the audit evidence or to perform documentation review with the participation of the auditee. For example, an auditor might use video conferencing and cloud-based file sharing to review financial records remotely. What are the advantages and disadvantages of remote auditing? [MTP - 11 NOV 24] (04)
Q.5.A	CA Kabir, an auditor assigned to conduct a remote audit of Beetal Limited. The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Kabir address to ensure the effectiveness and security of the remote audit? [MTP - 1 NOV 24] (04)
Q.6	Mr. Karan is a consultant tasked with helping a mid-sized manufacturing company modernize its operations by integrating Internet of Things (IoT) technology. The company wants to connect various devices such as manufacturing equipment, smart

home security systems for their facility, and inventory management systems. They aim to leverage IoT to improve operational efficiency, predict equipment maintenance needs, and enhance overall security. However, they are concerned about the potential risks and the impact on their audit processes. Describe the key components and benefits of IoT, the risks associated with IoT implementation, and the implications for the company's audit processes. How should the company address these concerns to ensure a smooth transition?

[RTP NOV 24]

Q-7 Certain studies have suggested that increase in cyber-attacks and rise in global payment processing cost have hit global banking and finance industries enormously. Therefore, such industries are going to place reliance on new technologies such as Blockchain. Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. However, such technology comes with its weaknesses and associated risks. What are common risks for Blockchain technology? Also discuss probable audit implications where such technology can be used.

[RTP MAY 24]

ANSWERS

1. **Key Areas for an Auditor to Understand IT Environment:** Key Areas for an Auditor to Understand IT Environment are as follows:
 1. **Understand the flow of transaction:** The auditor's understanding of the IT environment may focus on identifying and understanding the nature and number of the specific IT applications and other aspects of the IT environment that are relevant to the flows of transactions and processing of information in the information system. Changes in the flow of transactions, or information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing or storing those transactions or information.
 2. **Identification of Significant Systems:** The auditor may identify the IT applications and supporting IT infrastructure concurrently with the auditor's understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through and out the entity's information system.

3.	Identification of Manual and Automated Controls: An entity's system of internal control contains manual elements and automated elements (i.e., manual and automated controls and other resources used in the entity's system of internal control). An entity's mix of manual and automated elements varies with the nature and complexity of the entity's use of IT. The characteristics of manual or automated elements are relevant to the auditor's identification and assessment of the risks of material misstatement.
4.	Identification of the technologies used: The need to understand the emerging technologies implemented and the role they play in the entity's information processing or other financial reporting activities and consider whether there are risks arising from their use. Given the potential complexities of these technologies, there is an increased likelihood that the engagement team may decide to engage specialists and/or auditor's experts to help understand whether and how their use impacts the entity's financial reporting processes and may give rise to risks from the use of IT.
5.	Assessing the complexity of the IT environment: Not all applications of the IT environment have the same level of complexity. The level of complexity for individual characteristics differs across applications. Complexity is based on the following factors - automation used in the organization, entity's reliance on system generated reports, customization in IT applications, business model of the entity, any significant changes done during the year and implementation of emerging technologies. After considering the above factors for each application the over complexity is assessed of the IT environment.
2.	Some examples of technology risks where Mr. Ravi should test the appropriate controls for relying on the digital systems • Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both • Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database) • The possibility of information technology personnel gaining access privileges beyond

those necessary to perform their assigned duties, thereby leading to insufficient segregation of duties

- Unauthorized or erroneous changes to data in master files
- Unauthorized changes to systems or programs
- Failure to make necessary or appropriate changes to systems or programs
- Inappropriate manual intervention
- Potential loss of data or inability to access data as required
- Risks introduced when using third-party service providers
- Cybersecurity risks

Mr. Ravi should focus on the following control considerations to mitigate risks effectively:

1. Auditors should gain a holistic understanding of changes in the industry & the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
2. Auditors, as appropriate, should consider risks resulting from the implementation of new technologies and how those risks may differ from those that arise from more traditional, legacy systems.
3. Auditors should consider whether digital upskilling or specialists are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team etc.

2A. Some examples of technology risks where Mr. Raman should test the appropriate controls for relying on the digital systems:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database).
- The possibility of information technology personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby leading to insufficient segregation of duties.

- Unauthorized or erroneous changes to data in master files.
- Unauthorized changes to systems or programs.
- Failure to make necessary or appropriate changes to systems or programs.
- Inappropriate manual intervention.
- Potential loss of data or inability to access data as required.
- Risks introduced when using third-party service providers.
- Cybersecurity risks.

Mr. Raman should focus on the following control considerations to mitigate risks effectively:

1. Auditors should gain a holistic understanding of changes in the industry and the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
 2. Auditors, as appropriate, should consider risks resulting from the implementation of new technologies and how those risks may differ from those that arise from more traditional, legacy systems.
 3. Auditors should consider whether digital upskilling or specialists are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team etc.
3. IT dependencies are created when IT is used to initiate, authorize, record, process, or report transactions or other financial data for inclusion in the financial statements. System generated reports are the information generated by the IT systems. These reports are often used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for the testing, performing substantive tests of details or performing a substantive analytical procedure. e.g. (Vendor master report, customer ageing report).
- Interfaces are programmed logic that transfer the data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll subledger to the general ledger.

In this manner, IT dependencies arise due to “system generated reports” and “interfaces”.

Identifying and documenting the entity's IT dependencies in a consistent, clear manner helps to identify the entity's reliance upon IT, understand how IT is integrated into the entity's business model, identify potential risks arising from the use of IT, identify related IT General Controls and enables us to develop an effective and efficient audit approach.

3A. The type of phishing cyberattack Yuvi fell victim to is Smishing. It is a type of fraudulent practice of sending text messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords or credit card numbers.

Other types of phishing cyberattacks are:

Spear Phishing: It is a type of phishing attack that targets specific individuals or organizations typically through malicious emails. The goal of spear phishing is to steal sensitive information such as login credentials or infect the targets' device with malware.

Whaling: A whaling attack is a type of social engineering attack specifically targeting senior or C-level executive employees with the purpose of stealing money or information or gaining access to the person's computer in order to execute further cyberattacks.

Vishing: Vishing, a voice phishing attack, is the fraudulent use of phone calls and voice messages pretending to be from a reputable organization to convince individuals to reveal private information such as bank details and passwords.

4. There are 3 Stage of cyber risk:

Stage 1 - Assessing the cyber risk: No organisation is completely immune to a cyber risk. Different clients will have different levels of risks, even with the same industry. Every organisation should consider at least the common threats-

- Ransomware disabling their organisation (including their plants & manufacturing facilities).
- Common criminals using email phishing and hacks for fraud and theft.
- Insiders committing malicious activities or accidental activities resulting in unintended disclosure of information theft and frauds.

Stage 2 - Impact of cyber risk: Cyber-attack can impact one, two or more types of risks. The impact of the attack would vary from organisation to organisation and most importantly from attack to attack. Some of the indicative areas can be -

- Regulatory costs.
- Business interruptions causing an operational challenge for an organisation.
- Data loss, reputational loss and litigation.
- Ransomware - more common these days where entire systems are encrypted.
- Intellectual property theft which may not only take the competitive advantage, but we may also result in any impairment/impediment charge because of the loss of IP.
- Incident response cost which could be for investigations & remediations.
- Breach of Privacy, if personal data of a consumer is hacked it could have a significant impact on the organisation.
- Fines and penalties.

Stage 3 - Managing cyber risk: A strategic approach to cyber risk management can help an organisation to:

- Gain a holistic understanding of the cyber risks, threats facing their organisation and other financial institutions.
- Assess existing IT and cybersecurity program and capabilities against the relevant regulatory requirements.
- Align cybersecurity and IT transformation initiatives with strategic objectives and critical risks.
- Understand accepted risks & documented compensating controls.

5. Advantages and Disadvantages of Remote Audit:

ADVANTAGES	DISADVANTAGES
Cost and time effective: No travel time and travel costs involved.	Due to network issues, interviews and meetings can be interrupted.
Comfort and flexibility to the audit team as they would be working from home environment,	Limited or no ability to visualize facility culture of the organization, and the body language of the auditees. Time zone issues could also affect the efficiency of remote audit session.

Time required to gather evidence can spread over several weeks, instead of concentrated into a small period that takes personnel from their daily activities.	The opportunity to present doctored documents & to omit relevant information is increased. This may call for additional planning, some additional/different audit procedures, Security & confidentiality violation.
Auditor can get first-hand evidence directly from the IT system as direct access may be provided.	Remote access to sensitive IT systems may not be allowed. Security aspects related to remote access and privacy needs to be assessed
Widens the selection of auditors from global network of experts.	Cultural challenges for the auditor. Lack of knowledge for local laws and regulations could impact audit. Audit procedures like physical verification of assets and stock taking cannot be performed.

5A. Key considerations that CA Kabir should address for effectiveness and security of the remote audits are:

Feasibility and Planning

- Planning should involve agreeing on audit timelines, meeting platform (Zoom calls/ Microsoft Teams/Google Meet) to be used for audit sessions, data exchange mechanisms, any access authorization requests. Ensure feasibility is determining what technology may be used, if auditors and auditees have competencies and that resources are available.
- The execution phases of a remote audit involve video/tele conferencing with auditees. The documentation for audit evidence should be transferred through a document sharing platform.

Confidentiality, Security and Data Protection

- To ensure data security and confidentiality, access to document sharing platform should be sufficiently restricted and secured by encrypting the data that is sent across the network. The information, once reviewed and documented by auditor, is removed from the platform, and stored according to applicable archiving standards and data protection requirements.

Auditors should take into consideration legislation and regulations, which may require additional agreements from both sides (e.g., there will be no recording of sound and images, or authorizations to using people's images). Auditors should not take screenshots of auditees as audit evidence. Any screenshots of documents or records or other kind of evidence should be previously authorized by the audited organization. In case of accessing the auditee's IT system auditor should use VPN (Virtual private network). VPN is a service which creates safe and encrypted online connections. It prevents unauthorized users to enter into the network and allows the users to perform work remotely.

Risk assessment

The communication from auditor as well as auditees need to clear and consistent, and this becomes crucial during remote audit. The risks for achieving the audit objectives are identified, assessed and managed. The assessment if remote audit would be sufficient to achieve the audit objectives should be done and documented for each audit involving all members of the audit team and the audited organization representative.

6. **Internet of Things:** IoT is the concept of connecting any device (cell phones, coffee makers, washing machines, and so on) to the internet.

Key components of IoT are data collection, analytics, connectivity, and people and process. IoT not only changes the business model, but also affects the strategic objectives of the organisation. The risk profile of the entity changes with exposure to new laws and regulations.

Example

- (i) Connected Cars, connected manufacturing equipment's, smart home security, (The options for home security from doorbell cameras or outdoor cameras - users can view video feeds when they are away from home).
- (ii) Data from machines can be used to predict whether equipment will break down, giving manufacturers advance warning to prevent long stretches of downtime.
- (iii) Refrigerator placing an order with a grocery store whenever the supply of eggs falls below a certain number.
- (iv) Smart oven works by scanning QR or bar codes and connecting to Wi-Fi, which it then uses to determine the best temperature and time to cook the food to avoid undercooking or burning.

(v) Researchers use IoT devices to gather data about customer preferences and behavior, though that can have serious implications for privacy and security.

Common risks of IoT:

The key risks associated with IoT including, device hijacking, data siphoning, denial of service attacks, data breaches and device theft.

Audit Implications

A shift to connected devices and systems may result in auditors not being able to rely only on manual controls. Instead, auditors may need to scope new systems into their audit. Audit firms may need to train and upskill auditors to evaluate the design and operating effectiveness of automated controls.

Consumer-facing tools that connect to business environments in new ways can impact the flow of transactions and introduce new risks for management and auditors to consider. Consider payment processing tools that allow users to pay via credit card at a retail location through a mobile device. This could create a new path for incoming payments that may rely, in part, on a new service provider supplying and routing information correctly. Auditors would need to consider the volume of those transactions, and the processes and controls related to it.

7. The strengths of blockchain can also be its weaknesses. The inability to reverse transactions and to access data without the required keys make the system secure but also means that organisations need specific protocols and management processes to ensure that they are not locked out and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important.

Auditors should consider the appropriate governance and security around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain interacts with legacy systems and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored. Weak blockchain application development protocols are something auditors cannot overlook. Similarly, data privacy laws and regulations may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on

blockchain will expose the enterprise for non-compliance with applicable laws and regulations.

Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The regulatory landscape is still evolving for blockchain so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

13. GROUP AUDITS

Q-1	Girdhar Ltd. owns 61% voting power in Meera Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its accounts. The shares are held exclusively with a view to their subsequent disposal in the near future. Girdhar Ltd. represents that while preparing Consolidated Financial Statements, Meera Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal? [MTP - II NOV 24] (05)
Q-1.A	L & K Investments Ltd. is a company having paid up share capital of ₹ 1 Crore, it has a subsidiary, Wealth Fund Management Ltd. The primary business of L & K Investments Ltd. is to pool funds from investors on a collective basis and invest this money in various financial instruments. The company pooled ₹ 12 Crore from a number of clients, which represent the company's shareholders. During the audit of L & K Investments Ltd., CA Shiv observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company. CA Shiv raised an issue while auditing financial statements of L & K Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion. [MTP - II MAY 25] (05)
Q-1.B	Advik Investments Ltd. is a company having paid up share capital of ₹ 1 crore, it has a subsidiary, Investors Fund Management Ltd. Major business of Advik Investments Ltd. is to pool money from investors on a collective basis and invest this money in various funds. This company pooled ₹ 10 crore from a number of clients, which represent the Company's shareholders. While auditing books of accounts of Advik Investments Ltd. CA Chirag observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company. The performance of all of its investments is measured on fair value basis.

Now, CA Chirag raised an issue while auditing financial statements of Advik Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion.

[RTP MAY 25]

Q-2 CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA H regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors?

[MTP - 1 NOV 24] (05)

Q-3 R Limited is a listed company engaged in manufacture of round bars. The company is having investment in the following components:

- (i) 2 Subsidiary Companies
 - (ii) 1 Joint Venture Company
 - (iii) 2 Associate Companies
 - (iv) 3 Business entities under common control
 - (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company.
- R Limited and all its components are required to present their accounts as per Ind AS. While preparing consolidated financial statements, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses and cash flows.

R Limited seeks your advice on the accounting treatment in respect of the above components for consolidation in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

[MAY 24] (05)

Q-4 You are appointed as an auditor of Imperial Industries Limited, a listed company with a turnover of ₹ 3.5 billion, operating through 15 business units and nearly 200 branches across the country. Imperial Industries Limited is a key supplier to the

American building and construction market. As an auditor, how will you draft the report in case:

- (a) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent?
- (b) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent?
- (c) Where the financial statements of one or more components are not audited?

[RTP NOV 24]

ANSWERS

1. **Consolidation of Financial Statement:** As per Ind AS 110, there is no such exemption for 'temporary control', or "for operation under severe long-term funds transfer restrictions" and consolidation is mandatory for Ind AS compliant financial statement in this case. Paragraph 20 of Ind AS 110 states that "Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee".

However, as per Section 129(3) of the Companies Act, 2013 read with rule 6 of the Companies (Accounts) Rules, 2014, where a company having subsidiary, which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with the provisions on consolidated financial statements provided in Schedule III to the Act.

In the given case, Girdhar Ltd.'s intention is disposal of the shares in the near future as shares are being held as stock in trade and it is quite clear that the control is temporary, Therefore, Girdhar Ltd. is required to prepare Consolidated Financial Statements in accordance with Ind AS 110 as exemption for 'temporary control' is not available in the same.

- 1A. According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. As per sub-section 6 of section 129 of the Companies Act, 2013, the Central

	Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made thereunder.
	An investment entity is an entity that:
(i)	obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
(ii)	commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
(iii)	measures and evaluates the performance of substantially all of its investments on a fair value basis.
	An investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity. However, as per paragraph 33 of Ind AS 110, parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.
	Applying the above to the given case of L & K Investment Ltd., which fulfils all the conditions stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that L & K Investment Ltd. is not required to consolidate as per Section 129 (3) of the Companies Act, 2013.
1B.	According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. As per sub-section 6 of section 129 of the Companies Act, 2013, the Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the Rules made thereunder.
	An investment entity is an entity that:
(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.

An investment entity needs not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity.

However, as per paragraph 33 of Ind AS 110, Parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

Applying the above to the given case of Advik Investments Ltd., which fulfils all the conditions stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that Advik Investments Ltd. is not required to consolidate as per Section 129 (3) of the Companies Act, 2013.

2. CA H should consider the requirement of SA 600, "Using the Work of Another Auditor", if he decides to use the work of another auditor in relation to the audit of consolidated financial statements and he should comply with the requirements of SA 600.

In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis.

However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- (i) The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- (ii) The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.

	(iii) The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.
	(iv) The principal auditor also obtains certain confirmations from component auditors like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.
	However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the principles of SA 600 need to be considered i.e. CA H (the parent auditor) should comply with the requirements of SA 600, "Using the Work of Another Auditor".
3.	For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015:
	the financial statements of the parent and its subsidiaries are combined as per Ind AS 110, "Consolidated Financial Statements" on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows;
	related goodwill/capital reserve (or gain on bargain purchase) and non-controlling interest is determined as per Ind AS 103;
	business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method in accordance with Ind AS 103;
	adjustments like elimination of intra-group transactions, balances, unrealized profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110;
	investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, "Investments in Associates and Joint Ventures". Interests in assets, liabilities, revenues, and expenses in a joint operation are accounted for as part of separate financial statements of the entity in accordance with Indian Accounting Standard (Ind AS) 111, "Joint Arrangements";
	in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate in accordance with Ind AS 103.

In the given situation, R Limited is, a listed company having investment in the (i) 2 Subsidiary Companies, (ii) 1 Joint Venture Company, (iii) 2 Associate Companies, (iv) 3 Business entities under common control, (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company. R Limited and all its components are required to present their accounts as per Ind AS. In view of above, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows while preparing its consolidated financial statements which is correct for the subsidiaries, however the treatment is not correct for other components as per abovementioned Companies (Indian Accounting Standards) Rules, 2015.

4. (a) **When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent:** The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent's GAAP because of their unfamiliarity with such GAAP.

When a component's financial statements are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group's consolidated financial statements, the parent's management perform a conversion of the components' audited financial statements from the framework used by the component to the framework under which the consolidated financial statements are prepared. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation.

A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group's consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure

requirements, which are consistent with the requirements of the financial reporting framework under which the group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies".

When applying the approach of using group accounting policies as the financial accounting framework for components to report under, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements. This ensures that the information prepared under the requirements of the group accounting policies will be directly usable and relevant for the preparation of consolidated financial statements by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component's financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components' audit report and make reference to it in the auditor's report on the consolidated financial statements.

(b) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent: Normally, audits of financial statements, including consolidated financial statements, are performed under auditing standards generally accepted in India ("Indian GAAS").

In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the consolidated financial statements, the components' financial statements should also be audited under a framework that corresponds to Indian GAAS.

(c) Where the financial statements of one or more components are not audited: The financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components' auditor. Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor

(or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

14. UNIT - 1 BANKING

Q-1 Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG. [RTP MAY 24]

Q-1-A Your firm ABC Associates is appointed as Central Statutory Auditors of a Nationalised Bank for the year 2023-24. The Bank follows the financial year as accounting year. During the audit, CA Aadi, the Audit Manager has noticed following issues and placed the same before the team.

Particulars	
Consortium Cash Credit Facilities to Prime Ltd.	₹ 75 crores
Bank's own Share in Cash Credit Facilities	₹ 15 crores
Debits towards Interest in the Last Two Quarters	₹ 2.25 crores
Credits in Prime Ltd.'s Account in the Last Two Quarters	₹ 1.75 crores
Classification of Prime Ltd.'s Account (Based on Lead Bank's Certificate)	Performing Account

As an auditor, how will you deal with the above mentioned matter? [RTP NOV 24]

Q-2 NRF Bank Ltd. is suffering from huge number of NPAs. During the month of April 2023, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

[MTP - 11 MAY 24] (05)

Q.2.B Nutan & Co. has been appointed as a statutory auditor of JOE Bank Ltd., a private sector bank, registered with RBI. Mr. Chahal, the engagement partner, while performing the audit as per the checklist, noted down the following points, which would be part of the audit queries, as tabulated below:-

Sr. No.	Queries
1.	One of the NPAs' was sold for a value higher than the net book value. Profit was not recognized but the excess provision in respect of the same has been reversed.
2.	Interest in a State Government Guaranteed advance has been taken to income even though such advance has remained overdue for more than 90 days.
3.	There is an account for which the ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction and such account has been treated as a performing asset in the books.
4.	On verification of outstanding forward exchange contracts, the 'net position' in respect of one of the foreign currencies was not squared and was uncovered by a substantial amount.
5.	In the case of one of the accounts, an additional temporary limit has been sanctioned for 25% of the existing limit and for 120 days tenure.

Please provide the reasons due to which such queries would have been raised by Mr. Chahal and describe the actions that may be taken by the person responsible on behalf of JOE Bank Ltd. for solving such queries.

[RTP MAY 25]

Q.3 CA J is the statutory auditor of branch of a nationalized bank. During the audit, he is also focusing upon verification of Current Accounts & Savings Accounts (CASA) maintained at the branch. Suggest a few audit procedures he should follow.

[MTP - 1 NOV 24] (05)

Q.4. You have been appointed as Concurrent auditor of a branch of Silver Bank Ltd., which primarily deals in foreign exchange transactions. During the audit, you noticed discrepancies in certain inward and outward remittances, as well as unusual fluctuations in Nostro account balances. What audit procedures would you implement to verify the accuracy and compliance of foreign exchange transactions of this branch.

[MTP - 11 MAY 25] (05)

ANSWERS

1. In the provided scenario, Saha & Associates, a Chartered Accountant firm, was appointed by the Comptroller and Auditor General (C&AG) to conduct a Performance Audit of Herbal Ltd., a Public Sector Undertaking (PSU) of the Government of India. The audit, however, primarily focused on verifying that all expenses of the unit were in conformity with public interest and publicly accepted customs, which does not align with the essence of a Performance Audit.

A Performance Audit is characterized as an impartial and systematic examination of evidence aimed at providing an independent assessment of the performance of a government organization, program, activity, or function. The ultimate goal is to furnish information that enhances public accountability and aids decision-making by entities responsible for oversight or corrective action.

In the context of PSUs, Performance Audits are conducted by the C&AG, specifically through various subordinate offices of the Indian Audit and Accounts Department (IAAD). The auditing process adheres to manuals and standards set by the C&AG, guiding subordinate offices in evaluating the economy, efficiency, and effectiveness of policies, programs, organizations, and management.

The objectives of Performance Auditing encompass promoting accountability by aiding governance and oversight bodies in enhancing performance and fostering transparency by providing insights into the management and outcomes of diverse government activities. The focus is on areas where adding value holds the greatest potential for development, thereby encouraging responsible parties to take appropriate actions.

The Regulations on Audit and Accounts issued by C&AG outline that the responsibility for developing measurable objectives, performance indicators, and measurement systems rests with Government departments or Heads of entities. They are further

required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardize unit delivery costs, and benchmark the quality of outputs and outcomes.

Therefore, the rejection of the audit report submitted by Saha & Associates by the C&AG is warranted. This is because the audit conducted by the firm, which primarily aimed at checking the conformity of expenses to public interest and accepted customs, does not align with the comprehensive nature of Performance Audits, which evaluate various aspects of economy, efficiency, and effectiveness.

1A. The bank is a consortium member of cash credit facilities of ₹ 75 crores to Prime Ltd. Bank's own share is ₹ 15 crores only. During the last two quarters against a debit of ₹ 2.75 crores towards interest, the credits in X Ltd.'s account are to the tune of ₹ 1.75 crores only. Sometimes, several banks form a group (the 'consortium') under the leadership of a 'lead bank' to make advance to a large customer on same conditions and security with proportionate rights. In such cases, each bank may classify the advance given by it according to its own experience of recovery and other factors. Since in the last two quarters, the amount remains outstanding and, thus, interest amount should be reversed. This is despite the certificate of lead bank to classify that the account as performing. Accordingly, the amount should be shown as non-performing asset (NPA).

2. In case of Sale of NPA by Bank, the auditor should examine that:

- The policy laid down by the Board of Directors in this regard relating to procedures, valuation and delegation of powers including non-performing financial assets that may be sold, norms or such sale, valuation procedure and accounting policy.
- Only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.
- The assets have been sold "without recourse" only i.e., the entire credit risk associated with the non-performing asset should be transferred to the purchasing bank.
- Subsequent to the sale of the NPA, the bank does not assume any legal, operational or any other type of risk relating to the sold NPAs.

- The NPA has been sold at cash basis only. Under no circumstances, NPA can be sold to another bank at a contingent price. The entire sale consideration has to be received on upfront basis.
- The bank has not purchased an NPA which it had originally sold.
- On the sale of the NPA, the same has been removed from the books of the account of selling bank on transfer;
- If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
- If the sale is for a value higher than the NBV, the excess provision shall not be reversed but will be utilised to meet the shortfall/ loss on account of sale of other non-performing financial assets.

In the given situation, management of NRF Bank Ltd. is considering to sell following NPAs, during the month of April, 2023:

Name	NPA since F.Y.	Amount (₹ in lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

In view of above-mentioned conditions, the auditor is required to ensure that only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.

Considering the facts given in the question all the NPAs, except for Dairy Works, are prior to April 2021 i.e., 2 years prior to April 2023. In view of the above provisions, management of NRF Bank Ltd. can sell all the NPAs except for NPA of 55.24 lakh rupees of Dairy Works as it has remained NPA in the books of the banks less than 2-year duration.

2B.

Sr. No.	Reason for such Query	Action that may be taken in response to the query
1.	In case of sale of NPA, where the sale is for a value higher than the NBV, the auditor is required to ensure that no profit is recognized, and the excess provision has not been reversed but retained to meet the shortfall/ loss that may arise because of the sale of other non-performing financial assets.	The entry for reversal of the excess provision would be cancelled in the books and such excess provision would be retained to meet the shortfall/ loss that may arise because of the sale of other non-performing financial assets.
2.	A State Government Guaranteed advance has to be treated as NPA even if it remains overdue for more than 90 days and in case of NPA, for the purpose of income recognition, interest on such advance should not be taken to income unless interest is realized.	Interest income recognized on such advance would be reversed and would be taken to income only when it is realized.
3.	Accounts for which the ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction, should be considered as NPA.	Its treatment in the books would be changed from performing asset to a nonperforming asset from the date when such change in the treatment was required.
4.	Net position in respect of each of the foreign currencies should be generally squared and should not be uncovered by a substantial amount.	The net "position" of the branch in relation to each foreign currency should be squared off and get covered by a substantial amount.
5.	Additional temporary limits may be sanctioned, for a maximum of 20% of the existing limit and 90 days maximum tenure.	The terms of additional temporary limit in the case of such account would be revised to 20% of the existing limit and for 90 days maximum tenure.

3.	<i>Audit procedure to verify Current Accounts and Saving Accounts are:</i> <i>Verify on a sample basis current account and saving accounts opened during the year for adherence to KYC norms. Verify that saving accounts are opened in name of individuals, HUF, some approved institutions like trusts, educational institutes etc. Remember that saving accounts are not opened for business or professional concern. The business transactions are carried in current accounts which can be opened for all kind of customers like companies, individuals, partnership firms etc.</i> <i>Verify the balances in individual accounts on a sample basis.</i> <i>Check the calculations of interest on a test check basis. Remember that no interest is paid generally on current accounts by banks.</i> <i>Examine whether the procedure for obtaining balance confirmation periodically has been followed consistently. Examine, on a sampling basis, the confirmations received.</i> <i>Ensure that debit balances in current accounts are not netted out on the liabilities side but are appropriately included under the head 'advances'.</i> <i>Inoperative accounts (both current and saving) are a high-risk area of frauds in banks. As per RBI guidelines, a savings/ current account should be treated as inoperative/dormant if there are no transactions in the account for over a period of two years. Verify on a sample basis some of inoperative accounts revived/closed during the year. Ensure that inoperative accounts are revived only with proper authority. In this regard, cases where there is a significant reduction in balances of such accounts as compared to previous year, examine authorisation for withdrawals.</i>
4.	<i>Suggested audit procedure to be covered by the Concurrent Auditor to check the foreign exchange transactions of a branch of Silver Bank Ltd. is given hereunder:</i> <i>Check foreign bills negotiated under letters of credit.</i> <i>Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.</i> <i>Check whether inward/outward remittance have been properly accounted for.</i> <i>Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorized and necessary charges have been recovered.</i>

- *Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank.*
- *Ensure that the overbought/oversold position maintained in different currencies is reasonable, considering the foreign exchange operations.*
- *Ensure adherence to the guidelines issued by RBI/HO of the bank about dealing room operations.*
- *Ensure verification/reconciliation of Nostro and Vostro account transactions/ balances.*

15. UNIT - 2 NON -BANKING FINANCIAL COMPANIES

Q-1 Singh Ltd. is a company registered under the Companies Act, 2013. The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by government or local authorities. For the year ended 31st March 2024 following are some extracts from the financial statements:

i.	Paid-up share capital	₹ 50 Cr.
ii.	Non-Current Assets - Loans & Advances	₹ 61.75 Cr.
iii.	Current Assets - Loans and advances	₹ 312.25 Cr.
iv.	Total assets of the company	₹ 620 Cr.
v.	Intangible assets	₹ 12 Cr.
vi.	Profit for the Year	₹ 7.25 Cr.
vii.	Income from interest and dividends	₹ 68 Cr.
viii.	Gross income	₹ 118.75 Cr.

Directors intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise [MTP - 1 NOV 24] (05)

Q-1-A Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29th March 2024. The company appointed Mr. Yuvan as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020? [MTP - 11 NOV 24] (05)

Q-2 Qura Capital Ltd., a Non-Banking Financial Company (NBFC) classified under the Scale-Based Regulation framework, is required to maintain a minimum capital ratio of 15% of its aggregate risk-weighted assets (RWA) and risk-adjusted off- balance sheet items. The company has provided the following financial data for computing of its Tier 1 and Tier 2 capital as per the RBI Master Directions:

Particulars	Amount in (₹)
Owned Fund	₹ 1,000 crore
Investment in shares of other NBFCs and in group companies (exceeding 10% of owned fund)	₹ 150 crore
Perpetual Debt Instruments issued by Qura Finance Ltd.	₹ 120 crore
Preference Shares (not compulsorily convertible into equity)	₹ 80 crore
Revaluation Reserves	₹ 200 crore
General Provisions & Loss Reserves	₹ 50 crore
Hybrid Debt Capital instruments	₹ 90 crore
Subordinated Debt	₹ 140 crore
Risk-Weighted Assets (RWA)	₹ 8,000 crore

Considering that Qura Finance Ltd. is neither an NBFC-MFI nor primarily engaged in lending against gold jewellery, compute the following:

- Tier 1 capital of Qura Finance Ltd. as per RBI guidelines.
- Tier 2 capital, ensuring it does not exceed the Tier 1 capital.

Also, determine whether Qura Finance Ltd. meets the minimum capital adequacy requirement of 15% of RWA. [MTP - 1 MAY 25] (05)

Q.3. CA M is appointed as the Statutory auditor of Fincorp Limited for the financial year 2023-24. This company is an NBFC covered under Non-Banking Financial Company-Systemically Important Non-Deposit-taking Company. To comply with the RBI Prudential Norms for asset classification, Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as on 31st March, 2024:

Particulars	Balance outstanding as on 31 st March, 2024	Provision for the Financial year 2023-24
Standard Assets	₹ 200 crores	NIL
Sub-standard Assets	₹ 15 crores (Fully secured)	₹ 1.50 crores
Doubtful Assets (one to three years)	₹ 8 crores (Fully secured)	₹ 2.00 crores
Loss Assets	₹ 2 crores	₹ 2.00 crores
Total Provision for NPA		₹ 5.50 crores

CA M is of the opinion that the company has not done the provisioning correctly. Is the opinion of CA M, correct? In this context, explain the provisioning requirements applicable to this NBFC and comment on the provision for NPA made by the company. [NOV 24] (05)

Q-4. Yo-Yo Finance Limited is a NBFC-ML as per revised categorisation of NBFC done by RBI. YAK & Associates, firm of chartered accountants, are appointed as Statutory Auditors of the Company for the year 2023-24. The audit team consist of CA Y, 1 Audit Manager and 3 junior assistants. The Audit Manager is recently appointed, who is not having much exposure in the field of Auditing of NBFCs. During the engagement team meeting, the Audit Manager asked CA Y, regarding the audit procedures to be undertaken to verify whether the aforesaid Company has followed Prudential Norms? As an Engagement partner suggest any four procedures to the Audit Manager. [MAY 24] (04)

ANSWERS

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

- (i) Financial assets of the company constitute more than 50 percent of the total assets (netted off by intangible assets) and
- (ii) Income from financial assets of the company constitutes more than 50 percent of the gross income.

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

In the given case of Singh Ltd, its financial assets are ₹ 374 Crore i.e., (₹ 61.75 + ₹ 312.25)

Total Assets (netted off by intangible assets) = ₹ 608 Crore

Income from financial assets = ₹ 68 Crore

Gross Income = ₹ 118.75 Crore

From the above, it can be concluded that financial assets of Singh Ltd. constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets of Singh Ltd. constitutes more than 50 per cent of the gross income. Hence, Singh Ltd. fulfills both the criteria to qualify as an NBFC. Thus Singh Ltd. can apply for registration under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997 in prescribed form along with the necessary documents.

1A. As per Clause (xvi) of Paragraph 3 of CARO 2020, the auditor is required to report that "whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained." The auditor is required to examine whether the company is engaged in the business which attracts the requirement of the registration. The registration is required where the financing activity is a principal business of the company. The RBI restrict companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration.

Audit Procedures and Reporting:

- (i) The auditor should examine the transactions of the company with relation to the activities covered under the RBI Act and directions related to the Non-Banking Financial Companies.
- (ii) The financial statements should be examined to ascertain whether company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.
- (iii) Whether the company has net owned funds as required for the registration as NBFC.
- (iv) Whether the company has obtained the registration as NBFC, if not, the reasons should be sought from the management and documented.
- (v) The auditor should report incorporating the following:-
 - (1) Whether the registration is required under section 45-IA of the RBI Act, 1934.
 - (2) If so, whether it has obtained the registration.
 - (3) If the registration not obtained, reasons thereof.

In the given case, Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having

net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) which is less in comparison to the prescribed limit i.e. 2 crore rupees and was also not having registration certificate from RBI (though applied for it on 29th March 2024). The auditor is required to report on the same as per Clause (xvi) of Paragraph 3 of CARO 2020.

2. To determine whether Qura Capital Ltd. meets the capital adequacy requirement, we need to compute its Tier 1 Capital, Tier 2 Capital and compare the total capital ratio against the required 15% of Risk-Weighted Assets (RWA).

Step 1: Computation of Tier 1 Capital

Tier 1 Capital = Owned Fund - Investments in Group Entities + Eligible Perpetual Debt Instruments.

Tier 1 Capital = 1,000 - 150 + 120 = ₹ 970 crore

Note: The perpetual debt instruments are limited to 15% of the previous year's Tier 1 capital. Assuming ₹ 120 crore qualifies, we include it in Tier 1 capital.

Step 2: Computation of Tier 2 Capital

Tier 2 Capital = Sum of:

- Preference Shares = ₹ 80 crore
- Revaluation Reserves at 55% discount = ₹ 200 crore × 55% = ₹ 110 crore
- General Provisions (Limited to 1.25% of RWA) = 1.25% of ₹ 8,000 crore = ₹ 100 crore (Since actual general provisions are ₹ 50 crore, we take ₹ 50 crore)
- Hybrid Debt Capital Instruments = ₹ 90 crore
- Subordinated Debt = ₹ 140 crore
- Perpetual Debt Instruments exceeding Tier 1 Limit = ₹ 0 crore

(As ₹ 120 crore is already within Tier 1 limit)

Tier 2 Capital = 80 + 110 + 50 + 90 + 140 + 0 = ₹ 470 crore.

Note: Tier 2 Capital cannot exceed Tier 1 Capital. Since ₹ 470 crore is within the ₹ 970 crore Tier 1 limit, it is fully eligible.

Step 3: Compute Capital Adequacy Ratio (CAR)

Total Capital = Tier 1 Capital + Tier 2 Capital.

Total Capital = 970 + 470 = ₹ 1,440

Capital Adequacy Ratio (CAR) = (Total Capital/Risk-Weighted Assets) × 100 = 1400/8000*100 = 17.5%

Step 4: Conclusion

- Minimum required capital ratio = 15%
- Actual Capital Adequacy Ratio (CAR) = 18%

Since Qura Capital Ltd.'s CAR (18%) is higher than the minimum requirement of 15%, it meets the regulatory capital adequacy norms.

3. Provisioning Requirements: The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Categories of Non-Performing Assets:	Provision required (%)
Standard Assets: Every NBFC (covered under Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) shall make provisions for standard assets at 0.40 per cent by the end of March 2018 and thereafter, of the outstanding, which shall not be reckoned for arriving at net NPAs.	
Substandard Assets	10%
Doubtful Assets (upto 1 to 3 Years)	30%
Loss Assets	100%

In the given situation, CA M is appointed as Statutory Auditor of Fincorp Limited, an NBFC covered under NBFC (covered under Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) for the financial year 2023-24. The Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as under:

Categories of Non-Performing Assets:	Balance outstanding as on 31st March, 2024	Provision required (%)	Provision required (in ₹)	Provision made by the Co.
Standard Assets	₹ 200 crores	0.40%	₹ 80 lakhs	NIL
Substandard Assets	₹ 15 crores	10%	₹ 1.5 crores	₹ 1.5 crores

Doubtful Assets (upto 1 to 3 Years)	₹ 8 crores	30%	₹ 2.4 crores	₹ 2 crores
Loss Assets	₹ 2 crores	100%	₹ 2 crores	₹ 2 crores
Total Provision for NPA			₹ 6.7 crores	₹ 5.5 crores

From the above, it can be concluded that provisioning for Substandard Assets and Loss Assets is in accordance with the prescribed RBI Prudential Norms whereas in case of Standard Assets and Doubtful Assets it is not as per provisioning norms. Thus, CA M is correct in his opinion that the company has not done the provisioning correctly.

4. **Audit procedures to be undertaken by YAK & Associates to verify that Yo-Yo Finance Limited has followed NBFC Prudential Norms:-**

- (i) Check compliance with prudential norms encompassing income recognition, income from investments, accounting standards, accounting for investments, asset classification, provisioning for bad and doubtful debts, capital adequacy norms, prohibition on granting of loans by a NBFC against its own shares, prohibition on loans and investments for failure to repay public deposits and norms for concentration of credit/investments.
- (ii) An auditor should ensure that the Board of Directors of every NBFC granting/intending to grant demand/call loans shall frame and implement a policy for the company.
- (iii) An auditor should assess on the basis of examinations conducted by him whether the NBFC has complied with the prudential norms. In particular, he should verify that advances & other credit facilities have been properly classified as standard/substandard/doubtful/loss & that proper provision has been made in accordance with the Directions.
- (iv) In respect of Non-Performing Assets, an auditor should check whether the unrealized income in respect of such assets has not been taken to the Profit & Loss Account on an accrual basis. Income from NPAs should be accounted for on realization basis only.
- (v) Check whether all accounts which have been classified as NPAs in the previous year also continue to be shown as such in the current year also. If the same is not treated as an NPA in the current year, the auditor should specifically examine such accounts to ascertain whether the account has become regular and the same can be treated as performing as per the Directions.

16. OVERVIEW OF AUDIT OF PUBLIC SECTOR UNDERTAKINGS

Q-1 Abhinandan Ltd., a company wholly owned by Delhi government was disinvested during the previous year, resulting in 38% of the shares being held by public. The shares were also listed on the NSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the NSE etc.

Paras, the Finance Manager of the company is of the opinion that now the company is subject to stringent control by NSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act, 2013 would be applicable to the company and the C&AG will not have any role to play.

Comment. [MTP - 11 NOV 24] (05)

Q-2 DBH & Associates are the statutory auditors of MBPC Limited, a public sector undertaking in the power sector. It is engaged in constructing large sized thermal power stations to accelerate development of the power sector in the country.

One of the financial committees of Parliament has decided to examine its physical and financial performance. It has also examined the audit findings of C&AG in respect of which action is yet to be taken by the said PSU. The committee also proposes to include in its report the performance of the company in various operational matters. Which financial committee of Parliament deals with such matters? Outline its main functions.

[MTP - 1 MAY 25] (04)

Q-3 During the course of an audit of a state government department, the Office of the Comptroller & Auditor General of India (CAG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit
- Buildings with a total area surpassing a threshold limit

However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team

directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India. To whom report of such audit was likely to have been submitted

[MTP - 11 MAY 24] (05)

Q.4 Direct Benefit Transfer (DBT) is a major reform initiative of the Government of India to ensure better and timely delivery of benefits from Government to people. It marks a paradigm shift in the process of delivering benefits like wage payments, fuel subsidies, food grain subsidies, etc. directly into the bank accounts of the beneficiaries removing leakages and enhancing financial inclusion.

The office of C & AG of India is likely to undertake a performance audit for a block of years in a state of some selected social security pension schemes and scholarship schemes under DBT. What are likely to be objectives of such performance audit? Explaining meaning of "audit criteria", discuss how these can be determined in above case.

[MTP - 1 MAY 24] (05)

Q.4A Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG.

[RTP MAY 24] (05)

Q.5. A state government owned PSU was involved in setting up of a thermal power plant in the state. The C & AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out. What kind of audit is referred in the above case? Describe the methods which could be used in conducting such audits.

[RTP MAY 25]

Q.5.A	The Comptroller and Auditor General of India has appointed a Chartered Accountant firm to conduct the comprehensive audit of Saras Company Limited, a listed government company, handling major Railway project of the metropolitan city for the period ending 31-03-2024. The work to be conducted under Project A handled by the Saras Company Limited was of laying down railway line of 130 kilometers. During the audit, the firm reviewed the internal audit report and observed the shortcoming reported about the performance of Project A regarding the understatement of the Current liabilities and Capital work in progress by ₹ 75.32 crore. What key aspects should the chartered accountant firm focus on while conducting the comprehensive audit of Saras Company Limited? [MTP - 11 MAY 25] (05)
Q.6	The Government of India launched a rural development scheme to undertake projects aimed at improving infrastructure, healthcare and education in the rural areas. To execute the projects the Central Government provided funds to the state government. The Comptroller and Auditor General of India wants to ensure that the funds provided to the State Governments have been utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized by the state government for building hospitals, school buildings and roads and submit a report on the wastefulness in public administration and cases of improper, avoidable and infructuous expenditures, if any, has been done. What functions as an auditor will be performed by you? [NOV 24] (04)
	ANSWERS
1.	Section 2(45) of the Companies Act, 2013, defines a "Government Company" as a company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

	The auditors of these government companies are firms of Chartered Accountants, appointed by the Comptroller & Auditor General, who gives the auditor directions on the manner in which the audit should be conducted by them. In the given situation, Abhinandan Ltd. is a company wholly owned by Delhi Government was disinvested during the previous year, resulting in 38% of the shares being held by public. The shares were also listed on the NSE. The listing of company's shares on a stock exchange is irrelevant for this purpose and hence, opinion of finance manager Paras is not correct.
2.	The said matters are dealt with by Committee on Public Undertakings (COPU). The functions of the Committee are- (i) to examine the reports and accounts of public undertakings. (ii) to examine the reports of the C&AG on public undertakings. (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices. (iv) to exercise such other functions vested in the PAC and the Estimates Committee as are not covered above and as may be allotted by the Speaker from time to time. The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.
3.	In the given case, it is a "Compliance Audit" performed by Office of Comptroller & Auditor General of India. Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable criteria. This audit is carried out by assessing whether activities, financial transactions and information comply in all material respects with the regulatory and other rules which govern the audited entity. Compliance auditing is concerned with: - (a) Regularity- adherence of the subject matter to the formal criteria emanating from relevant laws, regulations, and agreements applicable to the entity.

- (b) Propriety- observance of the general principles governing sound financial management and the ethical conduct of public officials.
- While regularity is emphasized in compliance auditing, propriety is equally pertinent in the public sector context, in which there are certain expectations concerning financial management and the conduct of officials.
- Under Article 151, audit reports of the C&AG relating to the accounts of the Central/ State Government should be submitted to the President/Governor of the State who shall cause them to be laid before Parliament/State Legislative Assemblies.
- In the given situation, the report relates to the State Department. Therefore, report was likely to have been submitted to Governor of state to be laid before State legislative assembly.
4. The likely objectives of performance audit to be conducted by office of C & AG of India of some selected social security pension schemes and scholarship schemes in a state could be: -
- Whether proper planning and process were in place to capture data of beneficiaries under above schemes
 - Whether necessary steps were taken for implementation of DBT like preventing delay in payments to the intended beneficiaries and pilferage and duplication
 - Whether the infrastructure, organization and management of DBT were adequate and effective.
- “Audit criteria” are standards used to determine whether a programme meets or exceeds expectations. It provides a context for understanding the results of the audit. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed.
- In the above situation, various documents issued by Government of India and state government like circulars, instructions, Standard operating procedure manuals, guidelines of schemes on identification and authentication of beneficiaries etc., general management and subject matter literature can be used to determine “audit criteria”.
- 4A. In the provided scenario, Saha & Associates, a Chartered Accountant firm, was appointed by the Comptroller and Auditor General (C&AG) to conduct a Performance

Audit of Herbal Ltd., a Public Sector Undertaking (PSU) of the Government of India. The audit, however, primarily focused on verifying that all expenses of the unit were in conformity with public interest and publicly accepted customs, which does not align with the essence of a Performance Audit.

A Performance Audit is characterized as an impartial and systematic examination of evidence aimed at providing an independent assessment of the performance of a government organization, program, activity, or function. The ultimate goal is to furnish information that enhances public accountability and aids decision-making by entities responsible for oversight or corrective action.

In the context of PSUs, Performance Audits are conducted by the C&AG, specifically through various subordinate offices of the Indian Audit and Accounts Department (IAAD). The auditing process adheres to manuals and standards set by the C&AG, guiding subordinate offices in evaluating the economy, efficiency, and effectiveness of policies, programs, organizations, and management.

The objectives of Performance Auditing encompass promoting accountability by aiding governance and oversight bodies in enhancing performance and fostering transparency by providing insights into the management and outcomes of diverse government activities. The focus is on areas where adding value holds the greatest potential for development, thereby encouraging responsible parties to take appropriate actions.

The Regulations on Audit and Accounts issued by C&AG outline that the responsibility for developing measurable objectives, performance indicators, and measurement systems rests with Government departments or Heads of entities. They are further required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardize unit delivery costs, and benchmark the quality of outputs and outcomes.

Therefore, the rejection of the audit report submitted by Saha & Associates by the C&AG is warranted. This is because the audit conducted by the firm, which primarily aimed at checking the conformity of expenses to public interest and accepted customs, does not align with the comprehensive nature of Performance Audits, which evaluate various aspects of economy, efficiency, and effectiveness.

5. In the given situation, Performance Audit will be conducted as it is an objective and systematic examination of evidence for the purpose of providing an independent

	assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.
	Some of the methods which could be used in conducting performance audits include:
(i)	Analysis of procedures: It involves review of the systems in place for planning, conducting, checking and monitoring the activity.
	This would consist of examination of documents such as financial reports, budgets, programme guidelines, procedure manuals, etc.
(ii)	Case studies: A case study is a descriptive analysis of an entity, scheme or a programme. It involves analysis of a particular issue within the context of the whole area under review.
(iii)	Use of existing data: The audit staff should investigate the data held by entity management and by other relevant sources. Audit conclusions based on testing of available data for correctness and completeness enhances the assurance level.
(iv)	Surveys: Survey is a method of collecting information from members of a population to assess the interrelation of events and conditions. Surveys on predetermined parameters can supplement the audit findings and conclusions adding value to the performance audits.
(v)	Analysis of results: It requires the auditor to carry out actual output-input analysis to determine the efficiency of the programme.
(vi)	Quantitative analysis: It involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc. However, it may not be possible for the auditor to work with complete data due to its high volume. In such cases, sampling techniques are required to be used.
5A.	Matters to be undertaken by the CA Firm while conducting the comprehensive audit of Saras Company Limited are:
(i)	How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
(ii)	Have the accepted production or operational output been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?

17. INTERNAL AUDIT

Q-1 One of the independent directors sought information regarding the appointment of internal auditors for the following Group Companies in accordance with the Companies Act, 2013 of which certain financial information are given below:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
XYX Limited	Listed	100	230	20	48
MNM Limited	Unlisted Public	60	100	50	24
GFG Limited	Unlisted Private	70	180	80	-

You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss. [MTP - 1 NOV 24] (05)

Q-2 Rishi is appointed as internal auditor for a SPOM Limited, a medium-sized manufacturing company, while CA Nitin is the statutory auditor of the SPOM Limited.

(a) During the review, Rishi notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system. Additionally, there have been recent changes in the company's business policies that he was not informed about. Rishi is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues. What are the responsibilities of Rishi as an Internal Auditor with respect to the accounting function and financial records of the organisation?

(b) CA Nitin asked Rishi to provide direct assistance to him regarding evaluating the appropriateness of management's use of the going concern assumption. In view of Standards on Auditing, whether Nitin can ask direct assistance from Rishi as stated above? [RTP NOV 24]

Q-3 CA. Sanjana has recently joined as Chief Internal Auditor of Up Scale Limited, a listed company. Her subordinate staff in internal audit department brings to her knowledge many prior audit issues highlighted in the previous internal audit reports which are

still open. Does she have any responsibilities in this regard? How should she proceed in this situation? [RTP MAY 24]

Q.4 The management of High Limited is concerned with the reporting requirement cast through Rule 11 of the Companies (Audit and Auditors) Rules, 2014 for the financial year 2023-24 with regard to the Audit Trail (edit log). Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software. Consequently, the management of the company approached CA J and asked him to suggest them list of internal controls which may be required to be implemented and operated to demonstrate that the Audit trail (or Edit Log) feature was functional, operated and was not disabled. Help CA J. [MAY 24] (04)

ANSWERS

1. As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of the Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-
- (A) every listed company;
 - (B) every unlisted public company having-
 - (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - (2) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
 - (C) every private company having-
 - (1) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.
- In the given case, XYX Limited is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor

or a firm of internal auditors. Thus, in view of the above, *XYX Limited* is required to appoint an internal auditor.

Further, *MNM Limited* is unlisted public company. The company is having ₹ 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, *MNM Limited* is required to appoint an internal auditor as per section 138 of the Companies Act, 2013.

GFG Limited is unlisted private company and having ₹ 70 crore as equity share capital, ₹ 180 crore as turnover and ₹ 80 crore loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below the prescribed limit for a private company. Therefore, *GFG Limited* is not required to appoint an internal auditor.

It can be concluded that *XYX Limited* and *MNM Limited* are required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas *GFG Limited* is not required to do the same.

2. (a) In the given case, *Rishi* notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system. He is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues.

Responsibilities of *Rishi* as an Internal Auditor with respect to the accounting function and financial records of the organisation include:

- to ascertain adequacy of system of internal control by a continuous examination of accounting procedures, receipts and disbursements, and to provide adequate safeguards against misappropriation of assets.
- to operate independently of the accounting staff and must not in any way divest any of the responsibilities placed upon him.
- not to involve in the performance of executive functions in order that the objective outlook does not get obscured by the creation of the vested interest.
- to observe facts and situations and bring them to notice of authorities who would otherwise never know them; also, critically appraise various policies of the management and draw its attention to any deficiencies, wherever these require to be corrected.

- to associate closely with management and keep knowledge up to date by being informed about all important occurrences and events affecting the business, as well as the changes that are made in business policies.

- at all times, the internal auditor must enjoy an independent status.

(b) As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.

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

Significant judgments include the following:

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

In view of the above, CA Nitin cannot ask direct assistance from internal auditors regarding evaluating the appropriateness of management's use of the going concern assumption in accordance with SA 610.

3. In the given situation, CA Sanjana has recently joined as Chief Internal Auditor in Up Scale Limited, a listed company. As a Chief Internal Auditor, CA Sanjana is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. The responsibility to implement the action plans remains with the management. In monitoring and reporting of prior audit issues, the responsibility of the CA Sanjana as internal auditor is usually in the form of an "Action Taken Report (ATR) of previous audits". The term "Monitoring and Reporting" refers to the periodic tracking of issues raised during prior audits and evaluation of the corrective actions undertaken by the auditee to resolve them and to report any open and pending matters to the management and those charged with governance.

CA. Sanjana should review whether follow-up action is taken by the management on the basis of his report. If no action is taken within a reasonable time, she should draw the management's attention to it. Where the management has not acted upon the suggestions or not implemented the prescribed recommendations, she should ascertain the reasons thereof.

Where the management has accepted recommendations of the CA. Sanjana and initiated the necessary action, she should periodically review the manner and the extent of implementation of the recommendations and report to the management highlighting the recommendations which have not been implemented fully or partly.

4. In order to demonstrate that the audit trail feature was functional, operated and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls which may be required to be implemented and operated are given below:

- ◆ Controls to ensure that the audit trail feature has not been disabled or deactivated.
- ◆ Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- ◆ Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- ◆ Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- ◆ Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under the provisions of the Act.

18. DUE DILIGENCE, INVESTIGATION AND FORENSIC AUDIT

Q-1. CA. Rajul is designated as the Credit Manager at a branch of APP Bank Limited. PQR Ltd has approached the branch with a request to sanction credit facilities worth ₹ 12 crore for meeting its regular business needs. This is a potential new client for the bank. She has reviewed the company's past history, the background of its promoters and directors, the shareholding pattern, and the nature of its business. She also conducted an assessment of the financial results of past years and future projections. Additionally, she carried out a SWOT analysis of the company. She also evaluates the net worth of the directors, checks the CIBIL score, and verifies whether the names of the promoters or directors appear on the RBI defaulters' list. Furthermore, she makes discreet inquiries with a few clients of the branch who are engaged in a similar line of activity regarding the creditworthiness of the company, its promoters, and directors.

Based on the above:

- Identify the procedures followed by CA Rajul and discuss its nature.
- Would your answer be different if this activity was to be performed by a person not qualified as a Chartered Accountant? Can a non- CA perform such activity? State reason.
- Name any three other areas where the identified activity can be undertaken.

[RTP NOV 24]

Q-2 Vicky is a financial analyst working for a large corporation that is considering the acquisition of a mid-sized manufacturing company. The initial financial statements provided by the target company appear to be in order, showing profits and a solid asset base. However, his team is concerned about potential risks that may not be immediately visible in the financial documents provided. Guide Vicky on what specific aspects should be focused during due diligence to ensure that there are no hidden liabilities in this deal?

[MTP - 1 NOV 24] (04)

Q.3	PMP Bank Ltd., received an application from a pharmaceutical company for the takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. PMP Bank Ltd., requires CA Arpan to conduct due diligence for valuation aspect of assets of the pharmaceutical company. State the areas of analysis in order to ensure that the assets are not overvalued. (04) [MTP - 1 MAY 25]
Q.4	Quality Ltd. is engaged in the business of manufacturing and distribution of various Ready to cook products like vegetables, Noodles etc. The government made certain changes in rules and regulations relating to this sector, consequently management decided to go for expansion. Management was looking for some financial investor who can fund some part of the proposed expansion. Mr. Aman is interested in the venture and appoints you to act as an advisor to the proposed investment in the business of Quality Ltd. You have to investigate the audited financial statements and ensure that the valuation of shares of the company on the basis of audited financial statements is appropriate. What process will be used for checking and can reliance be placed on the already audited statement of accounts? [MTP - 11 NOV 24] (04)
Q.5	Joy World Pvt. Ltd. operates five amusement centres that offer recreational activities for families, especially children and young adults. These centres are spread across different locations within a 250-kilometer radius. Since ticket sales and ride fees are collected primarily in cash, ensuring proper control over collections is crucial to prevent fraud, mismanagement, and revenue leakage. To maintain transparency and accuracy in cash handling, what internal control measures should Joy World Pvt. Ltd. implement for ticket sales and collections? [MTP - 1 MAY 25] (04)
Q.5.A	Core Limited submitted a credit proposal to XYZ Bank Limited for the sanction of a Term Loan of 150.00 crore required for procuring and installing a latest Plant and machinery for their upcoming project. Based on the application, XYZ Bank Limited approached CA P to investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by Core Limited, as well as the value

	of the security in the form of assets of the business already possessed and those which will be created out of the loan. Elucidate the steps that should be undertaken by CA P?	[MAY 24] (05)
Q-6	CEP Ltd., a manufacturing company, has a diverse range of suppliers for raw materials and components. Several new suppliers have been added during the past year. It is the responsibility of the Accounts payable department for managing the Suppliers' Ledger, processing invoices and making payments. The management of CEP Ltd. has experienced unexpected financial discrepancies and they suspect fraudulent activities within the Suppliers' Ledger. The management assigns CA K to conduct a detailed investigation to identify any potential fraud that might have occurred. Discuss the ways in which frauds can be committed through Suppliers' Ledger. Explain the procedures that CA K will adopt to investigate the potential fraud. [NOV 24] (04)	
Q-7	Mr. Rajat, while reviewing the anti-fraud controls for a construction company, found that the company has witnessed a few frauds in the past mainly in the nature of material theft from the sites and fake expense vouchers. Mr. Rajat is evaluating options for verifying the process to reveal fraud and the corrective action to be taken in such cases. As an expert in fraud prevention, you have been asked to brief Mr. Rajat about the inventory fraud and verification procedure with respect to defalcation of inventory?	[MTP - II MAY 24] (05)
Q-7-A	MF Ltd., a manufacturing company specialising in industrial and consumer products, has been experiencing significant inventory shortages despite maintaining detailed procurement and production records. The management suspects fraudulent activity, as discrepancies have been noticed in stock reconciliation, production wastage reports, and inventory adjustments. Some of the reason for suspicion include:	
	• Manual adjustments in stock records on frequent basis. • Higher than usual production wastage, inconsistent with historical data. • Raw materials recorded as issued for production but missing from factory floors. • Finished goods dispatched but not recorded in sales accounts.	

- Unexplained inventory shrinkage over consecutive months.

Considering the above, you are appointed by MF Ltd. to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory? [RTP MAY 25]

Q-8 CA. Puranjay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company. The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?

[MTP - 1 MAY 24] (04)

ANSWERS

1. (a) The activity described in the situation is Due diligence. Due diligence is a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measured by any absolute standard but depending upon the relative facts of the case. It involves a careful study of financial and non-financial possibilities. It implies a general duty to take care in any transaction.
- Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans.

	Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit.
(b)	There would be no difference in answer if above activity was to be performed by a person who is not a Chartered Accountant. The activity would remain due diligence. Due diligence can be performed by any person. It is not necessary that due diligence can only be carried out by a Chartered Accountant. As due diligence involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person
(c)	The areas where due diligence may be undertaken are:-
(i)	Corporate restructuring
(ii)	Venture capital financing
(iii)	Public offerings
2.	As per SA 810, "Engagements to Report on Summary Financial Statements", when the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, additionally:
(a)	State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
(b)	Describe the basis for that adverse opinion or disclaimer of opinion; and
(c)	State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.
3.	Areas of analysis in order to ensure that the assets are not stated at overvalued amounts Over-Valued Assets are:
	- Uncollected/uncollectable receivables. - Obsolete, slow non-moving inventories or inventories valued above NRV, huge inventories of packing materials etc. with name of company. - Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.

- Assets carried at much more than current market value due to capitalization of expenditure/foreign exchange fluctuation, or capitalization of expenditure mainly in the nature of revenue.
- Litigated assets and property.
- Investments carried at cost though realizable value is much lower.
- Investments carrying a very low rate of income / return.
- Infructuous project expenditure/deferred revenue expenditure etc.
- Group Company balances under reconciliation etc.
- Intangible assets of no value.

4. In the instant case, Quality Ltd. is engaged in the business of manufacturing and distribution of various ready-to-cook products like vegetables, noodles etc. Further, management was looking for some financial investor to fund some part of the proposed expansion. Aman is interested in funding; therefore, he initiated investigation of audited financial statements to ensure the appropriateness of the valuation of the shares. For initiating the same it may be considered that if the investigation has been launched because of some doubt in the audited statement of account, no question of reliance on the audited statement of account arises. However, if the investigator has been requested to establish value of a business or a share or the amount of goodwill payable by an incoming partner, ordinarily the investigator would be entitled to put reliance on audited materials made available to him unless, in the course of his test verification, he finds the audit to have been carried on very casually or unless his terms of appointment clearly require to test everything afresh.
- If the statements of account produced before the investigator were not audited by a qualified accountant, then of course there arises a natural duty to get the figures in the accounts properly checked and verified.
 - However, when the accounts produced to the investigator have been specially prepared by a professional accountant, who knows or ought to have known that these were prepared for purposes of the investigation, he could accept them as correct relying on the principle of liability to third parties.
 - It would be prudent to see first that such accounts were prepared with objectivity & that no bias has crept in to give advantage to the person on whose behalf these were prepared.

5.	<i>Control System over Selling and Collection of Tickets: In order to achieve proper internal control over the sale of tickets and its collection by the Joy World Pvt. Ltd., following system should be adopted -</i>
(i)	<i>Printing of tickets: Serially numbered pre-printed tickets should be used and designed in such a way that any type of ticket used cannot be duplicated by others in order to avoid forgery. Serial numbers should not be repeated during a reasonable period, say a month or year depending on the turnover. The separate series of the serial should be used for such denomination.</i>
(ii)	<i>Ticket sales: The sale of tickets should take place from the Central ticket office at each of the 5 centres, preferably through machines. There should be proper control over the keys of the machines.</i>
(iii)	<i>Daily cash reconciliation: Cash collection at each office and machine should be reconciled with the number of tickets sold. Serial number of tickets for each entertainment activity/denomination will facilitate the reconciliation.</i>
(iv)	<i>Daily banking: Each day's collection should be deposited in the bank on the next working day of the bank. Till that time, the cash should be in the custody of properly authorized person preferably in joint custody for which the daily cash in hand report should be signed by the authorized persons.</i>
(v)	<i>Entrance ticket: Entrance tickets should be cancelled at the entrance gate when the public enters the centre.</i>
(vi)	<i>Advance booking: If advance booking of facility is made available, the system should ensure that all advance booked tickets are paid for.</i>
(vii)	<i>Discounts and free pass: The discount policy of the Joy World Pvt. Ltd. should be such that the concessional rates, say, for group booking should be properly authorized and signed forms for such authorization should be preserved.</i>
(viii)	<i>Surprise checks: Internal audit system should carry out periodic surprise checks for cash counts, daily banking, reconciliation and stock of unsold tickets etc.</i>
5A.	<i>To investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by the borrower, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan, the investigating accountant should take the under-mentioned steps:</i>

(1)	Prepare a condensed income statement from the Statement of Profit and Loss for the previous five years, showing separately therein various items of income and expenses, the amounts of gross and net profits earned and taxes paid annually during each of the five years. The amount of maintainable profits determined on the basis of foregoing statement should be increased by the amount by which these would increase on the investment of borrowed funds.
(2)	Compute the under-mentioned ratios separately and then include them in the statement to show the trend as well as changes that have taken place in the financial position of the company:
(i)	Sales to Average Inventories held.
(ii)	Sales to Fixed Assets.
(iii)	Equity to Fixed Assets
(iv)	Current Assets to Current Liabilities
(v)	Quick Assets (the current assets that are readily realizable) to Quick Liabilities.
(vi)	Equity to Long Term Loans
(vii)	Sales to Book Debts
(viii)	Return on Capital Employed
(3)	Enter in a separate part of the statement the break-up of annual sales product-wise to show their trend.
6.	Ways in which fraud can be committed through suppliers' ledger are-
(i)	Adjusting fictitious or duplicate invoices as purchases in the accounts of suppliers and subsequently misappropriating the amounts when payments are made to the suppliers in respect of these invoices.
(ii)	Suppressing the credit notes issued by suppliers and withdrawing the corresponding amounts not claimed by them.
(iii)	Withdrawing amounts unclaimed by suppliers, for one reason or another by showing that the same has been paid to them.
(iv)	Accepting purchase invoices at prices considerably higher than their market prices and collecting the excess amount paid in cash, from the suppliers.
	CA K will ensure that the following procedures are adopted to investigate potential fraud:

- that the Purchase Journal should be vouched by reference to entries in the Goods Inward Book and the suppliers' invoices to confirm that amounts credited to the accounts of suppliers were in respect of goods, which were duly received, and the suppliers' accounts had been credited correctly.
- All the suppliers should be requested to furnish statements of their accounts to see whether or not any balance is outstanding or due so as to confirm that allowances and rebates given by them have been correctly adjusted and were duly authorized by the authorized person/ officer.
- Examine the system of internal control in relation to purchase orders issued and identify possibilities of collusion with suppliers.

7. **Inventory Frauds**-Inventory frauds are many and varied but we are concerned with misappropriation of goods and their concealment.

- Employees may simply remove goods from the premises.
- Theft of goods may be concealed by writing them off as damaged goods, etc.
- Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.
- Inflating the quantities issued for production is another way of defalcating raw materials and store items.
- Stocks actually dispatched but not entered in sales/ debtor's account.

Verification Procedure for Defalcation of inventory - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection, the entire system of receipts, storage and dispatch of all goods, etc. should be reviewed to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of: (a) a system of inventory control, and existence of detailed record of the movement of inventory, or (b) availability of sufficient data from which such a record can be constructed. The first step in such an investigation is to establish the different items of inventory defalcated

and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book. Investigating accountant should ascertain the exact duties of persons handling the stocks received in and issued from store for production/sale or any other purpose. Identify the excessive control in the hands of a single person, without any supervision as it will widen the scope of investigation.

Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the manner mentioned above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard, guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

7A. **Inventory Frauds** - Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

- (i) Employees may simply remove goods from the premises.
- (ii) Theft of goods may be concealed by writing them off as damaged goods, etc.
- (iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.
- (iv) Inflating the quantities issued for production is another way of defalcating raw materials and store items.
- (v) Stocks actually dispatched but not entered in sales/ debtor's account.

Verification Procedure for Defalcation of inventory - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection, the entire system of receipts, storage and dispatch of all goods, etc. should be reviewed to localise the weakness in the system. The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of: (a) a system of inventory control, and existence of detailed record of the movement of inventory, or (b) availability of sufficient data from which such a record can be constructed. The first step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book. Investigating accountant should ascertain the exact duties of persons handling the stocks received in and issued from store for production/ sale or any other purpose. Identify the excessive control in the hands of a single person, without any supervision as it will widen the scope of investigation. Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the

manner mentioned above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for the shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard, guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

8. In a forensic accounting engagement, professional undertakes a scrutiny and detailed examination of all transactions and balances relevant to the mandate so that evidence gathered is suitable in a Court of Law i.e. in compliance with legal requirements where it can be challenged through cross-examination by the defending party. It is important that team is skilled in collecting evidence that can be used in a court case keeping a clear chain of custody till evidence is presented in court. If there are gaps in chain of custody, then the evidence may be challenged in court or even become inadmissible. In the given case, team has failed to keep record of matters such as persons gathering relevant evidence, date and time of collection and storage of evidence. Therefore, team has failed to maintain the chain of custody. It can, therefore, defeat the objective of forensic accounting engagement as evidence may be challenged in Court of law by defending parties and may become inadmissible.

19. EMERGING AREAS SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT SOCIAL AND GOVERNANCE (ESG) ASSURANCE

- Q-1 SEBI has made Business Responsibility and Sustainability Report (BRSR) mandatory for certain listed companies. It is an evolutionary step in Environment, Social and Governance (ESG) reporting. Discuss the nature of ESG reporting. How can corporates contribute to Sustainable Development Goals (SDGs)? [RTP MAY 24]
- Q-2 You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting. In above context, dwell upon what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits. [MTP - 11 MAY 24] (04)
- Q-3 Consistent Enterprises Ltd., a listed company, has been voluntarily preparing and disclosing its sustainability report based on the internationally accepted "Integrated Reporting" framework for some years, even before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key focus of Integrated Reporting is how the company creates value over the short, medium, and long term. Following further information is provided in respect of the above company:
- It has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production.
 - It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Discussing the above information, identify which of the capitals of “Integrated Reporting” are being referred to at [i] and [ii] respectively?

[MTP - 11 NOV 24] (04)

Q.3.A Miger Ltd. is a multinational corporation that prides itself on sustainable business practices and holistic value creation. During a recent board meeting, the CEO emphasised the importance of disclosing not just financial performance but also non-financial aspects that contribute to long-term success. The company’s sustainability team highlighted their investments in cutting-edge research, employee skill development, strong supplier relationships, and eco-friendly infrastructure.

To ensure a well-rounded and transparent report, the company’s Chief Financial Officer (CFO) suggests adopting Integrated Reporting. The board members, however, are unfamiliar with the concept and ask for a clear breakdown of its key elements.

As a consultant, how would you explain the essential components of Integrated Reporting to the board?

[MTP - 11 MAY 25] (05)

Q.4 SU Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires SU Limited to make disclosures on their performance against the various principles of the “National Guidelines on Responsible Business Conduct”. One of the principles emphasizes that the business decisions in an organization should be open to disclosure & accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle.

[MAY 24] (04)

Q.5 CTO Limited is engaged in the fintech business. It is a member of few prominent industry chambers and trade associations and has come under mandatory purview of Business Responsibility and Sustainability Reporting (BRSR) for year 2022-23.

The company had submitted inputs on draft Digital personal data protection bill to concerned Ministry during year 2022-23. It had also submitted to one of the industry chambers during the same year certain key inputs on leveraging India’s digital public infrastructure for creating solutions by banks and fintechs together as its

taskforce member on the subject. Considering the above, discuss how above information would likely be disclosed by company in "Principle-wise performance disclosures" as part of BRSR for year 2022-23?

Whether information discussed above would require to be disclosed mandatorily?

[MTP - 1 MAY 24] (04)

Q-6 Pink Ltd., a leading manufacturing company, is expanding its operations globally. However, the company has received multiple complaints from stakeholders regarding misleading advertisements and a lack of transparent grievance redressal mechanisms. As part of its Business Responsibility and Sustainability Reporting (BRSR) compliance, which principle is the company required to adhere to? This principle emphasizes engaging with and providing value to consumers responsibly and transparently. What are the key consumer protection aspects that Pink Ltd. should focus on under this principle of BRSR?

[MTP - 1 MAY 25] (05)

Q-7 Kapil is appointed as an external auditor to provide assurance on a company's Business Responsibility and Sustainability Report (BRSR). To ensure the report's accuracy and reliability, he needs to follow a comprehensive methodology that includes several key steps. What methodology should Kapil follow to provide assurance on the BRSR?

[RTP NOV 24]

Q-7-A Sukaran Ltd., a leading textile manufacturing company, has been facing criticism from its employees regarding various workplace concerns. Some employees have raised issues about delayed salary payments, while others have reported excessive working hours that affect their work-life balance. Additionally, a few workers have complained about inadequate safety measures in the factory, leading to frequent minor accidents. Which principle of BRSR deals with this? Mention the core elements of this principle.

[RTP MAY 25]

Q-8 ESG disclosure and reporting is mandatory for top 1000 listed companies in form of Business Responsibility and Sustainability Reports (BRSR). As reporting of sustainability information becomes the trend being observed globally, the demand for

independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting. In developing the understanding of an entity, the auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. Many investors and stakeholders are seeking information from auditor's report about how climate-related risks are addressed in the audit.

In the context of the above, describe the role of auditor in an audit of financial statements of the company. [NOV 24] (04)

ANSWERS

1. Environment, Social and Governance (ESG) reporting is all about disclosure of information, data, metrics that explain the added value in following three areas:

Environment

Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, and treatment of animals. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on. Thus, one is dependent on the environment for carrying out its operations.

Social

It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business and the value chain involved. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

Governance

It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders. Every entity, which is itself a legal creation, requires governance.

ESG reporting can be both quantitative and qualitative in nature. Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to

each area in order to measure progress against goals and report on achievements. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

United Nations members states adopted Sustainable Development to provide a blueprint which mentioned the Sustainable Development Goals (SDGs). They recognized that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

Corporates can contribute to SDGs due to their capacity to provide solutions necessary for meeting SDGs. Companies can lead in innovation and contribute to achievement of Sustainable Development Goals.

2. Sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions - positive or negative - towards the goal of sustainable development.

Sustainability reporting refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way. It is a comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

Expected Benefits: It can help stakeholders to understand organizations performance vis a vis sustainability and impacts. The reporting process emphasizes the link between financial and non- financial performance.

Such reporting can help entities to focus on long-term value creation, by addressing environmental, social and governance (ESG) issues. Since investors are increasingly recognizing that environmental and social issues provide both risks and opportunities in respect of their investments and are seeking disclosures on environmental and social performance of businesses, they can use ESG performance of companies to make investment decisions.

Investing in social and environmental issues will not only improve own business continuity of companies but also put them in a better position with their B2B (Business to Business) customers as well as enable them to acquire new ones.

3.	The information given in situation [i] states that company has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production. Therefore, it involves pool of funds that is available to the organization for use in the production of goods or provision of services. Further, it is obtained through financing, such as debt, equity, or grants, or generated through operations or investments. The capital referred to at [i] is “Finance Capital”. Further, situation [ii] describes increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is “Social and Relationship Capital.”
3A.	There are 6 Cs of Integrated Reporting - also known as 6 capitals:
(i)	Financial Capital:
-	Pool of funds that is available to the organization for use in the production of goods or provision of services.
-	Obtained through financing, such as debt, equity, or grants, or generated through operations or investments.
(ii)	Manufactured Capital:
-	Seen as human-created, production-oriented equipment and tools.
-	Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants).
(iii)	Natural Capital:
-	Is an input to the production of goods or the provision of services.
-	An organization's activities also impact, positively or negatively, on natural capital.
-	Includes water, land, minerals and forests, biodiversity, and ecosystem health.
(iv)	Human Capital:
	People's skills & experience, their capacity, and motivations to innovate, including their:

-	Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.
-	Ability to understand and implement an organization's strategy.
-	Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate.
(v)	Social Capital:
-	Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
-	Includes:
	• Common values and behaviour.
	• Key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners.
	• an organization's social license to operate.
(vi)	Intellectual Capital:
	Key element in an organization's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organization's competitive advantage.
	Asia Pacific region continues to dominate in presenting sustainability data in annual reports. Approximately 60% of Companies reporting in 2022. Integrated reporting is strong in the Middle East.
4.	Principle 1 - Ethics, Transparency and Accountability: The first principle emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties.
	The essence of the core elements associated with the first principle are:
(i)	The entities' governing structure should develop policies, procedures, and practices for their offices, factories, and work areas, ensuring that ethics is not compromised.
(ii)	The information relating to the policies, procedures, and practices along with the performance should be made available to the stakeholders.
(iii)	In case of adverse effects, more care has to be taken for transparent disclosures.
(iv)	The entities in the value chain should be encouraged to adopt these principles by the governance structure.

(v)	The entities should proactively respond to the outside entities that violate the nine principles of the BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers that may engage with the business concern.
5.	The given case highlights that CTO Limited, engaged in Fintech business, is a member of Chamber of Commerce/associations. Such information needs to be disclosed under Principle 7 of Principle-wise Performance Disclosures. Principle 7 recognizes that businesses, when engaging in influencing public and regulatory policy, operate within the framework of statutory and legislative policies of the governing authority. Collective associations such as trade groups and industry chambers have to be utilized when moving ahead with policy advocacy and formulation. The information under each principle is to be disclosed under Essential indicators (mandatory disclosures) and Leadership indicators (optional disclosures). Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires mandatory disclosures. Information relating to inputs provided by company to the Ministry on a legislative bill and inputs provided to one of the prominent chambers on leveraging India's digital public infrastructure for creating solutions by banks and Fintechs together as a taskforce member on the subject are in nature of leadership positions taken by the company. These are in the nature of Leadership Indicators and are optional disclosures.
6.	Pink Ltd. shall adhere to Principle 9 of BRSR which focuses on Providing Value to the Consumers in a Responsible Manner. The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits. The core elements associated with the principle are: i) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large. ii) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition. iii) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

iv)	When handling customer data, the right to privacy of the customer needs to be maintained.
v)	Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.
vi)	When advertising about their products, the organisations should ensure that misleading & confusing information is not exposed to the customers about their products or its usage.
vii)	Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.
viii)	Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
7.	Methodology that should be followed by Kapil to provide assurance on BRSR is: - Preliminary Review of ESG report, parameters - On-site Assessment / Verification of ESG Report - Issuance of Assessment Report and Assessment Statement - Review of the responses and clarifications on the findings - Submission of findings of the on-site assessment and document review - Preparation of Assessment / Verification report including final results of Assessment
7A.	Principle 3 - Promote Well-Being of All Employees Including those in the Value Chain: The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being. The essence of the core elements associated with the principle is:
(a)	The entity should ensure compliance with all regulatory requirements as far as employees are concerned.
(b)	The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
(c)	The entities should prevent all kinds of child labour, bonded labour, and any other

	forms of involuntary labour.
(d)	The entities should have a system in which the work-life balance of the employees is not compromised.
(e)	The businesses have to ensure timely payment of the worker's wages and compensation.
(f)	The payment of the wages has to be as per the living wages, that can take care of the basic needs and provide economic security to the employees.
(g)	The entities are responsible to create a workplace and work environment that is safe, hygienic, and comfortable for people to work for long durations.
(h)	The skill development, career development and training of the workforce is another responsibility of the entities employing them.
(i)	The creation of a workplace which is free of harassment and violence is also a responsibility of the entity.
	In the given case, employees have raised issues about delayed salary payments, excessive working hours that affect their work-life balance and complained about inadequate safety measures in the factory. In view of the above, Sukaran Ltd. must take corrective actions to align with this principle.
8.	Role of Auditor - Consideration of climate-related risks in an audit of financial statements:
	- The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework. - The auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. - The auditor's reports must follow the requirements of applicable auditing standards. - The auditor's report provides information about auditor's responsibilities & an understanding of the matters of most significance in an audit & how they were addressed. - The auditor in his audit report may include Emphasis of Matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements.

- *The auditor should determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable FRF.*
- *The auditor should read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements as required under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.*

20. PROFESSIONAL ETHICS

- Q-1** CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification & feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner & other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence & due care that a Chartered Accountant needs to possess all the time. Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence & Due Care. [NOV 24] (04)
- Q-2** In terms of subsection 114 of Revised code of Ethics, a professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as result of professional and employment relationships. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in knowledge that the information will not be disclosed to a third party. In this context, enumerate the circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate. In deciding whether to disclose confidential information what are the points that should be kept in the mind of professional accountants? [MAY 24] (04)
- Q-3** Shri Limited, a listed Company, having its registered office at Mumbai is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside the factory, the level of pollution is kept at a level below the prescribed standard. The company managed to get the pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. The amount of ₹ 18.75 Lacs had been incurred for arranging clearance certificate and the amount

incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached those in governance, & the Director-Finance, who is a Chartered Accountant, came to know of these matters on review of major expenditure incurred during the period. Comment the action/responses expected of Director - Finance (CA Gopal) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics. [MTP - 1 NOV 24] (05)

Q.4 TP Limited is a listed company engaged in the business of manufacturing of kids garments under the brand name of MM. M/s. R & Associates, firm of chartered accountants are appointed as a Statutory Auditor of the Company for the year 2023-24. CA R is looking after the audit of the Company. During audit, CA R observed that there are number of notices received from GST Department and Income Tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". According to CA R, the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same. Do you agree? If not, give your comments. [MAY 24] (04)

Q.5 CA. Gyan is a Chartered Accountant in practice and also an engineer by qualification. He wants to pursue a registered valuer course and work as a registered valuer for plant and machinery under the Companies Act, 2013. Comment on above with reference to provisions of the Chartered Accountants Act, 1949. [MTP - 1 MAY 24] (05)

Q.6 CA Ram, a practicing chartered accountant, is well known for his expertise in handling Goods and Services Tax (GST) cases at the GST Tribunal and he does not provide any assurance services. Given his long- standing reputation in the field, CA Ram is approached by DEF Limited to file an appeal in the Tribunal against a GST demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals), and to represent DEF Limited in the matter. CA Ram offers to accept a fee of ₹ 3,50,000 for filing the appeal and pleading at the GST Tribunal.

Comment on the act of CA Ram in terms of the Chartered Accountant Act, 1949 and Schedules thereon. [MAY 24] [MTP - II NOV 24] (04)

Q.6.A Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirt which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, a facilitation centre was opened in the industrial cluster. The proprietor managed, both the office and the facilitation centre, by himself. No intimation was made to the Institute of Chartered Accountants of India. Examine whether there is any professional misconduct in this respect.

[MTP - II MAY 25] (04)

Q.7 The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA H, the proprietor of M/s HA & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, and penalty was imposed by an order passed against him dated 15th June, 2024.

Against the said order, CA H preferred an appeal with the Appellate Authority on 5th August, 2024 by submitting the statement of appeal along with application form of appeal. During such appellate proceedings, it was discovered that the said statement of appeal contained some facts which were false to which CA H admitted it to be false and apologized for it.

Based on the above stated scenario of the matters placed before The Director (Discipline) of ICAI against CA H, you are required to answer the following:

- (i) Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA H.
- (ii) Before which authority, the matters of CA H would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

(iii)	Has CA H filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? [MAY 24] (05)
Q.8	A special notice has been issued for a resolution at 4th annual general meeting of TRIM Ltd., providing expressly that CA. Lucky shall not be re-appointed as an auditor of the company. Consequently, CA. Lucky submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Lucky included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. [MTP - II MAY 24] (05)
Q.9	GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform. Whether a firm of Chartered Accountants can register on GeM portal for rendering professional services to government departments? [MTP - I MAY 24] (04)
Q.10	Sanjeev & Associates, a firm of Chartered Accountants responded to a tender from a PF Office, Chembur for filing quarterly e-TDS returns. The terms of tender are as follows:
(i)	Earnest Money Deposit of ₹ 7,500/-
(ii)	It is open for all categories
(iii)	Maximum fees of ₹ 7,500/- per quarter
	Discuss whether Sanjeev & Associates can respond to the said tender with reference to provisions of the Chartered Accountants (Amendment) Act, 2006 & Schedules thereto. [RTP NOV 24]

Q-11	PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1994 and the schedules thereunder, whether CA N has complied with the same. [NOV 24] (05)
Q-11-A	
(a)	KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 72% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to KB and Associates for accepting the audit. CA Yash, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Yash gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA Yash has complied with same.
(b)	If CA Yash is guilty of misconduct in the above situation given in part (a), then before which authority, the matters of CA Yash would have been placed and what punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949? [RTP MAY 25]
Q-12	CA Kumar, a practicing-chartered accountant, is well known in the field of pleading of Income Tax cases at Income Tax Tribunal and does not provide any assurance services. Considering the long standing in the field, CA Kumar is approached by XYZ Limited to file an appeal in the Tribunal against the Income Tax Demand of ₹ 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case with the following fee structure:

	The fees for filing an appeal and to plead at Income Tax Tribunal will be higher of the following (a) or (b):
(i)	₹ 5,00,000/-
(ii)	10% of Tax Demand Reduced.
	Comment on the act of CA Kumar in terms of the Chartered Accountant Act, 1949 and Schedules thereon. [MAY 24] (04)
Q-13	Comment on the following with reference to the provisions of the Chartered Accountant Act 1949:
(1)	CA Pankaj accepted professional work of acting as valuer under direct taxes. He charges fees on a percentage of the property valued.
(2)	CA Anita joined as an audit executive in a CA firm on April 1, 2023. Despite receiving multiple reminders from ICAI, she has failed to respond with her appointment date and submit her membership certificate. [RTP MAY 24]
Q-14	CA Yug, a practicing chartered accountant, is a promoter director of CDS Pvt. Ltd. and is also a sleeping partner in his family's garments manufacturing business. Is CA Yug liable for professional misconduct as per the Chartered Accountant Act, 1949? [MTP - 11 MAY 25] (04)
Q-15	Mr. S is a practising Chartered Accountant based out of Chennai. During the weekends, he involved himself in equity research and used to advise his friends, relatives and other known people who are not his clients. Apart from this, he was also involved as a paper-setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 20X1, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 20X3, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - 11 MAY 24] (05)

Q-15-A	The Cashier of a company committed a fraud and absconded with the proceeds thereof. The Chief Accountant of the company also did not know when the fraud had occurred. During the audit, auditor failed to discover the fraud. However, fraud was discovered by the Chief Accountant after the audit was completed. Investigation made at that time indicates that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. [MTP - 11 MAY 25] (05)
Q-15-B	CA Meet, a practicing Chartered Accountant was on foreign tour between 12-08-24 and 27-08-24. On 20-08-24, a message was received from one of his clients requesting a stock certificate to be produced to the bank on or before 22-08-24. Due to urgency, CA Meet directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf. [MTP - 11 MAY 25] (04)
Q-16	Mr. Jay is a practicing Chartered Accountant working as proprietor of M/s Adhya & Co. He went abroad for 4 months. He delegated the authority to Mr. Vijay a Chartered Accountant his employee for taking care of routine matters of his office. During his absence, Mr. Vijay has conducted the under mentioned jobs in the name of M/s Adhya & Co. (i) Asking for information or issue of questionnaire. (ii) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit. (iii) Acknowledging and carrying on routine correspondence with clients. (iv) Comment on eligibility of Mr. Vijay for conducting such jobs in name of M/s Adhya & Co. and liability of Mr. Jay under the Chartered Accountants Act, 1949. [MTP - 11 NOV 24] (05)
Q-17	CA. Tanya, the auditor of KBC Pvt. Ltd. has delegated following works to his articles and staff: i. Issue of audit queries during the course of audit.

ii.	Issue of memorandum of cash verification and other physical verification.
iii.	Letter forwarding draft observations/financial statements.
iv.	Issuing acknowledgements for records produced.
v.	Signing financial statements of the company.
	Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements? [RTP MAY 24]
Q-17.A	DND and Associates are the statutory auditor of XYZ Ltd. Audit of the company is pending for F.Y. 2022-23 and 2023-24 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2022-23. The company removed the auditor on 06.05.2024 in shareholders meeting complying with all legal formalities. DND and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. XYZ Ltd. complained to ICAI against DND and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - II MAY 25] (04)
Q-18	CA F is the Chief Financial Officer of ABC General Insurance Limited. Being in insurance business, the company gets majority of its clients through their agency contracts. CA F has the practice of releasing the commission payments on the condition that he gets 20% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. [NOV 24] (04)
Q-19	Hitesh, a Chartered Accountant, applied for obtaining a Certificate of Practice. However, while filling out the application form, he intentionally did not fill the section requiring disclosure of any engagement in other occupations or businesses. Hitesh was actively involved in a business, making this non-disclosure a case of withholding crucial information that was explicitly sought by the Institute. Analyse whether Hitesh's actions amount to professional misconduct as per the provision of the Chartered Accountants Act, 1949. [MTP - I MAY 25] (04)

Q-20	Mr. Johnny, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics?
	[RTP MAY 24] (05)
Q-21	Mr. Mayank, a Chartered Accountant was the auditor of 'Chew Limited' for the year 2021-22 and 2022-23. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 7.5 lac and was the same amount as in the last year 2021-22. Later it was found that the company's investments were only for ₹ 56,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
	[MTP - 1 MAY 24] (05)
Q-22	Mr. Aditya, a Chartered Accountant was the auditor of 'DRAW Limited'. During the financial year 2023-24, the investment appeared in the Balance Sheet of the company of ₹ 23 lakh & was the same amount as in the last year. Later on, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the provisions of the Chartered Accountants Act, 1949 & Schedules thereto.
	[MTP - 1 NOV 24] (05)
Q-23	CA. Evan has been in practice for two years and runs his proprietorship firm in the name of "Evan & Co." He maintains notes in his mobile where he records the fees received from various clients. Using these records, he prepares and files his income tax return. Comment with respect to the provisions of the Chartered Accountant Act, 1949.
	[MTP - 11 MAY 24] (04)
Q-24	CA Vaayu is the auditor of Viva Limited having a turnover of more than ₹ 200 Crores. The audit fee for the year is fixed at ₹ 80 Lakhs. During the year, the company offers CA Vaayu an assignment of representation before Income Tax Appellate Tribunal for

	certain matter for remuneration of ₹ 1.75 crores. CA Vaayu accepted the assignment. Discuss action of CA Vaayu with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. [RTP NOV 24]
Q-25	CA Dhanush is the auditor of Jivi Limited having a turnover of more than ₹ 300 Crores. The audit fee for the year is fixed at ₹ 2.25 crore. During the year, the company offers CA Dhanush an assignment of representation before Income-tax Appellate Tribunal for certain matter for remuneration of ₹ 2.85 crores. CA Dhanush accepted the assignment. Discuss action of CA Dhanush with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 & Schedules thereto. [MTP - 1 MAY 25] (04)
Q-26	CA Shubh, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Shubh accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Varun informed him that now he cannot retain full time certificate of practice, thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - 1 NOV 24] (05)
Q-27	CA. Z, in practice, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of his name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA. Z has transacted in futures and options derivatives (equity) and has reflected income from such transactions in his return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Z had earned income from transacting in currency derivatives and commodity derivatives? [MTP - I MAY 24] (05)

Q.28 CA. Kapila, in practice, is desirous of filling Multi-purpose Empanelment Form (MEF) for inclusion of her name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA. Kapila has transacted in futures and options derivatives (equity) and has reflected income from such transactions in her return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Kapila had earned income from transacting in currency derivatives and commodity derivatives? [MTP - II NOV 24] (05)

ANSWERS

1. Professional Competence and Due Care - Subsection 113

1. A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to: (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and (b) act diligently in accordance with applicable technical and professional standards.

2. Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

3. Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

4. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

5. Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

6.	<i>In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.</i> <i>Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.</i>
2.	<i>Principle of Confidentiality: In terms of subsection 114 of Revised Code of Ethics, a professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:</i> <i>(1) Disclosure is required by law,</i> <i>(2) Disclosure is permitted by law and is authorized by the client or the employing organisation;</i> <i>(3) There is a professional duty or right to disclose, when not prohibited by law:</i> <i>(i) To comply with the requirements of Peer Review or Quality Review of the Institute;</i> <i>(ii) To respond to an inquiry or investigation by a professional or regulatory body;</i> <i>(iii) To protect the professional interests of a professional accountant in legal proceedings; or</i> <i>(iv) To comply with technical and professional standards, including ethics requirements.</i> <i>In deciding whether to disclose confidential information, professional accountants should consider the following points:</i> <i>(1) Whether the interests of any party, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant;</i> <i>(2) Whether all the relevant information is known and substantiated, to the extent it is practicable; and</i> <i>(3) The proposed type of communication, and to whom it is addressed;</i>

(4)	Whether the parties to whom the communication is addressed are appropriate recipients.
3.	In the given situation, Shri Limited, a listed company, has installed pollution control equipment for processing the pollutants to keep the level of pollution below the prescribed standard. The company managed to get pollution certificate by unfair means whereas breach of pollution control laws still continues. For arranging clearance certificate amount of ₹ 18.75 lacs had been incurred unlawfully. CA Gopal, Director Finance, came to know about these matters on review of the same during the period. NOCLAR, under Code of Ethics, is applicable on professional accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than Audit. It is applicable to Senior Professional Accountants in service, being employees of listed entities. Senior professional accountants in service ("senior professional accountants") includes directors. NOCLAR takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms. As per NOCLAR, in exceptional circumstances, the professional accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted. CA Gopal, Director-Finance is expected of taking the following action/responses: • Obtaining an understanding of the Matter. • Addressing the matter. • Seeking advice. • Determining whether further action is needed. • Determining whether to disclose the matter to an Appropriate Authority. • Imminent breach. • Documentation.

4.	In the given situation, CA R is looking after the audit of the TP Limited, a listed company. During audit, CA R observed that there are number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". assuming the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same: (i) SA 250 is applicable only on Audit, and not on other Assurance engagements. However, NOCLAR is applicable on professional accountants in service, and in practice. (ii) SA 250 talks of auditor's responsibilities for laws having direct effect on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); and other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business. NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms. (iii) SA 250 does not define stakeholders. NOCLAR is related to affect of non-compliance on investors, creditors, employees as also the general public. (iv) As per NOCLAR, in exceptional circumstances, the professional accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted. This provision is not existent in SA 250.
5.	As per section 2(2)(iv) of the Chartered Accountants Act, 1949, a member of the Institute shall be deemed "to be in practice" when individually or in partnership with the Chartered Accountants in practice or in partnership with members of such other

recognised professions as may be prescribed, he, in consideration of remuneration received or to be received, renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

Pursuant to section 2(2) (iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services" which, inter alia, includes rendering services of valuation of shares and business and advice regarding amalgamation, merger and acquisition, acting as Registered Valuer under the Companies Act, 2013 read with the Companies (Registered Valuers and Valuation) Rules, 2017. In this regard, such rules qualify Chartered Accountants for valuation of the securities or the financial Assets only and not for the Plant and Machinery. Therefore, valuation of plant and machinery does not form part of Management Consultancy and other services permitted by the council.

Further, in accordance with resolution passed under Regulation 190A of the Chartered Accountant Regulations, 1988, members in practice are generally permitted for attending classes and appearing for any examination. There is no need to take prior permission of ICAI in this regard. Therefore, it is generally permitted for a member in practice to attend classes and appear for any examination, and accordingly, doing the Registered valuer course would be deemed as permissible.

Hence, keeping in view above and in terms of the provisions of the Chartered Accountants Act, 1949 and Code of Ethics, it is not permissible for a Chartered Accountant in practice to work as an Engineer/ valuer in plant & machinery simultaneously.

6. Under Section 2(2)(iv) of the Chartered Accountants Act, 1949, a member of the Institute shall be deemed "to be in practice" when individually or in partnership with Chartered Accountants in practice, he, in consideration of remuneration received or to be received renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

Pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949, read with Regulation 191 of Chartered Accountants Regulations, 1988 a member shall be deemed to be in practice if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee, acts as representative for taxation matters.

In the given situation, CA Ram, a practicing Chartered Accountant, provides non-assurance services. He is approached by DEF Limited, a non-audit client, to file an appeal in GST Tribunal against GST Demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals) and to plead on behalf of DEF Limited in the matter. CA Ram offers to accept the case and agrees to charge fees of ₹ 3,50,000. Therefore, CA Ram is not guilty of professional misconduct.

6A. As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 kilometers from the municipal limits of a city, in which the first office is located. Further a member having two offices of the type referred to above, shall have to declare which of the two offices is his main office, which would constitute his professional address.

In the given case, Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients.

Therefore, a facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre. Though distance between his office and facilitation centre i.e. sort of second office is within prescribed range i.e. 50 kilometers but Dheer & Co., will be liable for misconduct as prescribed intimation about facilitation centre and main office should be sent to the Institute of Chartered Accountants of India.

7. (i) As per Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

In the instant case, CA H preferred an appeal with the Appellate Authority on 05th August, 2024 by submitting the statement of appeal along with application form for the same. However, it was discovered that the said statement of appeal contained some facts which were false, and CA H admitted it to be false.

Therefore, CA H would be held guilty of professional misconduct under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(ii) In case where CA H was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule and Clause 11 of Part I of the First Schedule of the Chartered Accountants Act, 1949: the matter would have been placed before Disciplinary Committee as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee. The maximum punishment that the Disciplinary Committee could have imposed would be:

(i) Reprimand the member

(ii) Remove the name of the member from the Register permanently or for such period as it may think fit.

(iii) Impose such a fine which may extend to rupees five lakhs.

(iii) **Timeline for Filing an Appeal:** Any member aggrieved by an order of the Board of Discipline or the Disciplinary Committee can prefer an appeal within 90 days. In the given case, CA H has preferred an appeal with the appellate authority on 5th August, 2024 against the order passed on 15th June 2024. From 15th June to 5th August, 90 days' timeline has not been lapsed. Thus, it can be said that CA H has filed an appeal within the time limit prescribed under the said Act.

8. **Soliciting Clients:** As per Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means except applying or requesting for or inviting or securing professional work from another Chartered Accountant in practice and responding to tenders. Further, section 140(4)(iii) of the Companies Act, 2013, provides a right, to the retiring auditor, to make representation in writing to the company. The retiring

auditor has the right for his representation to be circulated among the members of the company and to be read out at the meeting. However, the content of letter should be set out in a dignified manner how he has been acting independently and conscientiously through the term of his office and may, in addition, indicate, if he so chooses his willingness to continue as auditor, if re-appointed by the shareholders. The proposition of the auditor to highlight contributions made by him in strengthening the control procedures in the representation should not be included in such representations because the representation letter should not be prepared in a manner to seek publicity. Thus, highlighting contributions made by him in strengthening the control procedures, while submitting representation u/s 140(4)(iii) of the Companies Act, 2013 would amount to canvassing or soliciting for his continuance as auditor. Therefore, CA. Anoop will be held guilty of professional misconduct under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949.

9. As per provisions of Council Guidelines for Advertisement, 2008, it is not permissible for members to list themselves with online application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed. Further, as per explanation to Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, the government departments, government Companies/ corporations, courts, cooperative societies and banks and other similar institutions prepare panels of Chartered Accountants for allotment of audit and other professional work. Where the existence of such a panel is within the knowledge of a member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the Chartered Accountant to make roving enquiries by applying to any such organization for having his name included in any such panel. It is permissible to quote fees on enquiries being received or respond to tenders from the organizations requiring professional services, which maintain such panel. Getting registered on GeM portal by members does not appear to amount either to empanelment or listing on Aggregator. In Aggregator, it is the third party which is operating, and not the client itself. GeM is operated by the client itself.

It is a pre-requirement of rendering professional services to the Government departments, as stipulated by them, and be considered as ancillary requirement to providing services to the Government departments. Firms of Chartered Accountants are permitted to register on GeM Portal for rendering professional services as there is no violation of the ethical norms of the Institute in registering on the GeM portal and such registration on the Portal is a pre-requirement for providing services to the Government departments/ organisations.

However, firms should ensure compliance with the tender guidelines issued by the Institute while participating in tender or bid floated through GeM Portal. The ICAI has made an announcement in relation to the above.

10. As per Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

- (i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
- (ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time & securing professional work as a consequence.

However, as per the Guidelines issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such a restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case, Sanjeev & Associates responded to a tender from a PF Office, Chembur for filing quarterly e-TDS returns.

Conclusion: Sanjeev & Associates can respond to the said tender as the tender is open for all the categories i.e. it is open to other professionals along with the Chartered Accountants.

11.	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing. Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor. In the given case, PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. which is a government company as Central Government holds 65% of the paid-up share capital of the company and CA N has given a conditional acceptance of the appointment and commenced the audit. In view of above, it can be concluded that CA N has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.
11 A.	As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor. In the given case, KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 72% of the paid-up share capital of the company and CA Yash has given a conditional acceptance of the appointment and commenced the audit. In view of the above, it can be concluded that CA Yash is not liable for misconduct and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

12. **Restriction on Fees based on a Percentage:** According to Clause (10) of Part I of first Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.
- However, Regulation 192 allow the Chartered Accountant in practice to charge the fees in respect of any professional work which are based on a percentage of profits, or which are contingent upon the findings or results of such work, in the case of a non-assurance services to non-audit clients, and the fees may be based on a percentage of Tax Demand Reduced.

In the given case, CA Kumar, a practicing Chartered Accountant, provides non-assurance services. He is approached by XYZ Limited, a non-audit client, to file an appeal in Tribunal against Income-tax Demand of ₹ 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case and agrees to charge fees either ₹ 5,00,000 or 10% of Tax Demand reduced whichever is higher.

Conclusion: Therefore, Mr. Kumar will not be held guilty of professional misconduct since he is not providing any assurance services to non-audit client pursuant to Regulation 192 read with Clause 10 of Part I of First Schedule.

13.(1) Restriction on fees based on a Percentage: According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act. However, Regulation 192 exempts Chartered Accountants in practice to charge fees based on a percentage of profits or contingent upon findings or results for professional work for certain professional services.

Regulation 192 specifically states that in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.

Conclusion: Consequently, CA. Pankaj shall not be deemed to be guilty of professional misconduct, as he is within the permissible scope of charging fees based on a percentage of the property valued.

(2) Failed to Supply Information Called For: In accordance with Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949, a member, whether in practice or not, is considered to be engaged in professional misconduct if he fails to provide the information requested or does not comply with the requirements set forth by the Institute, Council, or any of its Committees, including the Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board, or the Appellate Authority.

Conclusion: Therefore, in the given scenario, CA Anita has neglected to respond to the Institute's letters seeking confirmation of her appointment date and has not submitted her membership certificate. Consequently, she is deemed to be guilty of professional misconduct as given in Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949.

14A. Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 debars a chartered accountant in practice from engaging in any business or occupation other than the profession of chartered accountancy unless permitted by the Council of the Institute so to engage.

There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. There is also no bar for such a promoter / signatory to be a Director Simplicitor of that company irrespective of whether the object of the company includes areas which fall within the scope of the profession of Chartered Accountants. Therefore, members are not required to obtain specific permission from the Council in such cases.

Further, members of the Institute in practice may engage after obtaining the specific and prior approval of the Council in case of interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.

In the given case, CA Yug is a promoter director of CDS Pvt. Ltd. and also, he is a sleeping partner in his family business of garments manufacturing firm. Applying the above to the given case, it can be concluded that, CA Yug:

- **As Promoter Director-** Not guilty of professional misconduct under the Chartered Accountants Act, 1949.
- **As Sleeping Partner-** Guilty of professional misconduct under the Chartered Accountants Act, 1949 as he did not obtain prior approval of the Council.

15. Given situation can be visualize in following parts:

- (i) Mr. S used to involve himself in equity research and used to advise his friends, relatives and other known people: As per the recent decisions taken by the Ethical

Standards Board of ICAI, a Chartered Accountant in practice may be an equity research adviser, but he cannot publish a retail report, as it would amount to other business or occupation.

In the given case, though Mr. S is involved in doing equity research and in advising people, it is clear that he does not publish any retail report of his research. Hence, this act of Mr. S shall not make him guilty of professional misconduct.

(ii) Mr. S is involved in paper-setting for the Accountancy subject in the school where he studied. He also owns agricultural land and does agriculture activities: As per Clause 11 of Part I of First Schedule of Chartered Accountants Act and regulation 190A of Chartered Accountants Regulations, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

Further, Regulation 190A mentions the 'Permissions granted Generally' to engage in a certain category of occupations, for which no specific permission of Council is required. Those cases include:

- Valuation of papers, acting as paper-setter, head examiner or a moderator, for any examination.
- Owning agricultural land and carrying out agricultural activities.

Therefore, in the given case, the activities of Mr. S as a paper-setter and involvement in agricultural activities do not make him guilty of professional misconduct.

(iii) Mr. S was discharged insolvent: Disabilities for the Purpose of Membership: Section 8 of the Chartered Accountants Act, 1949 enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, failure on the part of a person to disclose the fact that he suffers from any one of the aforementioned disabilities would constitute professional misconduct.

The name of the person, who is found to have been subject at any time to any of

the disabilities discussed in section 8, can be removed from the Register of Members by the Council.

In the given case, it is clearly stated that Mr. S was discharged insolvent, and he has also obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part.

Hence, Mr. S has not violated the provisions of section 8, and he is not debarred from having his name entered in the Register of Members.

15A. According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud that has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence. In the given case, the auditor failed to discover the fraud during the audit. It is clearly given that the investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

From the facts given in the case and by applying Clause (7) and SA 240, it can be concluded that the auditor is guilty of professional misconduct and the directors can file disciplinary proceedings against the auditor.

15B. As per Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

In this case, CA Meet allowed his assistant who is not a partner but a member of the Institute of Chartered Accountants of India to sign stock certificate on his behalf and thereby commits misconduct.

Thus, CA Meet is guilty of professional misconduct under Clause (12) of Part I of First Schedule to the Chartered Accountants Act, 1949.

16. **Delegation of Authority to the Employee:** As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

In this case CA Jay proprietor of M/s Adhya & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Vijay, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated and such delegation will not attract provisions of this clause.

In the given case, Mr. Vijay, a Chartered Accountant being employee of M/s Adhya & Co. has asked for information or issued questionnaire. He has also proceeded for initiating and stamping of vouchers and of schedules prepared for the purpose of audit. Apart from the same, he acknowledged and carried out routine correspondence with clients. Here Vijay is right in doing the same, since the same falls under routine work which can be delegated by the auditor. Therefore, there is no misconduct in this case as per Clause (12) of Part I of First Schedule to the Act.

17. As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

(i)	Issue of audit queries during the course of audit.
(ii)	Asking for information or issue of questionnaire.
(iii)	Letter forwarding draft observations/financial statements.
(iv)	Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
(v)	Acknowledging and carrying on routine correspondence with clients.
(vi)	Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
(vii)	Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.
(viii)	Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.
(ix)	Any other matter incidental to the office administration and routine work involved in practice of accountancy.
	In the instant case, CA. Tanya, the auditor of KBC Pvt. Ltd. has delegated certain task to his articles and staff such as issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced and signing financial statements of the company.
	Therefore, CA. Tanya is correct in allowing first four tasks i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles.
	However, if the person signing the financial statements on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, CA. Tanya is wrong in delegating signing of financial statements to his staff.
	Conclusion: In view of this, CA. Tanya would be held guilty of professional misconduct for allowing the person signing the financial statements on his behalf to his articles & staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.
17A.	Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional

misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment.

In the given situation, DND & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. DND & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same.

Thus, DND & Associates will be held guilty of professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

18. According to Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a member is in employment, he must maintain high level of ethics and should not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service.

In the present case, CA F is the Chief Financial Officer of ABC General Insurance Limited. He releases the commission payments on the condition that he gets 20% of the commission amount from agent as majority of the clients are through their agency only. Therefore, CA F is guilty of professional misconduct by virtue of Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949.

19.	Disclosure of Information: As per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty if a Chartered Accountant, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority; In the given case, Hitesh, a Chartered Accountant while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. Details of engagement in business need to be disclosed while applying for the certificate of practice as was the information called for in the application, by the Institute. Thus, Hitesh will be held guilty of professional misconduct under Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.
20.	Disclosure of Client's Information: Confidentiality is one of fundamental principles governing professional ethics. Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, addresses professional misconduct related to the disclosure of information by a chartered accountant in practice concerning the business of their clients. Such disclosure to any person other than the client, without the client's consent or unless mandated by prevailing law, is considered a breach of conduct. The Code of Ethics emphasizes that this duty continues even after the completion of the assignment, except when disclosure is necessary for the performance of professional duties. In the provided case, CA. Johny disclosed significant information about his client's business without obtaining the client's consent, believing that it would enhance the audience's understanding of the topic. Conclusion: Therefore, this action of CA. Johny constitutes professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
21.	Gross Negligence in Conduct of Duties: As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he certifies or submits, in his name or in the name of his firm, a report of an examination of financial statements unless the

examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another Chartered Accountant in practice, under Clause (2); does not exercise due diligence, or is grossly negligent in the conduct of his professional duties, under Clause (7); or fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under Clause (8).

The primary duty of physical verification and valuation of investments is of the management. However, the auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day of the accounting year. The auditor should verify the documentary evidence for the cost/value and physical existence of the investments at the end of the year. He should not blindly rely upon the Management's representation.

In the instant case, such non-verification happened for two years. It also appears that auditors failed to confirm the value of investments from any proper source. In case the auditor has simply relied on the management's representation, the auditor has failed to perform his duty.

Conclusion: Accordingly, CA. Mayank, will be held liable for the professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

22. As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he, certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice, under Clause (2); does not exercise due diligence, or is grossly negligent in the conduct of his professional duties, under Clause (7); or fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under Clause (8).

The primary duty of physical verification and valuation of investments is of the management. However, the auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day of the accounting year.

The auditor should verify the documentary evidence for the cost/value and physical existence of the investments at the end of the year. He should not blindly rely upon the management's representation.

In the instant case, the investment of ₹ 23 lakh appeared in the Balance Sheet of the company and was the same amount as in the last year. Later, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of bank loan. Such non-verification happened for two years. It also appears that auditors failed to confirm the value of investments from any proper source. In case auditor has simply relied on the management's representation, the auditor has failed to perform his duty.

Thus, in view of above, CA Aditya will be held liable for professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

23. **Maintenance of Books of Account by a CA in Practice:** Chapter V of the Council General Guidelines, 2008 specifies that a member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his professional practice, proper books of accounts including the following-

(i) a Cash Book

(ii) a Ledger

Thus, a Chartered Accountant in practice is required to maintain proper books of accounts.

In the instant case, CA. Evan does not maintain proper books of accounts and writes the fees received from various clients in notes on his mobile. Notes maintained by him in mobile cannot be treated as books of accounts.

Hence, CA. Evan, being a practicing Chartered Accountant will be held guilty of misconduct for violation of Council General Guidelines, 2008.

24. As per the Council General Guidelines 2008, under Chapter IX on appointment as statutory auditor a member of the Institute in practice shall not accept the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 50 crores or more

in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking. For this purpose, the other work/services include Management Consultancy and all other professional services permitted by Council excluding audit under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

In the given case, the company offers CA Vaayu, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.75 Crores.

Conclusion: In view of the above provision, it would not be misconduct on Vaayu's part if he accepts the assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.75 crore.

25. As per the Council General Guidelines 2008, under Chapter IX on appointment as statutory auditor a member of the Institute in practice shall not accept the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 50 crores or more in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking. For this purpose, the other work/services include Management Consultancy and all other professional services permitted by Council excluding audit under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

In the given case, the company offers CA Dhanush, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 2.85 Crores which exceed the fees payable for audit. **Conclusion:** In view of the above provision, it would not be misconduct on Dhanush's part if he accepts the assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 2.85 crore since it is covered under exception.

26. As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of the Chartered Accountant unless permitted by the Council so to engage.
- As per the Guidelines for Corporate Form of Practice, the Council has allowed the members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act, 2013 provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the conditions(s) as specified by the Council from time to time in this regard. The name of the Management Consultancy Company is required to be approved by the Institute and such a Company has to be registered with the Institute.
- The members can retain a full-time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such management consultancy company. There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such a company. Such members shall be regarded as being in full- time practice & therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice & wherein they are also entitled to train articled/audit assistants.
- In the given case, CA Shubh, a Chartered Accountant specializing in Information Systems Audit and considered an expert in the field, was offered the position of Managing Director by ZX Limited, a management consultancy firm. He accepted the role without obtaining prior permission from the Institute of Chartered Accountants of India.
- From the above provisions, it can be concluded that the action of CA Shubh is valid.
27. Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.
- Provided that nothing contained herein shall disentitle a Chartered accountant from being a director of a Company, (not being a managing director or a whole time

director), unless he or any of his partners is interested in such company as an auditor.

Ethical Standards Board of ICAI has announced that it is permissible for a member in practice to engage in derivative transactions in his personal capacity but not in professional capacity i.e. for clients. Such engagements in derivatives are not violative of provisions of Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949. Further, members are allowed to transact in equity and currency derivatives. There is no requirement to take permission of Council in this matter.

Therefore, there is no difference if CA. Z had earned income from currency derivatives. However, in accordance with announcement of Ethical Standards Board of ICAI, it is not permissible for members in practice to transact in commodity derivative transactions. In such a case, CA. Z would be held guilty of professional misconduct for engaging in business other than profession of Chartered Accountancy.

28. Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a Chartered accountant from being a director of a Company, (not being a managing director or a whole-time director), unless he or any of his partners is interested in such company as an auditor.

Ethical Standards Board of ICAI has announced that it is permissible for a member in practice to engage in derivative transactions in his personal capacity but not in professional capacity i.e. for clients. Such engagements in derivatives are not violative of provisions of Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949. Further, members are allowed to transact in equity and currency derivatives. There is no requirement to take permission of Council in this matter.

Therefore, there is no difference if CA. Kapila had earned income from currency derivatives. However, in accordance with announcement of Ethical Standards Board of ICAI, it is not permissible for members in practice to transact in commodity derivative transactions. In such a case, CA. Kapila would be held guilty of professional misconduct for engaging in business other than profession of Chartered Accountancy.