PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

QUESTIONS

PART A: MULTIPLE CHOICE QUESTIONS

Integrated Case Scenario 1.

M/s JKL & Associates, Chartered Accountants were acting as the statutory auditors of M/s IBS Bank Limited. During the statutory audit for the relevant financial year, the following observations were made:

- Interest income included the following:
  - ₹ 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season.
  - ₹ 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.
- A 25 month old NPA account worth ₹ 43 lakh (net book value) was sold to an asset reconstruction company for ₹ 45 lakh. The profit from the above transaction was taken to the P&L account. The above NPA was sold 'without recourse' and at cash basis. The auditors noticed a discrepancy in this transaction and hence decided to report the same.

After completing the bank audit, JKL & Associates agreed to take up the following management consultancy and other services for one of the start-up company based in Noida:

(i) Setting up executive incentive plan and wage incentive plan.

(ii) Price-fixation and other management decision making.

(iii) Conduct a periodical audit and advisor for tax matters.

Mr. K, one of the partners of the firm felt that providing the above services could result in professional misconduct. Hence, he resigned from the partnership and became a sole practitioner. One of the clients of JKL & associates came to know about the issue and they approached Mr. K to conduct the statutory audit for the financial year. Mr. K took up the assignment without informing the previous firm. Annoyed by this, Mr. J filed a complaint to ICAI regarding the act of Mr. K. After enquiry, it was decided that Mr. K was guilty of professional misconduct.

After this incident, Mr. K also decided to file a complaint against Mr. J. When he was thinking about a reason for the same, he remembered that Mr. J had entered into an agreement with two of his articled clerks to pay stipend on an annual basis, while others were paid on monthly basis. Realising that this act is in violation of Regulation 48 of the Act, he filed a complaint to ICAI. After enquiry, it was found that Mr. J was guilty of professional misconduct.

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

QUESTIONS:

1 From the above facts and details, what is the correct amount of interest which the bank should account in its financial statements?

(a) Nil.

(b) ₹ 8.5 lakh.

(c) ₹ 5 lakh.

(d) ₹ 3.5 lakh.

2 What could be the possible amount classified as NPA relating to the accounts with respect to observation regarding the inclusion of interest income given below:

- ₹ 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season.
- ₹ 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.

(a) ₹ 12 lakh.

(b) ₹ 8.5 lakh.

(c) ₹ 7 lakh.

(d) ₹ 3.5 lakh.

3 In NPA, sale to asset reconstruction company, what discrepancy auditor might have noticed:

(a) The NPA had not completed 30 months.

(b) Sale was made 'without recourse'.

(c) Sale was made for cash basis.

(d) The profit of ₹ 2 lakh was taken to P&L account.

4 Being guilty of professional misconduct, which of the following punishment Mr. K will be subject to:

(a) Removal of his name from members register for a period of 6 months.

(b) Impose a penalty of ₹ 1000.

(c) Removal of his name from members register up-to a period it thinks fit.

(d) Impose a penalty up-to ₹ 2 lakh.

5 Being guilty of professional misconduct, which among the following punishment Mr. J will be subject to?

(a) Impose a penalty up-to ₹ 1 lakh.

(b) Remove his name from members register permanently.

(c) Impose a penalty up-to ₹ 3 lakh.

(d) Impose a penalty of ₹ 6 lakh.

Independent MCQs

6. Moon Ltd. is a company engaged in the manufacture of iron and steel bars. VP & Associates are the statutory auditors of Moon Ltd. for the FY 2021-22. During the course of audit, CA Vikash, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2022. 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 Vikash express in the case of Moon Ltd.?

   (a) Unmodified opinion.

   (b) Qualified opinion.

   (c) Adverse opinion.

   (d) Disclaimer of opinion.

7. As per the Quality Review Board, the term *technical standards* in the context of Chartered Accountants Rules 2006, includes which among the following?

   (a) ICDS notified under Income Tax Act, 1961.

   (b) Accounting standards notified under Companies Act, 2013.

   (c) Guidance notes on accounting and auditing matters issued by C&AG.

   (d) Notifications/ Directions issued on accounting and auditing matters issued by RBI/ SEBI/ other regulatory bodies.

8. Which among the following are the skills to be possessed by M/s ABC & Associates as forensic auditors?

   (a) Criminology and evidence gathering.

   (b) Confidence and curiosity.

   (c) Discretion and creativity.

   (d) Inquisitiveness and persistence.

9. Match the following terms to their definitions:

(i)	Accounting Estimates	1	The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
(ii)	Estimation uncertainty	2	A lack of neutrality by management in the preparation and presentation of information.
(iii)	Management bias	3	An approximation of a monetary amount in the absence of a precise means of measurement.
(iv)	Measurement objective for fair value Accounting Estimates	4	To forecast the outcome of one or more transactions, events or conditions.

(a) (i)-3, (ii)-1, (iii) - 2, (iv)- 4.

(b) (i)-2, (ii)-1, (iii) - 3, (iv)- 4.

(c) (i)-1, (ii)-3, (iii) - 2, (iv)- 4.

(d) (i)-4, (ii)-1, (iii) - 2, (iv)- 3.

PART B : DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

10. (a) During the audit of Mahaveer Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.

(b) M/s Manidhari & Associates have been appointed as an auditor of JIN Limited, a multinational company dealing in spare parts. During the course of audit, CA Manidhari is facing many problems including the problem of not getting the desired information from the management. Accordingly, he decided to communicate with those charged with the governance about significant difficulties encountered during the audit. CA Manidhari seeks your guidance on matters which can be considered as significant difficulties as per SA 260.

11. (a) CA Abhinanadan is an auditor of KM Private Limited. During the course of audit, CA Abhinanadan becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations. Being a senior

partner of CA. Abhinanadan, guide him regarding audit procedures to be followed when non-compliance is identified or suspected.

(b) In the audit plan for Shetrapal Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements.

(c) In the course of audit of Ambika Ltd, its auditor wants to rely on the audit evidence obtained in the previous audit in respect of the effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re-test of controls.

Risk Assessment and Internal Control

12. PADHAM Ltd is engaged in the business of manufacturing of carpets. The company is planning to expand and diversify its operations. The management has increased the focus on internal controls to ensure better governance. The management discussed with the statutory auditors to ensure the steps required to be taken so that the statutory audit is risk based and focused on areas of greatest risk to the achievement of the company's objectives.

    (a) Name the key steps and phases involved in Risk Based Audit.

    (b) Also, discuss the steps to be taken for the risk assessment phase of the audit.

Special Aspects of Auditing in an Automated Environment

13. You came to know that the data stored and processed in systems can be used to get various insights into the way business operates in an automated environment. This data can be useful for the preparation of management information system (MIS) reports and electronic dashboards that give a high-level snapshot of business performance. In view of above you are required to briefly discuss the meaning of data analytics and example of circumstances when auditing in an automated environment, auditors can apply the concepts of data analytics.

The Company Audit

14. AMc LLP is a newly set up LLP (Limited Liability Partnership). The operations of the LLP have been picking up and management is currently in the process of setting up processes and procedures in place. As per the understanding of the management of the LLP, its accounts would not be required to be audited mandatory because of its operations but still, the management has decided that they would get the accounts audited voluntarily. In this regard, the management would like to understand some of the aspects which they should consider not only limited to audit but also about the maintenance of books of accounts as per the relevant laws. Please advise.

15. Mr. Arjun was appointed as the engagement partner on behalf of Bhism & Co., a Chartered Accountant Firm, for conducting statutory audit assignment of Sinwar Ltd., unlisted public company.

    Mr. Brijesh, one of the senior engagement team members, was given the responsibility to audit the matters as per the requirements of CARO, 2020 and in that connection, he made the following observations, that may be relevant for reporting as per the said Order:-

Sr. No.	Observations
(a)	One of the Plant and Equipment taken on a lease ('right of use' asset) by Sinwar Ltd. was revalued based on the valuation by a registered valuer and the net carrying value of Plant and Equipment in aggregate was changed from ₹ 4 crore to ₹ 4.45 crore.
(b)	During the year under consideration, cash credit limit of ₹ 5.5 crore was sanctioned to Sinwar Ltd. by DMC Bank based on the security of current assets which was reduced to ₹ 4.5 crore after 6 months. In this connection, quarterly returns have been filed by the company with the DMC bank which are in agreement with Books of Accounts.

    You are required to examine the contention of Mr. Brijesh regarding reporting of the above observations in accordance with CARO 2020.

Audit Report

16. (a) You have been appointed as an auditor of Dharmnath & Sons for FY 2020-21, as entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. Appointment had been made in the month of April, 2021. The financial statements have been prepared by the management in accordance with the Accounting Standards. The management had introduced the new computerized accounts receivable system from November 2020 and still in the implementation phase and thus management is in the process of rectifying system deficiencies and correcting the errors. At the time of implementation of a new system, the earlier system of accounting of receivables had been discarded. The auditor was unable to obtain sufficient appropriate audit evidence about the entity's accounts receivable and inventories. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Write the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's Report.

    (b) What is the auditor's responsibility to report a key audit matter for which there are no relevant disclosures in the financial statements?

    (c) Where should the placement of the key audit matters section be in the auditor's report?

Audit Committee and Corporate Governance

17. Aadi Nath & Associates have been appointed as Statutory Auditor of Shikhar Ltd. for the F.Y 2020-21. Shikhar Ltd. enters into frequent business transactions with the entities belonging to promoter and promoter group. The company is a listed entity and has to submit a compliance certificate to the stock exchange. The auditors seek your guidance on the disclosure requirements in respect of related party transactions as per Listing Obligations and Disclosure Requirements (LODR) Regulations 2015 on Corporate Governance. Explain.

Audit of Banks

18. You have been appointed as an auditor of OM Bank, a nationalized bank. OM Bank also deals in providing credit card facilities to its account holder. The bank is aware of the fact that there should be strict control over the storage and issue of credit cards. How will you evaluate the Internal Control System in the area of Credit Card operations of a Bank?

Audit of Insurance Company

19. ARHAM Limited is engaged in the business of Insurance for the last 27 years. KUSHAL & Co., a firm of Chartered Accountants are the statutory auditors of this company and have been required to perform the audit of all the divisions and head office for the financial year 2020-2021. At the planning state CA K, Engagement Partner has identified outstanding premium and agents' balances as a focus area. Guide CA K by explaining key audit procedures to be performed for verification of outstanding premium and agent's balance.

Audit under Fiscal Laws

20. CA Sumati has been appointed as a tax auditor under section 44 AB of the Income-tax Act, 1961, of M/s Pal & Company, a partnership firm, following cash basis of accounting. CA Sumati made the qualification that ICDS were not followed by the entity while maintaining books of accounts. Whether qualification made by CA Sumati is correct? Explain the provisions of the applicability of ICDS with reference to Sec 145(2) of the Income Tax Act, 1961.

Audit of Public Sector Undertakings

21. The objectives of audit in connection with a State Electricity Distribution Company were to ascertain whether the:
    (i) total cost of providing electricity is being recovered by timely submissions to the State Electricity Regulatory Commission;
    (ii) tariff orders, sales circulars and sales instructions were issued timely, without any ambiguity. They were implemented in time;
    (iii) metering, billing and collection was managed efficiently and effectively;
    (iv) monitoring and internal controls were efficient.

What kind of audit is referred in the above scenario? Also briefly discuss the steps suggested to the auditors for planning such an audit.

Internal Audit, Management and Operational Audit

22. One of the independent directors sought information regarding the appointment of internal auditors for following Group Companies in accordance with the Companies Act, 2013 of which certain Financial Information are given below:

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

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

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

Due Diligence, Investigation and Forensic Audit

23. Shipra recently qualified as a Chartered Accountant and started her own practice. One of her friends told her that Forensic Audit is a new area and has a lot of potential in terms of professional opportunities and remuneration. Seema said that there is nothing new in this as ultimately forensic audit is also like other audits. Do you agree with the views of Seema? Support your answer with relevant explanation.

Professional Ethics

24. (a) Mr. Avi, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. Ravi gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. Avi started a website with colourful catchy designs and shared the website address on his all social media posts and stories and tagged 40 traders of his local community with the caption "Simple Online Stock Certification Services". Besides, Mr. Avi entered into an agreement with a Digital Marketer to give him 8% commission on each service procured through him. Discuss if the actions of Mr. Avi are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI.

(b) CA Sheetal is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaigning promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period. Comment on the action of CA. Sheetal with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

25. Write a short note on the following:
    (a) Eligibility to be a Reviewer in case of Peer Review.
    (b) Reporting in case the parent company's auditor is not the auditor of all its components.
    (c) Relationship between the overall audit strategy and the audit plan.

SUGGESTED ANSWERS

PART A : ANSWERS TO MULTIPLE QUESTIONS

1. (c)

2. (d)

3. (d)

4. (b)

5. (b)

6. (c)

7. (b)

8. (a)

9. (a)

PART B : DESCRIPTIVE QUESTIONS

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

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

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

As per SA 220, "Quality Control for Audit of Financial Statements", for audits of financial statements of listed entities, Engagement Quality Control Reviewer (EQCR), on performing an engagement quality control review, shall also consider the engagement team's evaluation of the firm's independence in relation to the audit engagement.

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

(b) As per SA 260, "Communication with Those Charged with Governance", significant difficulties encountered during the audit may include such matters as:

(i) Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.

(ii) An unreasonably brief time within which to complete the audit.

(iii) Extensive unexpected effort required to obtain sufficient appropriate audit evidence.

(iv) The unavailability of expected information.

(v) Restrictions imposed on the auditor by management.

(vi) Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.as per SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report.

11. (a) As per **SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements"**, if the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

(i) An understanding of the nature of the act and the circumstances in which it has occurred; and

(ii) Further information to evaluate the possible effect on the financial statements.

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

If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

(b) According to **SA 450 "Evaluation of Misstatements Identified During the Audit"**, the following are the sources of misstatements arising from other than fraud -

(i) An inaccuracy in gathering or processing data from which the financial statements are prepared;

(ii) An omission of an amount or disclosure;

(iii) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of facts; and

(iv) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

(c) As per **SA 330 on "The Auditor's Responses to Assessed Risks"**, changes may affect the relevance of the audit evidence obtained in previous audits such that there may no longer be a basis for continued reliance.

The auditor's decision on whether to rely on the audit evidence obtained in previous audits for control is a matter of professional judgment. In addition, the length of time between retesting such controls is also a matter of professional judgment.

Factors that may warrant a re-test of controls are-

(i) A deficient control environment.

(ii) Deficient monitoring of controls.

(iii) A significant manual element to the relevant controls.

(iv) Personnel changes that significantly affect the application of the control.

(v) Changing circumstances that indicate the need for changes in the control.

(vi) Deficient general IT-controls.

12. (a) The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements.

This involves the following three key steps:

- Assessing the risks of material misstatement in the financial statements
- Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and
- Issuing an appropriate audit report based on the audit findings.

The risk-based audit process is presented in three distinct phases:

- Risk assessment.
- Risk response; and
- Reporting.

(b) The risk assessment phase of the audit involves the following steps:

- Performing client acceptance or continuance procedures;
- Planning the overall engagement;
- Performing risk assessment procedures to understand the business and identify inherent and control risks;
- Identifying relevant internal control procedures and assessing their design and implementation (those controls that would prevent material misstatements from occurring or detect and correct misstatements after they have occurred);
- Assessing the risks of material misstatement in the financial statements;
- Identifying the significant risks that require special audit consideration and those risks for which substantive procedures alone are not sufficient;
- Communicating any material weaknesses in the design and implementation of internal control to management and those charged with governance; and
- Making an informed assessment of the risks of material misstatement at the financial statement level and at the assertion level.

13. Data Analytics: Generating and preparing meaningful information from raw system data using processes, tools, and techniques is known as Data Analytics. The data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs. When auditing in an automated environment, auditors can apply the concepts of data analytics for several aspects of an audit including the following:

- preliminary analytics;
- risk assessment;

- control testing;
- non-standard journal analysis;
- evaluation of deficiencies;
- fraud risk assessment.

14. An LLP shall be under obligation to maintain annual accounts reflecting a true and fair view of its state of affairs. The accounts of every LLP shall be audited in accordance with Rule 24 of LLP Rules 2009. Such rules, inter-alia, provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty five lakh rupees, is not required to get its accounts audited. However, if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rule.

Appointment of Auditor: The auditor may be appointed by the designated partners of the LLP –

1. At any time for the first financial year but before end of the first financial year,
2. At least thirty days prior to the end of each financial year (other than the first financial year),
3. To fill the casual vacancy in the office of auditor,
4. To fill the casual vacancy caused by the removal of an auditor.

The partners may appoint the auditors if the designated partners have failed to appoint them.

LLPs are required to maintain books of accounts which shall contain -

1. Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place,
2. A record of the assets and liabilities of the LLP,
3. Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold,
4. Any other particulars which the partners may decide.

The auditor should read the LLP agreement & note the following provisions

(a) Nature of the business of the LLP

(b) Amount of capital contributed by each partner

(c) Interest – in respect of additional capital contributed

(d) Duration of partnership

(e) Drawings allowed to the partners

(f) Salaries, commission etc payable to partners

(g) Borrowing powers of the LLP

(h) Rights & duties of partners

(i) Method of settlement of accounts between partners at the time of admission, retirement, admission etc.

(j) Any loans advanced by the partners

(k) Profit sharing ratio.

15. Matters to be reported by Mr. Brijesh as per CARO, 2020 are as follows:-

(a) According to Clause (i) (d) of Para 3 of CARO 2020, the auditor is required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

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

Thus, the auditor is required to report the amount of change of ₹ 45 lakh in accordance with Clause (i) (d) of Para 3 of CARO 2020.

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

In the instant case, Sinwar Ltd. has been sanctioned a cash credit limit of ₹ 5.5 crore by DMC Bank during the year under consideration, which is exceeding the prescribed limit of ₹ 5 crore based on the security of current assets. Further, quarterly returns have also been filed by the company with the DMC bank in this connection which is in agreement with Books of Accounts.

In view of the above, the auditor is required to report the same in accordance with Clause (ii) (b) of Para 3 of CARO 2020

16. (a) Opinion Paragraph

Disclaimer of Opinion

We were engaged to audit the financial statements of Dharmnath & Sons ("the entity"), which comprise the balance sheet as at March 31, 2021, the statement of

Profit and Loss, (the statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after March 31, 2021, and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 2020, and 2021, which are stated in the Balance Sheets at ₹ xxx and ₹ xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in November 2020 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of ₹ xxx as at March 31, 2021. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (and statement of cash flows)

(b) When communicating key audit matters, the fact that there are no disclosures in the financial statements related to a matter determined to be a key audit matter does not relieve the auditor from the requirement to communicate it. An auditor may determine a key audit matter related to the audit for which relevant disclosure requirements do not exist in the applicable financial reporting framework. 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 significant risk (e.g., changes to a system affecting revenue recognition

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

(c) Generally, the Key Audit Matters section is required to be placed after the Basis for Opinion paragraph and before the Management's Responsibility paragraph.

In case, 'Material uncertainty relating to going concern' section is required as per SA 570(Revised), then KAM section is placed after that section.

Further, regarding placement of KAM section, SA 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" provides as under:

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

17. Related Party Disclosure [Regulations 23, 27, 46 and Schedule V]: The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within *21* days from the *end of each* quarter.

Details of all material transactions with related parties shall be disclosed therein. The report shall be signed either by the compliance officer or the chief executive officer of the listed entity.

The company shall disclose the policy on dealing with related party transactions on its website and a web link thereto shall be provided in the Annual Report.

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

The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

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

18. Credit Card Operations:

- There should be an effective screening of applications with reasonably good credit assessments.

- There should be strict control over storage and the issue of cards.
- There should be a system whereby a merchant confirms the status of unutilised limit of a credit-card holder from the bank before accepting the settlement, in case the amount to be settled exceeds a specified percentage of the total limit of the cardholder.
- There should be a system of prompt reporting by the merchants of all settlements accepted by them through credit cards.
- Reimbursement to merchants should be made only after verification of the validity of the merchant's acceptance of cards.
- All the reimbursement (gross of commission) should be immediately charged to the customer's account.
- There should be a system to ensure that statements are sent regularly and promptly to the customer.
- There should be a system to monitor and follow-up customers' payments.
- Payments overdue beyond a reasonable period should be identified and attended to carefully. For defaulting customers, credit should be stopped by informing the merchants through periodic bulletins, as early as possible, to avoid increased losses.
- There should be a system of periodic review of credit card holders' accounts. On this basis, the limits of customers may be revised, if necessary. The review should also include determination of doubtful amounts and the provisioning in respect thereof.

19. Outstanding Premium and Agents' Balances: The following are the audit procedures to be followed for verification of outstanding premium and agents' balances:

(i) Inquire reasons for long outstanding credit balances in outstanding premium accounts and examine the reasons for policies not being issued or the outstanding premium not adjusted against amounts due.

(ii) Scrutinise and review control account debit balances and their nature should be enquired into.

(iii) Examine inoperative balances and treatment given for old balances with reference to company rules.

(iv) Enquire into the reasons for retaining the old balances.

(v) Verify old debit balances which may require provision or adjustment. Notes of explanation may be obtained from the management in this regard.

(vi) Check age-wise, sector-wise analysis of outstanding premium.

(vii) Verify whether outstanding premiums have since been collected.

(viii) Check the availability of an adequate bank guarantee or premium deposit for outstanding premium.

20. Section 145(2) empowers the Central Government to notify in the Official Gazette from time to time, income computation and disclosure standards are to be followed by any class of assessees or in respect of any class of income.

Accordingly, the Central Government had, in the exercise of the powers conferred under section 145(2), notified ten income computation and disclosure standards (ICDSs) to be followed by all assesses (other than an individual or a HUF who is not required to get his accounts of one previous year audited in accordance with the provisions of section 44AB), following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profit and gains of business or profession" or " Income from other sources". from the A.Y. 2017-18.

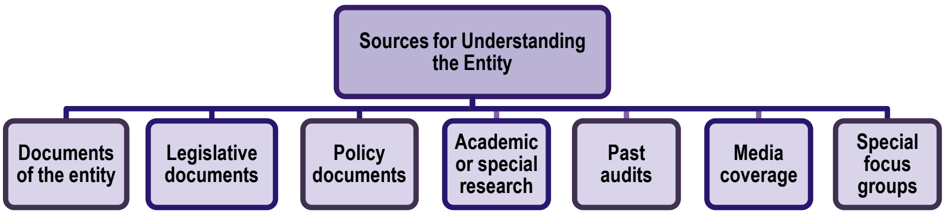
All the notified ICDSs are applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts. In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent.

In the given situation, Sumati has been appointed as a tax auditor of M/s Pal & Company, a partnership firm, following the cash basis of accounting. CA Sumati made the qualification that ICDS were not followed by the entity while maintaining books of accounts. In view of the above provisions, it is clear the ICDS is applicable on a mercantile system of accounting, and it is only for the purpose of computation of income chargeable to income tax under the head "Profits and Gains of business or profession" or "Income from other sources" and not for the maintenance of books of accounts. Thus, qualification made by CA. Sumati is not correct.

21. In the given scenario, in view of the objectives discussed, performance audit is being referred.

The following steps are suggested to the auditors for planning while conducting the performance audit:

(A) Understanding the Entity/Programme - It is the starting point for planning individual performance audit.



The auditor may use the following sources for understanding the entity:

(i) **Documents of the entity:** Documents on administration and functions of the entity, policy files, annual reports, budget documents, accounts, minutes of meetings, information on the website, internal audit reports, electronic databases and MIS reports, RTI material etc.

(ii) **Legislative documents:** Legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee, and letters from Members of Parliament.

(iii) **Policy documents:** Documents of Planning Commission, Ministry of Finance etc.

(iv) **Academic or special research:** Independent evaluations on the entity, academic research and similar work done by other governments and other SAIs.

(v) **Past audits:** Past financial and performance audits of the entity provide a major source of information and understanding.

(vi) **Media coverage:** Print and electronic media - their systematic documentation on regular basis in a transparent manner.

(vii) **Special focus groups:** Audit Advisory Committee concerns, annual and special reports of World Bank, Reserve Bank of India, reports by special interest groups, NGOs, etc.

(B) Defining the Objectives and the Scope of Audit - The audit objectives should be defined in a succinct manner as they will impact the nature of the audit, govern its conduct and affect audit conclusions. Setting audit objectives ensures good quality performance audits. It facilitates clarity, demonstrates the consistent quality of audit and serves as a measure of quality assurance of the audit.

Defining the scope constricts the audit to significant issues that relate to the audit objectives. It mainly focuses on the extent, timing and nature of the audit.

(C) Determining Audit Criteria - Audit criteria are the standards used to determine whether a program meets or exceeds expectations. It provides a context for understanding the results of the audit. Audit criteria are reasonable and attainable standards of performance against which economy, efficiency and effectiveness of programmes and activities can be assessed.

The audit criteria may be sought to be obtained from the following sources:

(i) procedure manuals of the entity.

(ii) policies, standards, directives, and guidelines.

(iii) criteria used by the same entity or other entities in similar activities or programmes.

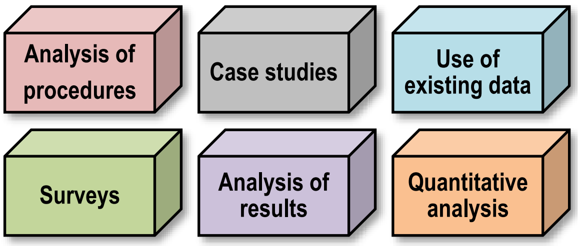
(iv) independent expert opinion and know how.

(v) new or established scientific knowledge and other reliable information.

(vi) general management and subject matter literature and research papers.

(D) Deciding Audit Approach - There is no uniform audit approach prescribed that can be applicable to all types of subjects of performance audits. The selection of approach also determines methods and means used for conducting the audit.

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 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 an 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.

(E) **Developing Audit Questions -** Subsequent to designing of audit objectives and determination of audit criteria, the audit team is required to prepare a list of questions to which they would seek answers. The questions should be framed in a comprehensive manner involving a detailed hierarchy of questions.

(F) **Assessing Audit Team Skills and whether Outside Expertise required -** It is essential that the performance auditors possess special aptitude and knowledge. The Auditing Standards of C&AG of India provide that the audit institution should develop and train the auditors to enable them to perform their tasks effectively & efficiently and should prepare manuals & other written guidance notes & instructions concerning the conduct of audits.

Given the diverse range of subjects of performance auditing, the audit team needs to develop a sound understanding of the programme or entity proposed to be audited.

The audit team needs to decide at the planning stage on which aspect of expertise is required. Though the Accountant General may use the work of an expert, he retains full responsibility for the expression of opinion in the auditor's report.

(G) **Preparing Audit Design Matrix (ADM) -** Having determined the audit objective, audit criteria, audit approach, data collection etc., the audit team should prepare an Audit Design Matrix. It is a structured and highly focused approach to designing a performance audit study.

The ADM highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings.

A specimen of ADM is given as under:

Audit Objective (1)	Audit Questions (2)	Audit Criteria (3)	Evidence (4)	Data Collection and Analysis Method (5)

An ADM is prepared on the basis of information and knowledge obtained during the planning stage. A well-designed ADM leads to effective audits thus providing the highest assurances to the auditing entities. It is desirable to prepare ADM for each of the audit objectives.

(H) **Establishing Time-Table and Resources** - It is significant to determine the timetable and desirable resources. Selection of an appropriate audit team is the most vital component in planning an audit. Considerations for the selection of an appropriate audit team should be recorded along with the proposed timelines for various activities to be undertaken as a part of the audit process. The progress should also be monitored against these timelines. The Accountant General would be liable for ensuring that the performance audit is completed on time. The variations between the required and actual time spent should be compared and approved from the competent authority.

The team should build time for translation, approval and possible delays in their own schedule in order to meet the targets.

(I) Intimation of Audit Programme to Audit Entities - Audited entities must be intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of an audit team and the tentative time schedule, well before the commencement of Audit. Acknowledgement of this may be requested and placed on record.

It may be required to refine an audit's objectives as the audit progresses for gathering the requisite information to fulfil the audit. The reasons for such changes in the objectives should also be recorded and approved by the competent authority.

The audit programme should be flexible and reviewed from time to time as it is not possible to anticipate all the contingencies at the early stage.

The Accountant General should share all significant refinements in the approach and additional tests and findings, concurrently with other audit teams when different persons conduct the audit at different locations. The system of sharing of the significant field audit experience should be documented and reviewed.

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

(A) every listed company;

(B) every unlisted public company having-

(1) paid up share capital of fifty crore rupees or more during the preceding financial year; or

(2) turnover of two hundred crore rupees or more during the preceding financial year; or

(3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or

(4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

(1) turnover of two hundred crore rupees or more during the preceding financial year; or

(2) outstanding loans or borrowings from banks or public financial institutions

exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, AADI Ltd. 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, AADI Ltd. is required to appoint an internal auditor.

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

NEMI Ltd. is unlisted private company and having ₹ 60 crore as equity share capital, ₹ 190 crore as turnover and ₹ 50 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, NEMI Ltd. is not required to appoint an internal auditor.

It can be concluded that AADI Ltd. and AJIT Ltd. is required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas NEMI Ltd. is not required to do the same.

23. A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit. Forensic Accounting has an Investigative mentality" however auditing is done with "professional scepticism". A forensic accountant will often require more extensive corroboration. A forensic accountant may focus more on seemingly immaterial transactions. Therefore, the contention of Seema is not correct that ultimately forensic audit is also like other audits.

Difference between forensic audit and other audits

Sr. No.	Particulars	Other Audits	Forensic Audit
1.	Objectives	Express an opinion as to 'True & Fair' presentation.	Whether fraud has actually taken place in books.
2.	Techniques	Substantive & Compliance. Sample based.	Investigative, substantive or in-depth checking.
3.	Period	Normally for a particular accounting period.	No such limitations.
4.	Verification of stock, Estimation of the realisable value	Relies on the management	Independent/verification of suspected/selected items

	of assets, provisions, liability etc.	certificate/Management Representation.	where misappropriation is suspected.
5.	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.
6.	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

24. (a) As per Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Mr. Avi is wrong in seeking clients through family and friends. Creating a website is not a non-compliance provided it is in line with the guidelines issued by the Institute in this regard. One of the guidelines is that the website should not be in push mode. Further, mentioning of clients' names is also prohibited as per the guidelines.

In the given situation, Mr. Avi shared the website address on his all social media posts and stories and tagged 40 traders of his local community with the caption "Simple Online Stock Certification Services" mentioning his current clients as well. This is in complete contravention of the guidelines on the website issued by the ICAI.

Thus, CA, Avi would be held guilty of professional misconduct under clause 6 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

(b) **Other Misconduct:** CA Sheetal has engaged his Articled Assistant for his election campaigning for the Central Council elections of ICAI.

This aspect is covered under 'Other Misconduct' which has been defined in Part IV of the First Schedule and Part III of the Second Schedule. These provisions empower the Council even if it does not arise out of his professional work. This is considered necessary because a Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action.

Thus, when a Chartered Accountant uses the services of his Articled Assistant for purposes other than professional practice, he is found guilty under 'Other Misconduct'.

Hence, CA Sheetal is guilty of 'Other Misconduct'.

25. (a) Eligibility to be a Reviewer

1. A Peer Reviewer shall: -

   (a) Shall be a member in practice with at least 7 years of audit experience.

   (b) In case a member has moved from industry to practice and is currently in practice he should have at least 10 years of audit experience in the industry and at least 3 years of audit experience in practice.

   (c) Should have undergone the requisite training and cleared the requisite test for Peer Review as prescribed by the Board.

2. A member on being appointed as a Reviewer shall be required to furnish-

   (a) a declaration as prescribed by the Board, at the time of Empanelment as a Peer Reviewer.

   (b) a Declaration of Confidentiality as per Annexure A to this Statement while giving consent for appointment as a Peer Reviewer.

3 A member shall not be eligible for being appointed as a Reviewer of a Practice Unit, if -

   (i) any disciplinary action/proceeding is pending against him,

   (ii) he has been found guilty of professional or other misconduct by the Council or the Board of Discipline or the Disciplinary Committee at any time,

   (iii) he has been convicted by a competent court whether within or outside India, of an offence involving moral turpitude and punishable with imprisonment,

   (iv) he or his partners have any obligation or conflict of interest in the Practice Unit.

   (v) He has undergone training/articleship under any of the partner of the Practice Unit.

4. A Reviewer shall not accept any professional assignment from the Practice Unit for a period of the next two years from the date of appointment. Further, he should not have accepted any professional assignment from the Practice Unit for a period of two years before the date of appointment as a reviewer of that Practice Unit.

(b) Reporting in case the Parent Company's Auditor is not the Auditor of all its Components: In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should also consider the requirement of SA 600.

As prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s).

This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

Total assets, revenues and cash flows not audited by the parent's auditor should be presented before giving effect to permanent and current period consolidation adjustments.

Reference in the report of the auditor on the consolidated financial statements to the fact that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries.

(c) Relationship between the Overall Audit Strategy and the Audit Plan: The audit strategy is prepared before the audit plan. The audit plan is more detailed than the overall audit strategy. Audit strategy and audit plan are inter-related because a change in one would result into a change in the other. The audit strategy provides the guidelines for developing the audit plan. It establishes the scope and conduct of the audit procedures and thereby, works as a basis for developing a detailed audit plan. Detailed audit plan would include the nature, timing and extent of the audit procedures so as to obtain sufficient appropriate audit evidence.

The overall audit strategy & Audit plan should take into consideration the element of materiality and its relationship with Risks & procedures to be adopted. It is summarized as under:-

High Materiality	Detailed Procedures	High Risks
Low Materiality	Test Checks	Low Risks