

MOCK TEST PAPER - I
FINAL COURSE: GROUP – I
PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS
SUGGESTED ANSWERS/HINTS

DIVISION A - MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. (d)
2. (b)
3. (b)
4. (d)
5. (c)
6. (c)
7. (a)
8. (d)
9. (a)
10. (a)
11. (c)
12. (b)
13. (a)
14. (c)
15. (b)
16. (c)
17. (b)
18. (d)
19. (c)
20. (c)

DIVISION B - DESCRIPTIVE QUESTIONS (70 Marks)

1. (a) **Auditor's responsibilities as to Other Information included in Annual Report:** SA 720, "The Auditor's Responsibilities Relating to Other Information", delineates the responsibilities of auditors in regard to other information, which can pertain to financial or non-financial matters and is encompassed within an organisation's annual report. This encompasses documentation of market trends pertaining to significant products and quantities 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: 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:

- (i) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (ii) 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 situation, Sujit & Co., Chartered Accountants, have been appointed as Statutory Auditors of Anand Mills Ltd. The auditor, while reviewing the company's draft annual report, has observed a section mentioning about a decline in market prices for essential products compared to previous year and financial statements indicated that company's profit margin has increased. Considering the requirements of SA 720 as stated above, it can be concluded that contention of firm's partner, that auditors are not responsible for disclosures made by management, is not correct. Accordingly, partner is not correct in his approach to this issue.

- (b) As per SQC 1 engagement quality control reviewer can be a partner, other person in the firm (member of ICAI), suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.

It also states that the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

In addition, the work of EQCR involves objective evaluation of the significant judgments made by the engagement team and ensuring that the conclusions reached by the team in formulating audit report are appropriate. It is necessary for EQCR to have the requisite technical expertise and experience to enable her to perform the assigned role of evaluating the work of engagement team so that any possible misstatement can be avoided. Without ensuring the appropriate technical expertise and experience, the whole purpose of EQCR is defeated. Therefore, it was not appropriate for her to accept appointment as EQCR for listed entity.

Further, SA 220 states that the engagement quality control reviewer shall document, for the audit engagement reviewed, that the procedures required by the firm's policies on engagement quality control review have been performed. It also states that it shall also be documented that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

In the given situation, CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the financial year 2022-23 of XPM Limited, a listed company operating from a small town. She has accepted the appointment and performed the review by ticking a Yes / No checklist and signing on some of the working papers prepared by the engagement team.

In the instant case, there are no working papers to show that evaluation has been done by EQCR on conclusions reached by engagement team. Mere ticking of a Yes/No checklist and signing on some working papers of engagement team shows that no such evaluation and review of work performed by engagement team has been made by EQCR. Therefore, her approach was not proper in performing work of EQCR.

- (c) As per SA 500, "Audit Evidence", when information to be used as audit evidence¹ has been prepared using the work of a management expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:
 - (i) Evaluate the competence, capabilities and objectivity of that expert;

- (ii) Obtain an understanding of the work of that expert; and
- (iii) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Further, the nature, timing and extent of audit procedures in relation to the requirement relating to information to be used as audit evidence prepared using the work of a management's expert may be affected by such matters as:

- (i) The nature and complexity of the matter to which the management's expert relates.
- (ii) The risks of material misstatement in the matter.
- (iii) The availability of alternative sources of audit evidence.
- (iv) The nature, scope and objectives of the management's expert's work.
- (v) Whether the management's expert is employed by the entity or is a party engaged by it to provide relevant services.
- (vi) The extent to which management can exercise control or influence over the work of the management's expert.
- (vii) Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- (viii) The nature and extent of any controls within the entity over the management's expert's work.

2. (a) A member in practice shall be held guilty of professional misconduct as per clause 9 of Part I of the First Schedule where he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), in respect of such appointment have been duly complied with (corresponding to section 139 and 140 of Companies Act, 2013).

Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013, in respect of such appointment have been duly complied with. Under this clause, it is obligatory for the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

As per section 139(8) of the Companies Act, 2013, any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

Also, before such appointment is made, the written consent of the auditor to such appointment and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed shall be obtained from the auditor. Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141. Also, that the company shall inform the auditor concerned of his or his appointment and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.

Also, a member in practice shall be held guilty of professional misconduct as per clause 8 of Part I of the First Schedule where he accepts a position as auditor previously held by another Chartered Accountant without first communicating with him in writing.

In the current case, Mr. Sunil was appointed statutory Auditor of M. Autotech Limited after Mr. Ram resigned from the position of auditor on 31-07-2022 for the financial year 2022-23. Mr. Sunil received the appointment letter duly signed by the Board of Directors. Mr. Sunil received the letter of appointment on 31-07-2022, which he accepted on 01-08-2022. On 15-08-2022, Mr. Sunil fixed a meeting with Mr. Ram to understand the reasons for his resignation and any concerns he should be aware of about the company. Prior to this, no communication happened between Mr. Sunil and Mr. Ram. The Board of M. Autotech Limited filed ADT-1 with the registrar on 31-08-2022.

Hence, Mr. Sunil did not verify whether the requirement of section 139 of the Companies Act, 2013 has been complied with or not, as in the current case, there was no approval by the company at a general meeting convened within three months of the recommendation of the Board. Under Section 139(8), approval by a company at general meeting as discussed above is mandatory requirement. Therefore, he has not ascertained from company whether requirements of section 139 and 140 of Companies Act, 2013 have been complied with. Moreover, Mr. Sunil did not communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the outgoing/previous auditor.

Therefore, Mr. Sunil is guilty of professional misconduct both under clause 8 and 9 of First Schedule to Chartered Accountants Act, 1949.

(b) For studying the economic and financial position of the business, the following should be considered:

- (i) The adequacy or otherwise of fixed and working capital. Are these sufficient for the growth of the business?
- (ii) What will be the trend of the sales and profits in the future? Establishing the trend of sales, product-wise and area-wise will ordinarily help in drawing a conclusion on whether the trend will be maintained in the future.
- (iii) Whether the profit which the business could be expected to maintain in the future would yield an adequate return on the capital employed?
- (iv) Whether the business is operating at its 100 percent capacity or improvements can be made to reach at full productivity?

(c) In exercise of the powers conferred under clause (b) of sub-section (1) of section 45-IA of the RBI Act and all the powers enabling it in that behalf, the Bank hereby specifies two hundred lakh rupees as the Net Owned Fund (NOF) required for a non-banking financial company to commence or carry on the business of non-banking financial institution, except wherever otherwise a specific requirement as to NOF is prescribed by the Bank.

It will be incumbent upon such NBFCs, the NOF of which currently falls below ₹200 lakh, to submit a statutory auditor's certificate certifying compliance with the prescribed levels by the end of the period as given above.

NBFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the CoR as NBFCs. Every non-banking financial company shall submit a certificate from its Statutory Auditor that it is engaged in the business of a non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year. The format of the Statutory Auditor's Certificate (SAC) to be submitted by NBFCs has been issued vide DNBS. PPD.02/66.15.001/2016-17 Master Direction- Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016.

Hence, in the current case, it is the responsibility of the Statutory Auditor, i.e., Mr. Shyam, to report where NOF has fallen below ₹ 200 Lakhs.

3. (a) Section 43B (e) states that a deduction otherwise allowable under the Income-tax Act, 1961 in respect of any sum payable by the assessee as interest on any loan or advances from a scheduled bank or a co-operative bank in accordance with the terms and conditions of the agreement governing such loan or advances, shall be allowed (irrespective of the previous year in which the liability to pay such sum was incurred by the assessee according to the method of accounting regularly employed by him) only in computing the income referred to in section 28 of that previous year in which such sum is actually paid by him.

Explanation 3D to section 43B clarifies that a deduction of any sum, being interest payable under clause (e) of this section, shall be allowed if such interest has been actually paid and any interest referred to in that clause which has been converted into a loan or advance or debenture or any other instrument by which the liability to pay is deferred to a future date shall not be deemed to have been actually paid.

Proviso to section 43B states that in case any sum which is actually paid by the assessee on or before the due date applicable in his case for furnishing the return of income under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred and the evidence of such payment is furnished by the assessee along with such return, provisions of section 43B shall not be applicable.

In the given situation, bank has converted interest debited in packing credit facility amounting to ₹ 6 lakh to FITL. Therefore, as on 31st March, 2023, entire interest of ₹ 6 lacs debited by bank remained unpaid. Further, instalments of FITL are to commence from January, 2024 well past due date for filing income tax return for assessee.

Therefore, she should report interest of ₹ 6 lakh under clause 26 of Form 3CD. The liability to pay ₹ 6 lakh was incurred during the year. However, the same has not been paid on or before due date of return of income of client as instalments are to commence from January, 2024. The client would file return of income in September, 2023 and by that date, no amount out of FITL is to be paid.

Interest on restructured facilities amounting to ₹ 4 lakh was paid in year 2022-23 itself. It has, therefore, no reporting implications.

- (b) (l) 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 component's 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.

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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.

- (II) 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) **Audit Procedures** -In carrying out audit of advances, the auditor is primarily concerned with obtaining evidence about the following:

Area of Focus	Suggested Audit Procedure
Evaluation of Internal Controls over Advances	<ul style="list-style-type: none"> • Examine loan documentation. • Examine the validity of the recorded amounts. • Examine the existence, enforceability and valuation of the security. • Ensure compliance with the terms of sanction and end use of funds. • Ensure compliance with Loan Policy of Bank as well as RBI norms including appropriate classification and provisioning • Review the operation of the accounts.
Substantive Audit Procedures	<ul style="list-style-type: none"> • Check that the advances represent amount due to the bank. • Verify that the advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements. • Check that appropriate provisions towards advances have been made as per the RBI norms, Accounting Standards and generally accepted accounting practices. • Examine all large advances while other advances may be examined on a sample basis. • Verify completeness and accuracy of interest being charged.

	<ul style="list-style-type: none"> • Ensure that there are no unrecorded advances. • Check that the stated basis of valuation of advances is appropriate and properly applied, and that the recoverability of advances is recognised in their valuation. • Check whether the amounts included in the balance sheet are outstanding as on the date of balance sheet. • Verify completeness and accuracy of interest being charged.
Recoverability of Advances	<ul style="list-style-type: none"> • Review periodic statements submitted by the borrowers indicating the extent of compliance with terms and conditions. • Review latest financial statements of borrowers. • Review reports on inspection of security. • Review Auditors' reports in the case of borrowers enjoying aggregate credit limits of Rupees 10 lakh or above for working capital from the banking system.

4. (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. Samyak 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. Samyak 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, Mr. Samyak would be held guilty of professional misconduct under clause 6 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

- (b) **Damages for negligence:** Civil liability for mis-statement in prospectus under section 35 of the Companies Act, 2013, includes where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who has authorised himself to be named and is named in the prospectus as a director of the company or has agreed to become such director either immediately or after an interval of time shall, without prejudice to any punishment to which any person may be liable under section 36, be liable to pay compensation to every person who has sustained such loss or damage. Notwithstanding anything contained in this section, where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities of a company or any other person or for any fraudulent purpose, every person referred to in subsection (1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

Further, as per section 447 of the Companies Act, 2013, without prejudice¹ to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud [involving an amount of at least ten lakh rupees or one percent of the turnover of the company, whichever is lower] shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable

to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. It may be noted that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

Hence, in this case, Mr. A is liable for punishment even though he is currently not a director in the company as per section 35 of the Companies Act, 2013. He shall be liable to punishment as per section 447 discussed above as he was aware of the litigation against the company which may cause outflow of ₹ 1.25 crore which may affect the demand for share application and had also authorised himself to be named in the prospectus as director.

(c) Aspects to be considered by Management auditor to determine that the systems and procedures are meeting current requirements -

CA Rajul should proceed as under:

The evaluation of a system or a procedure includes three separate considerations. First, is the system or procedure meeting all the current requirements? Second, is it operating effectively? And third, what is the degree of effectiveness?

To determine whether the system or procedure is meeting current requirements, the following among other things should be considered:

1. Is the system or procedure designed to promote the achievement of the company's objectives, and is it accomplished effectively?
2. Does the system or procedure operate within the framework of the organisational structure?
3. Does the system or procedure adequately provide methods of control in order to obtain maximum performance with the least expenditure of time and effort?
4. Do the routines designated in the system or procedures indicate performance in a logical sequence?
5. Does the system or procedure provide the means for effective coordination between one department and another?
6. Have all required functions been established?
7. Has the necessary authority been designated to carry out responsibilities?
8. Can any changes be made to improve effectiveness?

The important thing is to make sure that the system or procedure is designed to meet the desired results.

5. (a) Factors that may assist Mr. Rishabh, the auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures include:

- (i) The confirming party's knowledge of the subject matter – responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- (ii) The ability or willingness of the intended confirming party to respond – for example, the confirming party:
 - May not accept responsibility for responding to a confirmation request;
 - May consider responding too costly or time consuming;
 - May have concerns about the potential legal liability resulting from responding;
 - May account for transactions in different currencies; or
 - May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.

(iii) The objectivity of the intended confirming party – if the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.

(b) The data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs. There are several steps that should be followed to achieve success with CAATs and any of the supporting tools. A suggested approach to benefit from the use of CAATs is as given below:

- Understand Business Environment including IT.
- Define the objectives and criteria.
- Identify source and format of data.
- Extract Data.
- Verify the completeness and Accuracy of Extracted data.
- Apply Criteria on data obtained.
- Validate and confirm results.
- Report and document results and conclusions (SA 230).

(c) 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.

6. (a) Matters to be ensured by accounting controls -Basic Accounting Control Objectives: The basic accounting control objectives which are sought to be achieved by any accounting control system are -

- (i) Transactions are executed in accordance with management's general or specific authorisation;
- (ii) Transactions and other events are real & promptly/timely recorded at correct amounts;
- (iii) Transactions should be classified in appropriate accounts and in the appropriate period to which it relates;
- (iv) Transactions are properly posted.
- (v) Transactions should be recorded in a manner so as to facilitate preparation of financial statements in accordance with applicable accounting standards, other accounting policies and practices and relevant statutory requirements;
- (vi) Transactions are properly disclosed.
- (vii) Recording of transactions should facilitate maintaining accountability for assets;
- (vii) Assets and records are required to be protected from unauthorised access, use or disposition;
- (ix) Records of assets, such as sufficient description of the assets (to facilitate identification, its location should also be maintained, so that the assets could be physically verified periodically.
- (x) Transactions are properly summarised.

(b) If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

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

If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule, included as an appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

Thus, additional profit and loss account is not considered an integral part of the audited financial statements and the auditor shall evaluate that supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements.

(c) In the given situation, due to magnitude of natural disasters, there is possibility of claim cases which have been incurred but not reported and cases where claims have been reported but not enough reported.

For the claim cases which have been incurred but not reported and cases where claims have been reported but not enough reported, auditor should direct audit procedures to verify that these cases have been captured by the actuary appointed by the company. Calculation of IBNR and IBNER is

done by appointed actuary of the insurance company based on probability weighted estimations and statistical models approved by the Actuarial Standards.

The actuarial valuation of liability in respect of claims Incurred But Not Reported (IBNR) and those Incurred But Not Enough Reported (IBNER) as at March 31, 2023, as certified by the Company's appointed Actuary should be gone through and a certificate should be obtained from actuary regarding claim amounts and related liability. Further, he should check records for subsequent periods to ascertain that adequate provision has been created for such claims. Besides, for claims already reported during the year, it should be verified that claim provision is backed by surveyor's immediate loss advice/estimate of liability for the company.

OR

(c) Provisions of the Chartered Accountants Act, 1949 and Schedules thereto -

As per Clause (6) 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 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 and securing professional work as a consequence.

However, as per the guideline 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 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 of ARG Cooperative Bank, Bank mailed the list of branches to the audit firms along with maximum fees per branch, in response to which M/s. SR & Associates responded and submitted their quotation.

Keeping in view the facts, clause 6 and guideline issued by the council, it can be concluded that M/s. SR & Associates is guilty of Professional misconduct.