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What Our Students have to say....

BALAJI R

Scored exemption in 2 subjects. Thanks and respect to my beloved faculties Sathya Sir, Suraj Sir, Yogita Mam, Varun Sir, Shiva Teja Sir, Pranay Sir, IndigoLearn team and forum friends.

Ahil Varshan

Thank you so much
It is because of you Tax classes I was able to pass in Paper 4 The GST fast track course of Shiva Teja sir helped me a lot

GURRAM JANVITHA

Thanks to Shiva Teja Sir, Suraj Sir, Sathya Sir. Had a great journey with IndigoLearn.

Suhani Kochar

Very well explained sir
Thank you so much sir

Sai Suparna Puttu

Thank you for your support and blessing to us.

Soniya S

You have been a great support to my success...I successfully cleared my group-1 exam especially taxation with the help of those classes I could clear exam..
Thank you so much IndigoLearn

Preethi S

Taxation was very hard to understand for me in my 1st attempt. But thanks Shiva Teja Sir for exceptional Taxation lectures, I scored 61. I would strongly recommend him. Your passion and clear explanations made learning enjoyable.

Prachi Khetal

Thank you so much sir for this video lec, it is really very helpful.

Abhiram

I have taken taxation revision class for CA Inter. From past 2 attempts I failed and got low marks in tax but in May 2024 I have secured 72 marks in taxation that is because of the detailed revision class by CA Shiva Teja Sir, it helped me a lot while revising for the tax

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SA 200

1. Do you agree with the view that there are inherent limitations of Audit? (CA Inter, Nov 2001, May 2003, Nov 2005)

Ans:

Inherent limitations of Audit: The objective of an audit of financial statements, prepared within a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements. In forming his opinion on the financial statements, the auditor follows procedures designed to satisfy himself that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. The process of auditing, however, is such that it suffers from certain inherent limitations, i.e., the limitation which cannot be overcome irrespective of the nature and extent of audit procedures. Such limitations arise, first of all, on account of exercise of judgment in the auditor's work in deciding the extent of audit procedures and exercising judgement also in assessing the reasonableness of the judgment and estimates made by the management in preparing the financial statements. Secondly, much of the evidence available to the auditor can enable him to draw only reasonable conclusions therefrom. The audit evidence obtained by an auditor is generally persuasive in nature rather than conclusive in nature. Because of these factors, the auditor can only express an opinion. Therefore, absolute certainty in auditing is rarely attainable. There is also likelihood that some material misstatements of the financial information resulting from fraud or error, if either exists, may not be detected. Another reason which may contribute to inherent limitation is the fact that the entire audit process is generally dependent upon the existence of an effective system of internal control. In such an event, it is clearly evident that there will always be some risk of an internal control system failing to operate as designed. No doubt, internal control system also suffers from certain inherent limitations since any system of internal control is ineffective against fraud involving collusion among employees or fraud committed by management. Certain levels of management may be in a position to override controls; for example, by directing subordinates to record transactions incorrectly or to conceal them, or by suppressing information relating to transactions. Such inherent limitations of internal control system also contribute to inherent limitations of an audit. Therefore, it is quite apparent from above that an audit suffers from certain inherent limitations.

2. What are the fundamental principles as per the Code of Ethics of ICAI?

Ans:

The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the Institute of Chartered Accountants of India.

The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles;

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional behaviour.

3. M/S SG & Co. Chartered Accountants were appointed as Statutory auditors of XYZ Ltd for the FY 2021-22. The company implemented internal controls for prevention and early detection of any fraudulent activity. Auditors carried out test of controls and found out no major observations. After the completion of audit, audit report was submitted by the auditors and audited results were issued. Fraud pertaining to the area of inventory came to light subsequently for the period covered by audit and auditors were asked to make submission as to why audit failed to identify such fraud. Auditors submitted that because of inherent limitations of audit, it is not possible to get persuasive evidence of certain matters like fraud. Do you think the auditor made correct statement? Also discuss certain subjects or assertions where it is difficult to detect material misstatements due to potential effects of inherent limitation. (July 21- new Syllabus)

Ans:

Certain assertions or subject matters where it is difficult to detect material misstatements due to potential effects of inherent limitations -

As per SA 200 - "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" and as per SQC 1 because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements

may not be detected, even though the audit is properly planned and performed in accordance with SAs.

Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with SAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence.

Whether the auditor has performed an audit in accordance with SAs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in the light of the overall objectives of the auditor.

In view of above, it can be concluded that auditors did not give correct statement.

In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

- (i) Fraud, particularly fraud involving senior management or collusion.
- (ii) The existence and completeness of related party relationships and transactions.
- (iii) The occurrence of non-compliance with laws and regulations.
- (iv) Future events or conditions that may cause an entity to cease to continue as a going concern.

1. Mr. Ram Kapoor, Chartered Accountant, has been appointed as the statutory auditor by XYZ Private Limited for the audit of their financial statements for the year 2018-19. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Ram during the course of audit. Further, company also imposed some limitation on scope of Mr. Ram.

What are the preconditions Mr. Ram should ensure before accepting/ refusing the proposal? Also advise, whether Mr. Ram should accept the proposed audit engagement?

Ans:

As per SA 210 "Agreeing the Terms of Audit Engagements", in order to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the auditor with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Further, if management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

In addition if the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement.

In the instant case, Mr. Ram should not accept the appointment as statutory auditor of XYZ Private Limited due to limitation imposed on his scope of work.

2. T & Co, a firm of Chartered Accountants has not revised the terms of engagements and obtained confirmation from the clients for last 5 years despite changes in business and professional environment. Please elucidate the circumstances that may warrant the revision in terms of engagement.

Ans:

Circumstances that may Warrant the Revision in Terms of Engagement : As per SA 210 on “Agreeing the Terms of Audit Engagements”, the auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- (i) Any indication that the entity misunderstands the objective and scope of the audit.
- (ii) Any revised or special terms of the audit engagement.
- (iii) A recent change of senior management.
- (iv) A significant change in ownership.
- (v) A significant change in nature or size of the entity’s business.
- (vi) A change in legal or regulatory requirements.
- (vii) A change in the financial reporting framework adopted in the preparation of the financial statements.
- (viii) A change in other reporting requirements.

3. MEA Limited is a listed company having its operation across India. MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2019-20. After making sure that all of them are qualified to be appointed as statutory auditor, MEA Limited issued engagement letter to all of them. But Mr. X was not clear on some points, so he requested MEA Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. In your opinion what was the discrepancy in the Audit engagement letter issued by MEA Limited?

Ans:

Agreement on Audit Engagement Terms : As per SA 210, “Agreeing the Terms of Audit Engagements”, the auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

Subject to prescribed details under Law or Regulations, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- (i) The objective and scope of the audit of the financial statements;
- (ii) The responsibilities of the auditor;
- (iii) The responsibilities of management;
- (iv) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

In the given scenario, MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2019-20 and issued engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, identification of framework applicable and reference to expected form and content of report from all three joint auditors. However, engagement letter issued by MEA Ltd. does not specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.

SA 220

1. O P and Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended 31st march 2018 got completed on May 1st 2018. The auditor's report was dated May 12, 2018. During the documentation review of engagement, it was observed that the engagement quality control review was completed on May 15th, 2018. Engagement partner had completed his reviews in entirety by May 10, 2018. Comment. (March 19, MTP Oct 18)

Ans:

Review by Engagement Partner: As per SA 220, "Quality Control for an Audit of Financial

Statements", the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. For audits of financial statements of listed entities, the engagement partner shall:

- Determine that an engagement quality control reviewer has been appointed;
- Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- Not date the auditor's report until the completion of the engagement quality control review. SA 700, "Forming an Opinion and Reporting on Financial Statements", requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

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

In the instant case, OP & Associates are the statutory auditors of a listed company BB Ltd. Which started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor's report was dated May 12, 2018. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2018.

Thus, in the given case, signing of auditor's report i.e. on May 12, 2018 which is before the completion of review engagement quality control review i.e. May 15, 2018, is not in order.

2. During the audit of FMP Ltd, a listed company, Engagement Partner completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by EQC reviewer 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 EQCR. EQCR objected to this and refused to sign off the documentation. Please advise as per SA 220.

(RTP May 19 , MTP Oct 19)

Ans:

As per SA 220, Engagement Partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, 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, Engagement Partner is not right. The independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.

SA 230

1. B, is the principal auditor of ABC Co. Ltd., with 8 branches audited by 8 branch auditors. B wanted to ensure that the work of the branch auditors were adequate for the purpose of his audit. Hence, he insisted on Branch auditors to get familiar with a check list he prepared for branches, and besides, required them to share working papers compiled by them for his review and return. Is the principal auditor within his right in asking such sharing of working papers? (May 18)

Ans: Using the Work of Another Auditor: When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another Auditor". It makes clear that in certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.

Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

- (1) advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of inter-component transactions that may require disclosure and the time-table for completion of audit; and
- (2) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

Further, SA 230 issued by ICAI on Audit Documentation, and "Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", issued by the Institute, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation

available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.”

In the light of aforesaid, principal auditor was not within his right for asking for such sharing of working papers. It depends upon the discretion of auditor.

2. Mr. A, a practising Chartered Accountant, has been appointed as a statutory auditor of True Pvt. Ltd. What factors would influence the amount of working paper to be maintained for the purpose of his audit?

Ans: Factors Influencing the amount of Working Papers: As per SA 230 “Audit Documentation”, which refers to the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached, the amount of audit working papers depend on factors such as-

- I. The size and complexity of the entity.
- II. The nature of the audit procedures to be performed.
- III. The identified risks of material misstatement.
- IV. The significance of the audit evidence obtained.
- V. The nature and extent of exceptions identified.
- VI. The need to document a conclusion or the basis for a conclusion not readily determinable
- VII. from the documentation of the work performed or audit evidence obtained.
- VIII. The audit methodology and tools used.
- IX. Timely preparation of Audit Documentation.

SA 240

1. In the course of Audit of A Ltd, you suspect the management has indulged in fraudulent financial reporting. State the possible sources of such fraudulent financial reporting.

May 12 (6 marks)

Ans:

- I. Fraudulent Financial Reporting: Manipulation, Falsification, and alteration of Accounting Records and supporting documents
 - II. Misrepresentation and intentional omission
 - III. Misapplication of accounting policy
 - IV. Conceal important facts
2. M/s Kumar & Co, Chartered Accountants were appointed as statutory auditors of PC Ltd for the year 2021-22. During the course of audit, one of the partners CA Kumar observed that there is misappropriation of assets in the form of theft of entity's inventory and is perpetrated by employees in relatively small and immaterial amounts. CA Kumar is concerned with the existence of certain circumstances for increasing the susceptibility of assets to misappropriation. Guide CA Kumar with respect to fraud risk factors related to misstatements arising from misappropriation of assets with reference to relevant standards on auditing.

21- New syllabus (5 marks)

Ans: Guidance to CA Kumar with respect to risk factors that relate to misstatements arising from misappropriation of assets as per SA 240 is:

As per SA 240, "The Auditor's Responsibilities Relating to Fraud in an audit of Financial Statements", misappropriation of assets involves the theft of entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.

Misappropriation of assets can be accomplished in a variety of ways including stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment).

Risk factors that relate to misstatements arising from misappropriation of assets are also classified according to the three conditions generally present when fraud exists: incentives/pressures, opportunities, and attitudes/rationalization.

Incentives/Pressures

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.

Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- (i) Known or anticipated future employee layoffs.
- (ii) Recent or anticipated changes to employee compensation or benefit plans.
- (iii) Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

- (i) Large amounts of cash on hand or processed.
- (ii) Inventory items that are small in size, of high value, or in high demand.
- (iii) Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- (iv) Fixed assets which are small in size, marketable, or lacking observable identification of ownership.

Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- (i) Inadequate segregation of duties or independent checks.
- (ii) Inadequate oversight of senior management expenditures, such as travel and other reimbursements.
- (iii) Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations.
- (iv) Inadequate job applicant screening of employees with access to assets.
- (v) Inadequate record keeping with respect to assets.
- (vi) inadequate system of authorization and approval of transactions (for example, in purchasing).
- (vii) Inadequate physical safeguards over cash, investments, inventory, or fixed assets.
- (viii) Lack of complete and timely reconciliations of assets.
- (ix) Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns.
- (x) Lack of mandatory vacations for employees performing key control functions.
- (xi) Inadequate management understanding of information technology, which enables information technology employees to perpetrate a misappropriation.

(xii) Inadequate access controls over automated records, including controls over and review of computer systems event logs.

Attitudes/Rationalizations

- (i) Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
 - (ii) Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.
 - (iii) Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
 - (iv) Changes in behaviour or lifestyle that may indicate assets have been misappropriated.
 - (v) Tolerance of petty theft.
3. M/s Innocent Limited has entered into a transaction on 25th February, 2018, near year-end, whereby it has agreed to pay ` 5 lakhs per month to Mr. Yuvraj as annual retainer-ship fee for "engineering consultation". No amount was actually paid, but ` 60 lakhs is provided in books of account as on March 31, 2018. Your inquiry elicits a response that need-based consultation was obtained round the year, but there is no documentary or other evidence of receipt of the service. As the auditor of M/s Innocent Limited, what would be your approach?

Ans:

As per SA 240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", fraud can be committed by management overriding controls using such techniques as Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.

Keeping in view the above, it is clear that Company has passed fictitious journal entries near year end to manipulate the operating results. Also Auditor's enquiry elicited a response that need-based consultation was obtained round the year, but there is no documentary or other evidence of receipt of the service, is not acceptable.

Accordingly, the auditor would adopt the following approach-

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (iii) If the auditor withdraws:
(1) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and

(2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ` 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ` 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (x) of Paragraph 3 of CARO, 2016, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

SA 250

1. While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws.
Comment in accordance with relevant Standards on Auditing. (MTP- MAY 20)

Ans:

Compliance with Other Laws: As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

Further, non-compliance with other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements.

In the instant case, major portion of the labour employed in the company was child labour. While questioning by auditor, reply of the management that it was outside his scope of financial audit to look into the compliance with other laws is not acceptable as it may have a material effect on financial statements.

Thus, auditor should ensure the disclosure of above fact and provision for the cost of fines, litigation or other consequences for the entity. In case if the auditor concludes that non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statement as per SA 705 "Modifications to the Opinion in the Independent Auditor's Report".

2. As an Auditor of TRP Ltd., you are suspicious that there might be non-compliance with laws and regulations to which the Company is subject to. Indicate the possible areas or aspects where you may have to look out for forming an opinion as to whether your suspicion has some basis to further inquire. (MAY 18- 4 marks)

Ans:

Indications of Non-Compliance with Laws and Regulations: When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations, possible areas or aspects to look out for forming an opinion are:

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.

- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
 - Unusual payments towards legal and retainership fees.
 - Unusual transactions with companies registered in tax havens.
 - Payments for goods or services made other than to the country from which the goods or services originated.
 - Payments without proper exchange control documentation.
 - Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
 - Unauthorised transactions or improperly recorded transactions.
 - Adverse media comment.
3. State the reporting responsibility of an auditor in the context of non compliance of laws and regulations in an audit of Financial Statement.

Ans:

We have 3 reporting responsibilities

1. Reporting to Those Charged with Governance. If TCWG is involved in the non-compliance, the auditor shall communicate the matter to the next higher level of authority of the entity such as Audit committee or supervisory board. If the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.
2. Reporting non-compliance in the Audit Report
If the auditor concludes that non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with SA 705, express a qualified or adverse opinion in the financial statements. If the auditor is precluded by management or TCWG from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.
3. Reporting to Regulatory and Enforcement authority
If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

SA 260

1. “ The auditor should communicate audit matters of governance interest arising from the audit of financial statements with TCWG of an entity” . Briefly state the matters to be included in such circumstances.

Ans:

Significant Findings

- Auditor view on quality aspect of accounting practice of the client.
- Any significant difficulty that he come across.
- Matters that are or will be communicated to management or request for written representation.
- Expected change in form and content of Audit Report.
- Any other matter which the Auditor feels in his professional judgement is required to be communicated to TCWG

2. State the significant difficulties encountered during audit with reference to SA 260.

Ans:

Significant Difficulties

- Delay in providing information
- Unnecessary pressure to finish the work
- Information not made available
- Restriction imposed
- Going concern assessment
- Unable to find out sufficient appropriate Audit evidence.

3. Compare and explain the following “ Reporting to shareholders v/s reporting to TCWG.

(Nov 14 , 3 marks)

Ans:

Particulars	Share holder	TCWG
Reporting compliance	SA 700,701,705,706 and section 143 – The companies Act 2013	SA 260
Communication related to	Financial Statements	1. Auditors Responsibility in relation to audit of FS 2. Plan, scope and timing of audit 3. All significant matter that auditor come across in course of audit 4. Statement of auditors independence
Nature of report	External report. Available on public domain	Internal report. Not available for public

4. Whilst the Audit team has identified few matters, they need your advice to conclude on the same. Engagement Partner have asked them to review the Board minutes and other secretarial/regulatory records based on which the following additional matters were brought to the attention of the Partner:-
- The long term borrowings from the parent company has no written terms and neither the interest nor the principal has been repaid so far.
 - Certain computers were received from the parent company free of cost, the value of which is ` 0.23 lac and no accounting or disclosure of the same has been made in the notes to accounts.
 - An amount of ` 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ` 0.25 Lakhs per month.

Whilst the transaction was accounted in the financial statements based on the amounts' paid, no separate disclosure of this related party transaction has been made in the notes to accounts forming part of the financial statements highlighting the same as a 'related party' transaction.

Audit Manager has reported that she had asked certain information relating to another 'related party' transaction (amounting to approx. ` 47 lac) but the CFO refused to provide the same since the same is perceived to be confidential and cannot be shared with the Auditors.

You are required to advise about items to be reported to those charged with governance, where applicable, based on your audit findings in the given situation.

Ans: As per SA 550, Related Parties, communicating significant matters arising during the audit in connection with the entity's related parties helps the auditor to establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party matters include, non-disclosure (whether intentional or not) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware; The identification of significant related party transactions that have not been appropriately authorized and approved, which may give rise to suspected fraud; etc.

It may be noted that unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.

The auditor is also required to ensure the compliance of Ind AS 24 / AS 18 Related Party Disclosures.

In view of above in the given scenario, the auditor is required to prepare a brief summary of following items to be reported to those charged with governance in accordance with SA 260 Communication with Those Charged with Governance:

- One of related party transaction amounting 3.25 lac per month i.e. in lieu of marketing services has been noticed of which amount ` 0.25 lac per month is exceeds the arm's length price has not been disclosed highlighting the same as related party transactions as per Ind- AS 24 / AS 18 Related Party Disclosures.

(ii) Refusal by CFO of the company to provide the details of related party transaction amounting to rupees 47 lac on the ground that same is perceived to be confidential and cannot be shared with auditors, is not in order, as denying for the related part details of ` 47 lac is imposing limitation of scope of auditor in view of SA 705.

(iii) Receipt of free of cost Computers and long-term borrowing (on no agreed terms and repayment of interest and principal) from the Parent Company need separate disclosure in financial statements as per Ind AS 24 / AS 18 Related Party Disclosures.

Further, in case of all the above cases, the auditor would also need to assess his reporting requirements under the clauses (xiii) of Paragraph 3 of CARO 2020 with respect to related party transactions that whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable Accounting Standards.

SA 265

1. Auditors are required to obtain an understanding of internal control relevant to the audit while identifying and assessing its effectiveness and Risk of material misstatement. During the course of audit of ABC Ltd, you observed that significant deficiency exists in the internal control system and you want to ascertain the same. Elucidate the various indicators of significant deficiencies which will help you in assessing the efficiency of internal control system of the organisation.

Jan-21 New syllabus (5 marks)

Ans:

In the given case of ABC Ltd, Auditors, while conducting audit has come across significant deficiency existing in the internal control system and also auditors wanted to ascertain that deficiency.

As per SA 265, “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management”, Indicators of significant deficiencies in internal control include, for example:

- i. Evidence of ineffective aspects of the control environment, such as:
 - a. Indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with governance.
 - b. Identification of management fraud, whether or not material, that was not prevented by the entity’s internal control.
 - c. Management’s failure to implement appropriate remedial action on significant deficiencies previously communicated.
 - ii. Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
 - iii. Evidence of an ineffective entity risk assessment process, such as management’s failure to identify a risk of material misstatement that the auditor would expect the entity’s risk assessment process to have identified.
 - iv. Evidence of an ineffective response to identified significant risks (e.g., absence of controls over such a risk).
 - v. Misstatements detected by the auditor’s procedures that were not prevented, or detected and corrected, by the entity’s internal control.
 - vi. Disclosure of a material misstatement due to error or fraud as prior period items in the current year’s Statement of Profit and Loss.
 - vii. Evidence of management’s inability to oversee the preparation of the financial statements.
2. Write a short note on “letter of weakness”.

Ans:

Letter of weakness is a significant weakness in internal control which the auditor is communicating to TCWG and management

Content of letter of weakness

- Description and impact of the deficiency
- Declaration/clarification on context of reporting

- Auditor duty is to express opinion on Financial Statements
 - Internal control is checked to design audit procedure and Auditor is not giving any opinion on effectiveness of internal control.
 - Deficiency reported are only limited to those observed during the audit.
3. CA N has been appointed as the auditor of TRP Ltd. While conducting the audit he has identified certain deficiencies in the internal control. He needs to determine whether deficiency or combination of deficiencies in internal control constitute a “significant deficiency” and has to communicate in writing to TCWG and management on a timely basis. Guide CA N with some examples of matters to be considered while determining significant deficiency in internal control with reference to relevant SA. (Nov 2020, 5 marks (new Syllabus))

Ans:

As per SA 265 “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management”, significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement, is of sufficient importance to merit the attention of those charged with governance.

Examples of matters that CA N, auditor of TRP Ltd may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

1. The likelihood of the deficiencies leading to material misstatements in the financial statements in the future.
2. The susceptibility to loss or fraud of the related asset or liability.
3. The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
4. The financial statement amounts exposed to the deficiencies.
5. The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
6. The importance of the controls to the financial reporting process; for example:
 - General monitoring controls (such as oversight of management).
 - Controls over the prevention and detection of fraud.
 - Controls over the selection and application of significant accounting policies.
 - Controls over significant transactions with related parties.
 - Controls over significant transactions outside the entity’s normal course of business.
 - Controls over the period-end financial reporting process (such as controls over non-recurring journal entries).
7. The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
8. The interaction of the deficiency with other deficiencies in internal control.

SA 299

1. ABC & Co. and DEF & Co., Chartered Accountant firms were appointed as the joint auditors of Health Care Ltd. for 2020-21. An investigation was conducted under Companies Act, 2013 during March 2022 and observed gross understatement of Revenue. The Revenue aspects were looked after by DEF & Co. but there was no documentation for the division of work between the auditors.

Nov 11 (4 marks)

Ans:

Documentation of division of work amongst the joint auditors is essential as per SA 299 "Joint Audit of Financial Statements" to fix the responsibility on the joint auditors.

There was division of work amongst the joint auditors ABC&Co., and DEF&Co., for the audit of Health Care Ltd. but the joint auditors failed to document it. Since there is no documentation of division of work as required by SA 299, this would be considered as common audit area, though DEF&Co. alone had reviewed Revenue as an independent individual area.

Conclusion: ABC&Co. and DEF&Co. shall be jointly responsible for understatement of revenue.

2. Your firm is one of the joint auditors of FMP Ltd. under what circumstances joint auditors are jointly liable for the work in relation to audit of financial statements? Is there any restriction for the joint auditors to communicate a dissenting note differing from the majority opinion of the other joint auditors in the audit report issued under Sec 143 of the Companies Act, 2013?

Nov 15 (5 marks)

Ans:

Circumstances in which Joint Auditors are Jointly Liable: SA 299, "Responsibility of Joint Auditors," prescribes in respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him.

On the other hand, all the joint auditors are jointly and severally responsible –

- (i) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- (ii) in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;
- (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

(iv) for examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and

(v) for ensuring that the audit report complies with the requirements of the relevant statute.

Restriction on a Joint Auditor to Communicate a Dissenting note differing from Majority opinion of other Joint Auditors in the Audit Report: Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

3. Excellent Bank Ltd. is a Public Limited Company. The said bank has various branches all across the country. The bank appoints 3 joint auditors for the financial year ending 31-3-2022. All the 3 Joint auditors divide the work with mutual consent. Verification of Consolidation, however remained undivided. All the branches and zones were divided among the 3 joint auditors. During audit of zones, CA Z one of the joint auditors expressed a concern about internal controls in one of the large corporate branches situated in his zone. The irregularity was not reported in the final accounts as was taken on the basis of majority. Subsequently fraud has been detected in the said branch audited by CA Z.

The bank seeks your advice about the responsibility of the 3 joint auditors in the above situation.

Nov 19 (old Syllabus)

Ans:

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

In respect of the audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate audit of the work performed by him. On the other hand all the joint auditors are jointly and severally responsible for the audit work which is not divided among the joint auditors and is carried out jointly and matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors.

In the instant case, Excellent Bank Ltd. Appoints 3 joint auditor for the financial year ending 31.03.2019. All the joint auditors divided the work with mutual consent. The only work which remained undivided was verification of Consolidation. In accordance with SA 299, all the joint auditors are responsible for the same.

Further, during audit of zone, CA Z, one of the joint auditors expressed a concern about internal control in one of the large corporate branches situated in his zone, however, this irregularity was not reported as 2 of the joint auditors (i.e. majority of the joint auditors) were not in favour of the same. Later on, fraud has been detected in the same branch which was audited by CA. Z.

As per SA 299, Before finalizing their audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report. Further, a joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement. But in the

present scenario, CA. Z brought this matter in the notice of the other 2 joint auditors and the decision for not reporting was taken on majority basis and no separate opinion was expressed through separate audit report pointing out irregularity. Thus, all the 3 joint auditors will be held responsible for the fraud detected in the branch audited by CA. Z as per SA 299.

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SA 300

1. Write a short note on “Contents of an Audit Plan”.

Ans:

Audit plan is a thorough discussion of three things.

- a. NTE of planned RAP as part of SA 315
- b. NTE of Further Audit Procedure as per SA 330.
- c. Other audit procedures to be followed as per other standards

Audit plan is after the preparation of Audit strategy. The development of the audit plan begins after the Audit Strategy is ready. Audit plan is very detailed compared to audit strategy. Planning is a continuous process, as on when situation changes this would undergo changes.

2. AB and Associates, a Chartered Accountant firm, was appointed auditors of KEY Company Ltd. for the financial year ended 31.3.2022. Being the first year of audit, the audit firm AB and Associates, as per its system of quality control, involve senior partner of the firm to review the overall audit strategy prepared by the team members. What additional matters would be considered in initial audit engagement by the senior partner in establishing overall audit strategy and audit plan of Key Company Ltd. (Dec 21- Old syllabus)

Ans:

Additional Considerations in Initial Audit Engagements: As per SA 300 “Planning an Audit of Financial Statements” the purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For initial audits, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- (1) Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor’s working papers.
- (2) Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- (3) The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances in accordance with SA 510 “Initial Audit Engagements– Opening Balances”.
- (4) Other procedures required by the firm’s system of quality control for initial audit engagements (for example, the firm’s system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

3. An Adequate planning benefits the audit of financial statements. Discuss.

Ans:

1. It will enable the auditor to direct entire focus on all the important areas.
2. Any difficulty arises will be able to solve it on timely basis.
3. This will enable the auditor to manage and organize.
4. Able to select the proper assistants i.e., based on capability and competence.
5. It would also enable the auditors to develop a co-ordination between all the engagement team members.
6. It will enable to supervise or review the work of the engagement team member.

1. What are the points to be considered while evaluating “Knowledge of the business” in the conduct of an audit

Ans:

- Understanding the relevant industry is the client from, and Regulatory requirements and the related Financial Reporting Framework
 - Understand the basic nature of the entity operations, the ownership structure, investments, Finance structure
 - Accounting policies
 - Objective of the entity, strategy of the entity
 - Review and measurement of financial information
2. You are engaged by M/s Real Ltd. as an auditor for the FY 2020-21. While applying Risk Assessment Procedure of inquiring from management and various analytical procedure, you have identified some risks which in your opinion may lead to material misstatement at the Financial statement level and assertion level. Which factors as an auditor will you consider while exercising judgement as to whether such risk is a significant risk?

Ans:

The internal auditor of Real Ltd. has identified some risks while he was applying risk assessment procedures and various analytical procedures. As per SA 315, <Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment>, in exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

- 1) Whether the risk is a risk of fraud;
 - 2) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;
 - 3) The complexity of transactions;
 - 4) Whether the risk involves significant transactions with related parties;
 - 5) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
 - 6) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual
3. ABC Ltd which deals with consumer products has extensively automated all its operations including accounting operations. The automation involves ERP, Robotic process automation, Analytics Etc.
You are required to audit the entity duly considering the inherent risk and control risk for material financial statement assertions. Elucidate the key areas that you will focus on for identifying risk including the deficiencies.

Ans:

- a. System development and maintenance
- b. System software security
- c. Operations including data processing
- d. Physical CIS security
- e. Access related to CIS utility program

SA 320

1. Mr. X was appointed as the auditor of M/s E Ltd and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose.

Ans:

SA 320 prescribes the use of Benchmarks in Determining Materiality for the Financial Statements as a Whole. Determining materiality involves exercise of professional judgment. A % is often applied to chosen benchmark as starting point to determine materiality for FS as a whole. Factors affecting identification of benchmark are: -

- Elements of the financial statements (Example: A & L, Equity, Revenue, Expenses)
 - Whether there are items on which attention of users of particular entity's FS tends to be focused (Example: for purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets)
 - Nature of entity, Life cycle and industry & economic environment in which entity operates
 - Entity's Ownership Structure & way it is financed (Example if entity is financed solely by debt rather than equity, users may put more emphasis on Assets and claims on them than on entity's earnings)
 - Relative volatility of benchmark.
2. As an auditor of RST Ltd, Mr P applied the concept of materiality for the financial statements as a whole . On the basis of obtaining additional information of significant contractual arrangements that draw attention to a particular aspect of a company's business, he wants to re evaluate the materiality concept. Please guide him.

Ans:

Re-evaluation of the Materiality Concept: In the instant case, Mr. P, as an auditor of RST Ltd. has applied the concept of materiality for the financial statements as a whole. But he wants to re-evaluate the materiality concept on the basis of additional information of significant contractual arrangements which draws attention to a particular aspect of the company's business.

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

The auditor shall revise materiality for the financial statements in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

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

Thus, Mr. P can re-evaluate the materiality concepts after considering the necessity of such revision.

3. Explain the concept of Performance Materiality.

Ans:

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

SA 330

1. Mr. Agarwal , in course of audit of PQ Ltd. wants to perform external confirmation procedures to obtain audit evidence. Guide Mr. Agarwal, listing out the factors that may assist him in determining whether external confirmation procedures are to be performed as Substantive audit procedures.

Ans:

Factors that may assist Mr. Agarwal, 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.

2. While commencing the statutory audit of ABC Company Ltd, what should be the considerations of the auditor to assess ROMM and his response to such risks?

Ans:

SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment", the auditor shall identify and assess the risks of material misstatement at the financial statement level; and the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures. For this purpose, the auditor shall-

- (i) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
- (ii) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- (iii) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- (iv) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

Auditor's Responses to the Assessed Risk of Material Misstatement: According to SA 330 "The Auditor's Responses to Assessed Risks", the auditor shall design and implement overall responses to address the assessed risks of material misstatement. In designing the audit procedures to be performed, the auditor shall-

- I. Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including:
 - (1) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure; and
 - (2) Whether the risk assessment takes into account the relevant controls, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively; and
 - (ii) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.
3. In the course of audit of Z Ltd, its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of re-testing 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.

Ans:

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.

SA 402

1. Durafone mobile company Ltd., have pan India presence and market leader in mobile operation. It has outsourced all its revenue operations including accounting function to Set Solutions Pvt Ltd. As an auditor of the mobile company, enumerate the factors to be taken into considerations related to its financial reporting.

Ans:

The factors that need to be consider is of

- a. The classes of transactions in the user entity's operations that are significant to the user entity's financial statements;
 - b. The procedures, within both information technology (IT) and manual systems, by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
 - c. The related accounting records, either in electronic or manual form, supporting information and specific accounts in the user entity's financial statements that are used to initiate, record, process and report the user entity's transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;
 - d. How the user entity's information system captures events and conditions, other than transactions, that are significant to the financial statements;
 - e. The financial reporting process used to prepare the user entity's financial statements, including significant accounting estimates and disclosures; and
 - f. Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.
2. G Ltd is a mobile phone operating company. Barring the marketing function, it had outsourced the entire operations like maintenance of mobile infrastructures, customer billing, payroll, accounting functions etc. assist the auditor of G Ltd, as to how he can obtain understanding of how G Ltd. uses the service of the outsourced agency in its operations.

Ans:

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

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

3. When a sub service organisation performs services for a service organisation, there are two methods of presenting description of controls. The service organisation determines which method will be used. As an auditor what information would you obtain about controls at the sub service organisation.

Ans:

In accordance with SA 402 "Audit Considerations relating to an Entity Using a Service Organisation", a user entity may use a service organisation that in turn uses a sub-service organisation to provide some of the services provided to a user entity that are part of the user entity's information system relevant to financial reporting. The sub-service organisation may be a separate entity from the service organisation or may be related to the service organisation.

A user auditor may need to consider controls at the sub-service organisation. In situations where one or more sub-service organisations are used, the interaction between the activities of the user entity and those of the service organisation is expanded to include the interaction between the user entity, the service organisation and the sub-service organisations. The degree of this interaction, as well as the nature and materiality of the transactions processed by the service organisation and the sub-service organisations are the most important factors for the user auditor to consider in determining the significance of the service organisation's and sub-service organisation's controls to the user entity's controls.

Further, the user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding by application of the following two methods of presenting description of internal controls i.e. (i) Type 1 report; or (ii) Type 2 report.

If a service organisation uses a subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method respectively.

In either method, the service organisation includes in its description of controls a description of the functions and nature of the processing performed by the subservice organisation.

If the Type 1 or Type 2 report excludes the control at a subservice organization and the services provided by the subservice organization are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of the SA 402 in respect of the subservice organization.

The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organization depend on the nature and significance of those services to the user entity and relevance of those services to the audit.

SA 450

1. In the course of audit of T Ltd., the audit team is not sure of the possible misstatement in the financial statements. As the audit manager identify the sources of misstatements.

May 11 (4 marks)

Ans:

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.
2. The auditor shall take into account the aggregate of all the uncorrected misstatements including those involving estimates in his assessment of materiality in audit.

Ans:

Uncorrected Misstatements identified during the Audit: In accordance with SA 450 "Evaluation of Misstatements identified during the Audit", the auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider

1. The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
2. The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures and the financial statements as a whole.

The auditor shall communicate this with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results. .

As per management, if effect of such uncorrected misstatement is immaterial then the auditor shall request for a written representation from management and, where appropriate, those charged with governance that whether they believe the effects of uncorrected misstatements are immaterial,

individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

If the management refuses to adjust the financial information and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should report accordingly.

3. The auditor of XYZ Ltd. has intimated the management that certain misstatements identified during the course of audit need to be corrected. As an auditor, discuss the impact of the misstatements in case the management does not carry out the said corrections.

Nov 17 (5 marks)

Ans:

Uncorrected Misstatements identified during the Audit: In accordance with SA 450 "Evaluation of Misstatements identified during the Audit", the auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider-

(i) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and

(ii) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The auditor shall communicate this with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation.

The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results.

As per management, if effect of such uncorrected misstatement is immaterial then the auditor shall request for a written representation from management and, where appropriate, those charged with governance that whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

If the management refuses to adjust the financial information and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should report accordingly.

SA 500- AUDIT EVIDENCE

1. CA N has been appointed as an auditor of M/s Fabric Ltd. in the course of audit, it had been observed that the inventory valuation including WIP was valued by management by using the work of experts hired by them. Analyse relevant factors to decide as to whether or not to accept the findings from the work of management expert in valuation of inventories.

May 18- New syllabus (5 marks)

Ans:

Evaluating the Work of Management's Expert: As per SA 500 "Audit Evidence", when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes-

- (1) Evaluate the competence, capabilities and objectivity of that expert;
- (2) Obtain an understanding of the work of that expert; and
- (3) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

The auditor may obtain information regarding the competence, capabilities and objectivity of a management's expert from a variety of sources, such as personal experience with previous work of that expert; discussions with that expert; discussions with others who are familiar with that expert's work; knowledge of that expert's qualifications; published papers or books written by that expert.

Aspects of the management's expert's field relevant to the auditor's understanding may include what assumptions and methods are used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes. The auditor may also consider the following while evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion:

- (i) The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- (ii) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- (iii) If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data.

2. Write a short note on reliability of Audit evidence.

Ans:

Reliability of Audit Evidence:

SA 500 on "Audit Evidence" provides that the reliability of information to be used as audit evidence and therefore of the audit evidence itself is influenced by its source and its nature and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.

Therefore, generalizations about the reliability of various kinds of audit evidence are subject to Important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity. circumstances may exist that could affect its reliability.

The reliability of audit evidence Is influenced by

1. Its source i.e. internal and external.
2. Its nature i.e. visual, documentary or oral.
3. Circumstances under which it is obtained.
4. Consistency of evidence obtained from different sources or nature.
5. Nature of assertion obtained and its materiality.

Generalizations useful in assessing reliability of audit evidence

1. External evidence (e.g.: confirmation received from third party) is more reliable than internal evidence.
 2. Internal evidence is more reliable when related internal control is satisfactory.
 3. Evidence In the form of documents and written representations are usually more reliable than oral representation.
 4. Evidence obtained by the auditor himself is more reliable than that obtained through the entity.
3. Obtaining audit evidence in performing compliance and substantive audit procedures".
Comment.

Ans:

Compliance procedures are test of controls i.e., when the auditor is going to check the efficiency of the internal controls, whether the internal controls are present, if they are present then whether they are operating? If they are operating, then are they operating effectively during the year is checked during the compliance procedure

Substantive procedures are test of detail. If the internal controls are highly effective the substantive procedures will be low. If internal controls are weak then substantive procedures will be high.

It discusses about Checking of account balances, balance sheet and class of transactions

Methods for obtaining audit evidence

1. Inspection:

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorisation.

2. Observation

Observation consists of looking at a process or procedure being performed by others

3. External Confirmation

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only.

4. Analytical Procedures

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are

inconsistent with other relevant information or deviate significantly from predicted amounts.

5. Recalculation

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

6. Repformance

Repformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

7. Inquiry

Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.

SA 501

1. Crush Ltd. is a dealer in FMCG. The company has a warehouse throughout the country where stocks are stored. The Auditor of the company normally conduct physical verification of stocks along with management at the end of financial year. However, the auditor could not physically be present during stock tracking at two places on the account of certain disturbances in the region. In the light of the above
 - a. How sufficient and appropriate audit evidence regarding condition and existence of inventory may be obtained?
 - b. How an auditor is supposed to deal when attendance at physical inventory counting is impracticable?

Ans:

- (a) Special Consideration with Regard to Inventory: As per SA 501 “Audit Evidence- Specific Considerations for Selected Items”, when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:
 - a. Attendance at physical inventory counting, unless impracticable, to:
 1. Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting;
 2. Observe the performance of management’s count procedures;
 3. Inspect the inventory; and
 4. Perform test counts; and
 - b. Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results.
- (b) Attendance at Physical Inventory Counting Not Practicable: In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

Further, where attendance is impracticable, alternative audit procedures, for example, inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

In some cases, though, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, SA 705 on Modifications to the Opinion in the Independent Auditor’s Report, requires the auditor to modify the opinion in the auditor’s report as a result of the scope limitation.

2. You are the auditor of Easy Communication Ltd for the year 2021-22. The inventory as at the end of the year i.e. 31.3.22 was Rs.2.25 crores. Due to unavoidable reasons, you could not be present at the time of physical annual verification. Under the above circumstances how would you ensure that the physical verification conducted by management was in order?

Ans:

As per SA 501 "Audit Evidence – Additional Considerations for Specific Items", the auditor should perform audit procedures, designed to obtain sufficient appropriate audit evidence during his attendance at physical inventory counting. SA 501 is additional guidance to that contained in SA 500, "Audit Evidence", with respect to certain specific financial statement amounts and other disclosures.

If the auditor is unable to be present at the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded. The auditor would also verify the procedure adopted, treatment given for the discrepancies noticed during the physical count. The auditor would also ensure that appropriate cut off procedures were followed by the management. He should also get management's written representation on (a) the completeness of information provided regarding the inventory, and (b) assurance with regard to adherence to laid down procedures for physical inventory count. By following the above procedure, it will be ensured that the physical verification conducted by the management was in order.

3. GK Associates, Chartered Accountants, conducting the audit of P Ltd, a listed company for the year ended 31.3.2022 is concerned with the presentation and disclosure of segment information included in the Company's Annual report. GK Associates want to ensure that methods adopted by the management for determining segment information have resulted in disclosure in accordance with the applicable FRF.

Guide GK Associates with "examples of matters" that may be relevant when obtaining an understanding on the methods used by management with reference to relevant SA.

Ans:

The auditors, GHK Associates wanted to ensure and obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by obtaining an understanding of the methods used by management in determining segment information. SA 501 guides in this regard. As per SA 501- "Audit Evidence—Specific Considerations for Selected Items", example of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

- (i) Sales, transfers and charges between segments, and elimination of inter-segment amounts.
- (ii) Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- (iii) The allocation of assets and costs among segments.
- (iv) Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

SA 505

1. Write a short note on External Confirmations in audit.

(Nov 09, 4 marks)

Ans:

- a. It is a direct written response that we get from the third parties to confirm certain matters or to give certain information
 - b. It is always a written confirmation. There is no scope for overall confirmations. We can obtain external confirmations from a third party involvement like the account receivables, account payables, lenders, inventory line with the third parties
 - c. Positive confirmation – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
 - d. Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request
2. N Ltd refused to allow you to get direct confirmation of the outstanding balances of trade receivables. You want to ensure on the grounds of materiality that at least outstanding above a threshold limit needs to be confirmed and reconciliation is to be carried out before finalising the audit. If the company doesn't relent, how will you respond? (May 18- 4 marks)

Ans:

SA 505 "External Confirmations", establishes standards on the auditor's use of external confirmation as a means of obtaining audit evidence. If the management refuses to allow the auditor to send a confirmation request, the auditor shall:

- I. Inquire as to Management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness,
- II. Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures, and
- III. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those in charge of governance in accordance with SA 260 "Communication with Those Charged with Governance" and also determine its implication for the audit and his opinion in accordance with SA 705 "Modifications to the Opinion in the Independent Auditor's Report".

A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore required to inquire as to the reasons for the limitation. A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. The auditor is required to seek audit evidence as to the validity and reasonableness of the

reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

3. Moon Ltd replaced its statutory auditor for the FY 2021-22. During the course of audit, the new auditor found a credit balance of Rs. 5 lakhs. On enquiry, the company explained him that it is, a very old credit balance. The creditor has neither approached for payment nor is traceable. Under the circumstances, no confirmation of credit balance is available. Nov 09 (5 marks)

Ans:

This is a case of external confirmation, covered by SA 505 "External Confirmation". The identities of creditors are not traceable to confirm the credit balance as appearing in the financial statement of the company. It is also not a case of pending litigation.

It might be a case that an income of Rs.4 lakhs had been hidden in previous year/s. The statutory auditor should examine the validity of the credit balance as appeared in the company's financial statements. He should obtain sufficient evidence in support of the balance. He should apply alternative audit procedures to get documentary proof for the transaction/s and should not rely entirely on the management representation. Finally, he should include the matter by way of a qualification in his audit report to the members.

4. During the course of audit of Star Ltd, the auditor received some of the confirmation of balances of the trade payables outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of the trade payables of small balances except one, old outstanding of Rs, 15 lakhs , of whom, no confirmation on the credit balance received. Comment with respect to SA. May 14 (5 marks)

Ans:

External Confirmation: As per SA 505, "External Confirmation", negative confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.

Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request.

Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.

In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Star Limited. One of the old outstanding of Rs.20 lakh has not sent the confirmation on the credit balance. In case of non response, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further non-response for negative

confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

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SA 510

1. You have been appointed as the auditor of Moon Ltd. for the financial year 2021-22. As the auditor of the company, you want to ensure that closing balance of the previous year have been correctly brought forward in the current year. State the audit procedures for the same to ensure that there is no misstatement.

Ans:

Obtaining sufficient appropriate audit evidence while conducting Initial Audit Engagement: According to SA 510 on “Initial Audit Engagements- Opening Balances”, the objective of the Auditor while conducting an initial audit engagement with respect to opening balances is to obtain

sufficient appropriate audit evidence so that the-

- (i) opening balances of the preceding period have been correctly brought forward to the current period;
- (ii) opening balances do not contain any misstatement that materially affect the
- (iii) current period’s financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period’s financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Being a new assignment, audit evidence regarding opening balances can be obtained by perusing the copies of the audited financial statements.

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

In respect of other assets and liabilities such as property plant and equipment, investments, long term debts, the auditor will examine the records relating to opening balances. The auditor may also be able to get the confirmation from third parties (e.g., balances of long term loan obtained from banks can be confirmed from the Bank Loan statement).

2. In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of “opening balances” to ensure that they are free from misstatements , which may materially affect the current year financial statements. Lay down the audit procedures, you will follow, when financial statements are audited for the first time.

If, after performing the audit procedures, you are not satisfied about the correctness of ‘opening balances’, what approach you will adopt in drafting your audit report?

Ans:

Audit Procedures to be followed in case of initial audit engagement: As per SA 510, the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period’s financial statements by:

- (i) Determining whether the prior period’s closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year’s Statement of Profit and Loss;

- (ii) Determining whether the opening balances reflect the application of appropriate accounting policies; and
 - (iii) Performing one or more of the following:
 1. Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements;
 3. Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - (iv) Performing specific audit procedures to obtain evidence regarding the opening balances.
- Approach to be followed regarding mention in the Audit Report: If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate. Further, If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion.

3. CA Jack, a recently qualified practicing Chartered Accountant got his first audit assignment of Futura Pvt Ltd for the FY 2021-22. He obtained all the relevant appropriate audit evidences for the items related to Statement of P&L. However, while auditing the Balance Sheet items, CA X left out obtaining appropriate audit evidences, say, no confirmation, from the outstanding account receivable amounting to Rs. 100 Lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipt and further credits during the year. CA X, therefore, excluded from the audit programme, the audit of account receivables on the understanding that it pertains to the preceding year which was already audited by predecessor auditor. Comment

Ans:

Verification of Accounts Receivable: As per SA 510 "Initial Audit Engagements -Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-

- (i) Opening balances contain misstatements that materially affect the current period's financial statements; and
- (ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

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

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

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

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

SA 520

1. What are the considerations to be kept in mind while performing analytical procedures on the data prepared by the client?

Ans:

Auditor's considerations while performing analytical procedures;

SA 520 "Analytical Procedures" deals with the auditor's use of analytical procedures as substantive procedures and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.

Accordingly, when the auditor intends to perform analytical procedures on data prepared by the client, he should consider the following:

1. Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;
 2. Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
 3. Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
 4. Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.
2. You have been appointed as the auditor of M/s A Ltd. As a senior partner, you want to use analytical procedures In respect of room rentals as well as payroll expenses. Discuss.

Ans:

Applying analytical procedures as substantive procedures:

SA 520 "Analytical Procedures" deals with the auditor's use of analytical procedures as substantive procedures and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.

Accordingly, in some cases, predictive model may be effective as an analytical procedure.

In case of Payroll cost – Where an entity has a known number of employees at fixed rates of pay throughout the period, it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the financial statements and reducing the need to perform tests of details on the payroll.

In case of Room Rental Income of Hotel, different types of analytical procedures provide different levels of assurance. Analytical procedures involving the prediction of total rental income in case of hotel taking the room tariff rates, the number of rooms and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.

3. In audit of DEF Ltd, the auditor had made use of certain analytical procedures with regard to certain key data in the statement of P & L . The results obtained showed inconsistencies with other relevant information. State the course of action that the auditor should take to ensure that the Risk of material misstatement would be contained to a low level fixed as per materiality level.

Ans:

Investigating Results of Analytical Procedures: As per SA 520, "Analytical Procedures", if analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

- i. Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
- ii. Performing other audit procedures as necessary in the circumstances.

Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

1. Describe the principle methods of selecting sample.

Nov 14 (4 marks)

Ans:

Meaning of Sampling and Methods of Selection of Samples:

As per SA 530 “Audit Sampling” Application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population is known as audit sampling.

As per SA 530 “Audit Sampling” principal methods of selection of samples are:

1. Random selection: This method of sampling ensures that all items within a population stand an equal chance of selection by the use of random number tables or random number generators. The sampling units could be physical items, such as sales invoices or monetary units.
 2. Systematic selection: The number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected.
 3. Monetary Unit Sampling: It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
 4. Haphazard selection: Samples are selected without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability. Haphazard selection is not appropriate when using statistical sampling.
 5. Block selection: It involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.
2. In cases where audit sample selection has been done on a random basis, no statistical process for selection of samples needs to be followed.

Ans:

Selection of Samples on random basis:

- As per SA 530 “Audit Sampling” means application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- Statistical sampling is an approach to sampling that has the following characteristics:
 - a. Random selection of the sample items; and
 - b. The use of probability theory to evaluate sample results, including measurement of sampling risk.
- Essential features of statistical sampling are random selection and use of probability theory. Examples of Statistical sampling are Random selection, Systematic Selection and Monetary Unit Sampling.

- Audit sample collection on a random basis ensures that all items within a population have an equal chance of selection by the use of random number tables or random number generators. This method is considered appropriate provided the population to be sampled consists of reasonably similar units and falls within a reasonable range.

Conclusion: For application of statistical sampling techniques, one of the prerequisite is selection on random basis, hence in case of selection of an audit sample on random basis, no other statistical process for selection of samples need to be followed.

3. While planning the audit of S Ltd, you want to apply sampling techniques. What are the risk factors you should keep in mind ?

Ans:

Risk Factors while applying Sampling Techniques: As per SA 530 "Audit Sampling", sampling risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions-

- (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of tests of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
- (ii) In the case of test of controls, the controls are less effective than they actually are, or in the case of tests of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

SA 540

1. During the audit of Data solutions Ltd., a listed company , your audit manager observed that several estimates are made by the company. He seeks your guidance to know areas of accounting estimates that may give rise to low level of risk of material misstatement. Guide him with example.

Ans: Some accounting estimates involve relatively low estimation uncertainty and may give rise to lower risks of material misstatements, for example:

- a. accounting estimates arising in entities that engage in business activities that are not complex.
- b. accounting estimates that are frequently made and updated because they relate to routine transactions.
- c. accounting estimates derived from data that is readily available, such as published interest rate data or exchange-traded prices of securities. Such data may be referred to as “observable” in the context of a fair value accounting estimate.
- d. Fair value accounting estimates where the method of measurement prescribed by the applicable financial reporting framework is simple and applied easily to the asset or liability requiring measurement at fair value.
- e. Fair value accounting estimates where the model used to measure the accounting estimate is well-known or generally accepted, provided that the assumptions or inputs to the model are observable.

Estimates with high estimation uncertainty:

- a. accounting estimates relating to the outcome of litigation.
- b. fair value accounting estimates for derivative financial instruments not publicly traded.
- c. Fair value accounting estimates for which a highly specialised entity developed model is used or for which there are assumptions or inputs that cannot be observed in the marketplace.

2. Assumptions are integral part of accounting estimate. State the matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimate reference to relevant SA.

Ans. Matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimates include, for example:

- a. The nature of the assumptions, including which of the assumptions are likely to be significant assumptions.
- b. How management assesses whether the assumptions are relevant and complete (that is, that all relevant variables have been taken into account).
- c. Where applicable, how management determines that the assumptions used are internally consistent.
- d. Whether the assumptions relate to matters within the control of management (for example, assumptions about the maintenance programs that may affect the estimation of an asset’s useful life), and how they conform to the entity’s business plans and the external environment,

or to matters that are outside its control (for example, assumptions about interest rates, mortality rates, potential judicial or regulatory actions, or the variability and the timing of future cash flows).

e. The nature and extent of documentation, if any, supporting the assumptions.

3. What are the factors that may influence the degree of uncertainty associated with an accounting estimate?

Ans. The degree of estimation uncertainty associated with an accounting estimate may be influenced by factors such as:

1. The extent to which the accounting estimate depends on judgment.
2. The sensitivity of the accounting estimate to changes in assumptions.
3. The existence of recognised measurement techniques that may mitigate the estimation uncertainty (though the subjectivity of the assumptions used as inputs may nevertheless give rise to estimation uncertainty).
4. The extent to which the accounting estimate is based on observable or unobservable inputs.
5. The length of the forecast period, and the relevance of data drawn from past events to forecast future events.
6. The availability of reliable data from external sources.

The degree of estimation uncertainty associated with an accounting estimate may influence the estimate's susceptibility to bias.

4. Mr. L, while conducting the audit of ABC Ltd., observed that a substantial amount is recognised in respect of obsolescence of inventory and warranty obligation in the financial statements. Mr. L wants to obtain written representation of the management to determine whether the assumptions and estimates used are reasonable. Guide Mr L with reference with relevant SA.

Ans. SA 580 discusses the use of written representations. Depending on the nature, materiality and extent of estimation uncertainty, written representations about accounting estimates recognised or disclosed in the

financial statements may include representations:

- a. About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes.
- b. That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

that disclosure related to accounting estimates are complete and appropriate under the applicable financial reporting framework.

- d. That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

SA 550

1. In the course of audit of Q Ltd., its statutory auditor wants to be sure of the adequacy of related party disclosures? Kindly guide the auditor in identifying the possible source of related party information.

Ans:

Possible sources of related Party Information:

As per SA 550 “Related Parties” the auditor shall remain alert, when inspecting records or documents with respect to arrangements or information indicating the existence of related party relationships or transactions, not previously identified or disclosed to the auditor.

During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

1. Entity income tax returns.
2. Information supplied by the entity to regulatory authorities.
3. Shareholder registers to identify the entity’s principal shareholders.
4. Statements of conflicts of interest from management and TCWG.
5. Records of the entity’s investments and those of its pension plans.
6. Contracts and agreements with key management or TCWG.
7. Significant contracts and agreements not in the entity’s ordinary course of business.
8. Specific invoices and correspondence from the entity’s professional advisors.
9. Life insurance policies acquired by the entity.
10. Significant contracts re-negotiated by the entity during the period.
11. Internal auditors’ reports.
12. Documents associated with the entity’s filings with a securities regulator (for example, prospectuses).

Auditor should also obtain further information on significant transactions outside the entity’s normal course of business. It enables him to evaluate whether fraud risk factors, if any, are present.

In addition, the auditor needs to be alert for transactions which appear unusual in the circumstances and which may indicate the existence of previously unidentified related parties. For example: Complex equity transactions such as corporate restructurings or acquisitions, transactions with offshore entities in jurisdictions with weak corporate laws, the leasing of premises etc.

Finally, the auditor should also obtain a written representation from the management concerning the completeness of information provided regarding the identification of related parties.

2. Mr X , while conducting audit of PQR Ltd., comes across certain transactions which according to him are significant transactions with related party and identified to be outside the entity’s normal course business. Guide Mr. X with examples of such transactions and to understand the nature of significant transactions outside the entity’s normal course of business.

Ans:

In the given case of PQR Ltd, Mr. X, while conducting audit has come across certain significant related party transaction which are identified to be outside the entity's normal course of business. Mr. X wants guidance through examples of such significant transactions which are given in SA 550

As per SA 550 "Related Parties", examples of transactions outside the entity's normal course of business may include:

1. Complex equity transactions, such as corporate restructurings or acquisitions.
 2. Transactions with offshore entities in jurisdictions with weak corporate laws.
 3. The leasing of premises or the rendering of management services by the entity to another party if NO consideration is exchanged.
 4. Sales transactions with unusually large discounts or returns.
 5. Transactions with circular arrangements, for example, sales with a commitment to repurchase.
 6. Transactions under contracts whose terms are changed before expiry.
3. The statutory auditor is required to follow the procedure so as to identify the risk of material misstatement associated with related parties. What are the auditors duties when he identifies related party or related party transactions that management not previously disclosed to him?

Ans:

Verification of existence of related parties:

SA 550 "Related Parties" requires the auditor to perform procedures so as to identify the risk of material misstatement associated with related parties. Accordingly, auditor should perform the following:

- (a) Inquire the management regarding
 - Identity of entity's Related Party, changes from prior period.
 - Nature of relationships between entity and Related Party.
 - Type & purpose of transactions with Related Party during the period.
- (b) The auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.
- (c) If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:
 1. Promptly communicate the relevant information to the other members of the engagement team;
 2. Where the applicable FRF establishes related party requirements:
 - Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
 - Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
 3. Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;

4. Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
 5. If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit

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SA 560

1. You are the auditor of P Ltd., which is in the business of supplying food products to various airline companies operating aircrafts in domestic circle only. As per terms of agreement with airlines, the company needs to stock various non-perishable food items for coming one month (average holding of inventory to the tune of INR 75 crores). Also, the payments terms have been settled and the company receives payment in 45 days after the supply of goods. Everything was going on well till the end of March 2022 when pandemic Covid hit the world and everything came to a standstill. Aviation sector was hit hard and there were no flights from April 2022 onwards. Consequently, the business of P Ltd also got severely affected and the scheduled supplies of goods to airlines also were not made. Also, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of P Ltd, what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31.3.2021 represent true and fair view.

Ans:

As per SA 560 “Subsequent Events”, the auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

The auditor shall perform the procedures required in above paragraph so that they cover the period from the date of the financial statements to the date of the auditor’s report, or as near as practicable thereto.

Being the auditor of PQR Ltd, to ensure that all subsequent events are considered so that financial statements for the year ending 31.03.2020 represent true and fair view, the auditor shall take into account the auditor’s risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

- a. Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- b. Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
- c. Reading minutes, if any, of the meetings, of the entity’s owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- d. Reading the entity’s latest subsequent interim financial statements, if any.

When, as a result of the procedures performed as required above, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

2. Comment on the following

A Co. Ltd has not included in the Balance Sheet as on 31.3.21, a sum of Rs. 2 crores being the amount in arrears of salaries and wage payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-4-2021. The auditor wants to sign the Balance sheet and give report on 31.5.21. The auditor came to know the result of the negotiation on 15.5.2021.

Ans:

This case requires attention to SA 560 "Subsequent Events", AS 4 "Contingencies and Events occurring after the Balance Sheet Date" and AS 29 "Provisions, Contingent liabilities and Contingent Assets".

As per AS 4 "Contingencies and Events occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. Similarly as per AS 29 "Provisions, Contingent liabilities and Contingent Assets", future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that the will occur.

In the instant case, the amount of Rs.2 crores is a material amount and it is the result of an event, which has occurred after the Balance Sheet date. The facts have become known to the auditor before the date of issue of the Audit Report and Financial Statements.

The auditor has to perform the procedure to obtain sufficient, appropriate evidence covering the period from the date of the financial statements i.e. 31-3-2021 to the date of Auditors Report ie.31-05-2021. It will be observed that as a result of long pending negotiations a sum of Rs.2 crores representing arrears of salaries of the year 2019- 20 and 2020-21 have not been included in the financial statements. It is quite clear that the obligation requires provision for outstanding expenses as per AS 4 and AS 29.

As per SA 560 "Subsequent Events", the auditor should assure that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. So the auditor should request the management to adjust the sum of Rs.2 crores by making provision for expenses. If the management does not accept the request the auditor should qualify the audit report.

3. As a statutory auditor of a company, comment on the following:

A fire broke out on 15th May, 2021, in which material worth 50 lakhs which was lying in inventory since 1st march, 2021 was totally destroyed. The financial statements of the company have not been adopted till the date of fire. The management of the company argues that since the loss occurred in the year, 2021-22, no provision for the loss needs to be made in the financial statements for 2020-21.

Ans:

This case requires attention to SA 560 "Subsequent Events" and AS 4 "Contingencies and Events occurring after the Balance Sheet Date".

As per AS 4 "Contingencies and Events occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting

assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

AS 4 also requires disclosure of the non-adjusting event, in the report of the approving authority. Further, as per SA 560 "Subsequent Events", the auditor should assure that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework require adjustment or disclosure have been adjusted or disclosed.

The event took place after the close of the accounting year and does not relate to conditions existing at the balance sheet date. Thus, it will have no effect on items appearing at the balance sheet date because as per AS 4 "Contingencies and Events Occurring after Balance Sheet Date" have to be adjusted that provide evidence of conditions existing as at the balance sheet date.

However, the auditor has to ensure that this loss will not materially affect the substratum of the enterprises as per its size, nature and complexity of operations.

Thus, subject to satisfaction in respect of non-violation of going concern concept, the company has correctly accounted by not providing provision. However, the auditor is required to ensure the proper disclosure of above mentioned event.

SA 570

1. ABC Company files a law suit against Unlucky Company for Rs. 5 crores. The Attorney of Unlucky Company feels that the suit is without merit, so Unlucky company merely discloses the existence of the law suit in the notes accompanying its Financial Statements. As an auditor of Unlucky Company, how will you deal with the situation?

Ans:

As per AS 29 "Provisions, Contingent liabilities and Contingent Assets", a contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Further, future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that the event will occur.

As per SA 570 "Going Concern", there are certain examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy is one of the example of such event.

When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

In the instant case, ABC Company has filed a law suit against Unlucky Company for Rs. 5 crores. Though, the attorney of Unlucky Company feels that the suit is without merit so the company merely discloses the existence of law suit in the notes accompanying its financial statements. But the auditor may evaluate the source data on which basis the opinion is formed. If the auditor finds the uncertainty, he may request the management to adjust the sum of Rs. 5 crore by making provision for expenses as per AS 29. If the management does not accept the request the auditor should qualify the audit report.

2. A Company's net worth is eroded and creditors are unpaid due to liquidity constraints. The management represents to the Statutory auditor that the promoter's wife is expected to give an unsecured loan to meet the liquidity constraints and that negotiations are underway to secure large export orders.

Ans:

In this case, it is subjective, but prima-facie a mere expectation of future cash flows from the promoter's wife without any firm commitment and the possibility of an export order being

negotiated, may not that be sufficient appropriate audit evidence of mitigating factors for resolving the going concerns question under SA 570 “Going Concern”.

3. Enumerate the operating conditions of an entity that may cast significant doubt on the entity’s ability to continue as a going concern.

Ans:

SA 570 “Going Concern”, requires that while planning a performing audit procedure and in evaluating the results thereof, the auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements. In assessing such a risk, the auditor should examine the following indications Financial Indications:

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating Indications:

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other Indications:

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management’s plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital.

Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

4. Mr. Ram, an auditor identified some events that cast a significant doubt on the entity's ability to continue as a going concern. What are the additional procedures he should perform as per the related Standard on Auditing.

Ans:

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

- a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

SA 580- Written Representation

1. State briefly the basic elements of Written Representation.

Nov. 11 (2 marks)

Ans:

Basic Elements of a Management Representation Letter: As per SA 580 “Written Representation”, some of the basic elements of a Management Representation letter are:

- (1) It is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.
- (2) It does not include financial statements, the assertions therein, or supporting books and records.
- (3) The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.
- (4) The written representations shall be for all financial statements and period(s) referred to in the auditor’s report.

2. The auditor of PQR Pvt Ltd. having turnover of Rs. 12 Crore, was not able to get confirmation about the existence and value of certain stock. However, a certificate from management has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure, signed the audit report. Is he right in his approach?

Nov 14 (5 marks)

Ans:

Validity of Written Representation: The physical verification of stock is the primary responsibility of the management. The auditor, however, is required to examine the verification programme adopted by the management. He must satisfy himself about the existence and valuation of stock. In the case of PQR Pvt. Ltd., the auditor has not been able to verify the existence and value of certain stock despite the verification procedure followed in routine audit. He accepted the certificate given to him by the management without making any further enquiry.

As per SA 580 “Written Representations”, when representation relate to matters which are material to the financial information, then the auditor should seek corroborative audit evidence for other sources inside or outside the entity.

He should evaluate whether such representations are reasonable and consistent with other evidences and should consider whether individuals making such representations can be expected to be well informed on the matter. “Written Representations” cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available.

If the auditor is unable to obtain sufficient appropriate audit evidence that he believes would be available regarding a matter, which has or may have a material effect on the financial information, this will constitute a limitation on the scope of his examination even if he has obtained a

representation from management on the matter. Therefore, the approach adopted by the auditor is not tenable

3. In the course of audit of K Ltd., its auditor Mr. N observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In the absence of the special audit report, Mr. N insisted that he is to be provided with at least a WRL in respect of fraud on /by the company. For this request also, the management remained silent. Please guide Mr. N.

May 14 (5 marks)

Ans:

Auditors Responsibilities Relating to Fraud: As per SA 240, "The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. In addition an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

As per SA 580, "Written Representations", if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist. Further, If management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

The auditor shall disclaim an opinion on the financial statements if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or management does not provide the written representations.

Further the auditor is required to report as per Paragraph 4 (xxi) of CARO, 2003, if there is any fraud on or by the company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

In the instant case, in the course of audit of K Ltd., its auditor Mr. N observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report, which was not provided by the management despite of many reminders. Mr. N also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

Hence, the fact is required to be reported as per Paragraph 4(xxi) of the CARO, 2003 and the auditor should also disclaim an opinion on the financial statements.

SA 600

1. Describe the relevance of SA 600 while auditing consolidation of Financial Statements.

Ans:

Relevance of SA 600

1. When a suspicion exists auditor, himself can examine the books of accounts
 2. Consideration of professional competence of another auditor if not member of ICAI/ outside India.
 3. Inviting the other auditor for discussion and give them advise:
 - a. Significant matters to be considered.
 - b. Disclose inter co. transaction
 - c. Relevant timeline for completion of audit report
 - d. Guide for reporting requirements and compliance
 4. Working paper can not be asked being the property of other auditor, but in order to understand work of another auditor, principal auditor can
 - a. Request to fill the Questionnaire
 - b. Request to ensure completion of checklist
 - c. Request an audit summary
 5. When principal auditor decide to consider the work of other auditor, he can accept the work as such or conduct a supplement audit by himself /herself
-
2. B Ltd. Is the subsidiary company of A ltd. ABC and Associates has been appointed as auditor of A Ltd. for the financial year 2021-22 and XYZ & Associates has been appointed as auditor of B Ltd for the year 2021-22. Explain the role of ABC & Associates and XYZ and Associates as auditors of the parent company and subsidiary respectively.

Ans:

Role of Auditor of Parent Company and Subsidiary company:

SA 600 "Using the work of Another Auditor" establishes the standard when an auditor, reporting on the financial statements of a group (consolidated financial statements), uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity. Accordingly, role of auditor of parent company and subsidiary are as follows:

Role of Auditor of Parent Company:

- a) Consider the professional competence of Other Auditor, if Other Auditor is not a member of ICAI.
- b) Visit component and examine books of account, if essential.
- c) Obtain sufficient appropriate evidence, that work of Other Auditor is adequate for Principal Auditor's purposes.
- d) Discuss audit procedures applied by Other Auditor.
- e) Review a written summary of Other Auditor's procedures and findings through questionnaires/ checklist.
- f) Consider significant findings of Other Auditor and discuss audit findings with Other Auditor. Perform supplemental tests if necessary.

Role of Auditor of Subsidiary Company:

The auditor of subsidiary company, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor w.r.t. following:

- (a) Adhering to time-table.
 - (b) Bringing to the attention of PA any significant finding.
 - (c) Compliance with relevant statutory requirements.
 - (d) Respond to detailed questionnaire.
3. PQ Limited , a listed entity , headquarters in Mumbai and is having 15 branches all over India. The company is in the business of buying paddy grown by farmers directly and processing to produce for selling in domestic as well as international markets. PQ Limited appointed 4 firms of Chartered Accountants for audit of its head office and branches. Your firm is one of those firms. It was agreed that your firm will act as Principal Auditor. What factors will be considered by you while accepting the position of Principal Auditor?

Ans:

Factors to be considered while accepting the position of Principal auditor -

SA 600 – Using the work of Another Auditor -

While accepting the position of Principal Auditor, the auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor.

For this purpose, the auditor would consider:

- a. the materiality of the portion of the financial information which the principal auditor
- b. audits; the principal auditor's degree of knowledge regarding the business of the
- c. components; the risk of material misstatements in the financial information of the components
- d. audited by the other auditor; and the performance of additional procedures as set out in this SA regarding the components audited by other auditor

SA 610

1. CA X, a practicing Chartered Accountant has been appointed as an internal auditor of Textile Ltd. He conducted the physical verification of the inventory at the year end and handed over the report of such verification to Mr Y, the statutory auditor of the Company, for his view and reporting. Can CA X rely on such report?

Ans:

USING THE WORK OF INTERNAL AUDITOR: As per SA 610 “Using the Work of Internal Auditors”,

while determining whether the work of the internal auditors can be used for the purpose of the audit, the external auditor shall evaluate:

1. The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors;
2. The level of competence of the internal audit function; and
3. Whether the internal audit function applies a systematic and disciplined approach, including quality control.

Further, the external auditor shall not use the work of the internal audit function if the external

auditor determines that:

1. The function’s organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors.
2. The function lacks sufficient competence; or
3. The function does not apply a systematic and disciplined approach, including quality control.

ANALYSIS AND CONCLUSION: In the instant case, CA. Kishore should ascertain the internal auditor’s scope of verification, area of coverage and method of verification. He should review the report on physical verification taking into consideration these factors. If possible, he should also test check few items and he can also observe the procedures performed by the internal auditors.

If the statutory auditor is satisfied about the appropriateness of the verification, he can rely on the report but if he finds that the verification is not in order, he has to decide otherwise.

The final responsibility to express opinion on the financial statement remains with the statutory auditor.

2. Mr. A is appointed as statutory auditor of XYZ Ltd. XYZ Ltd Is required to appoint internal auditor as per the statutory provisions given in the Companies Act, 2013 and appointed Mr. B as the internal auditor. The external auditor Mr A asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing ROMM.
 - A. Discuss whether Mr. A , statutory auditor can ask direct assistance from Mr. B, internal auditor as stated above in view of auditing standards.

- B. Will your answer be different, if Mr A ask direct assistance from Mr. B, internal auditor with respect of external confirmation requests and evaluation of the results of external confirmation procedures?

Ans:

- (a) Direct Assistance from Internal Auditor: As per SA 610 “Using the Work of Internal Auditor”, the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.

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

Significant judgments include the following:

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

In view of above, Mr. Anand cannot ask direct assistance from internal auditors regarding evaluating significant accounting estimates and assessing the risk of material misstatements.

- (b) Direct Assistance from Internal Auditor in case of External Confirmation Procedures: SA 610 “Using the Work of Internal Auditor”, provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned.

Further, in accordance with SA 505, “External Confirmation” the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

3. Which are the areas where the external auditor shall not use the internal auditor’s assistance to perform procedures.

Ans:

1. Wherever significant judgements are involved
 - a. Assessing the Risk of Material Misstatement
 - b. Testing the sufficiency of the procedures performed
 - c. Managements use of going concern
 - d. Where accounting estimates are used
 - e. Adequacy of disclosures in FS
2. Whether Risk of Material Misstatements is considered to be high
3. Evaluation of work where he was involved.
4. Evaluation of the internal auditors – Check the threat to objectivity also the level of competence. Based on that if the answer is no then you can not take direct assistance of internal auditors.

SA 620

1. What are the procedures to be followed by a statutory auditor for verifying the provisions for accrued liability for retirement benefits which is based on a certificate of a reputed actuary engaged by the auditor for the purpose.

Ans:

Evaluating the work of Management Expert:

As per SA 500 “Audit Evidence” when information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall perform the following:

- (i) Evaluate the competence, capabilities and objectivity of that expert:
For this purpose, auditor may consider his qualification, membership of a professional body or industrial association license to practice etc.
- (ii) Obtain an understanding of the work of that expert:
It may include areas of specialty, applicable professional standards and other legal requirements.
- (iii) Evaluate the appropriateness of that expert’s work:
With respect to following:
 - a) Relevance and reasonableness: of that expert findings and conclusion.
 - b) Relevance and reasonableness: of assumptions and methods used; and
 - c) Relevance, completeness and accuracy: of source data.

2. Mr. Mohan, an auditor of K Ltd wants to use the work of an expert. With reference to the Standard on Auditing, state the factors which suggest the need for details and written agreement with auditor’s expert.

Ans:

As per SA 620, “Using the work of an Auditor’s Expert”, some of the matters may affect the level of detail and formality of the agreement between the auditor and the auditor’s expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The auditor’s expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the auditor and the auditor’s expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the auditor’s expert’s work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor’s expert’s work, and its significance in the context of the audit.

3. O Ltd. is in the business of manufacturing steel. The process requires raw material as iron ore for which large stock was maintained by the company at the year end 31st March 2022. The nature of

raw material is such that its physical verification requires involvement of auditor's expert for the stock take.

The auditor observed that the work of the auditor's expert was not adequate for the audit purpose and the auditor could not resolve the matter through additional audit procedures which included further audit procedures to be performed by both auditor and his expert.

Basis above, the auditor concluded that it would be necessary to express modified opinion in the auditor's report because the auditor has not obtained sufficient appropriate audit evidence. However, he issued a clean report and included the name of expert in his report to reduce his responsibility for the audit opinion. Comment

Ans:

Auditor's responsibility in case of use of work of Auditor's Expert:

As per SA 620, "Using the work of an Auditor's Expert", if the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained sufficient appropriate audit evidence.

In addition, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Conclusion: The auditor cannot reduce his responsibility by referring the name of auditor's expert and thereby issuing a clean report. Auditor should have issued a modified report and could have given reference to the work of an auditor's expert in that report if such reference was relevant to understanding of a modification to the auditor's opinion but even in that case the auditor should have indicated in his report that such reference of auditor's expert does not reduce his responsibility for that opinion.

1. CA Sameer is the statutory auditor of Tram Fram Ltd. for the FY 2021-22. While conducting the audit, CA Sameer decided to issue an unmodified opinion, though he also concluded that material uncertainty exists with respect to the company's ability to continue as a going concern on account of a pending litigation related to labour laws. He is of the view that the company has made appropriate disclosures with respect to such pending litigation in the notes to accounts annexed to the financial statements of Tram Fram Ltd. for the FY 2021-22. Explain how CA Sameer will deal with the above situation in his auditors report.

Ans:

Material Uncertainty Related to Going Concern

We draw attention to Note 10 in the financial statements, which indicates that the outcome of a litigation on account of labour laws is pending in case of the company during the year 31 March, 2023. As stated in Note 11, this event or condition, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

2. Write a short note on Unqualified opinion in the context of Auditor's Report.

Ans:

Unqualified Opinion:

- 1) An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements.
 - 2) An unqualified opinion indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.
 - 3) An unqualified opinion also indicates that:
 - i. the financial statements have been prepared using the generally accepted accounting principles, which have been consistently applied;
 - ii. the financial statements comply with relevant statutory requirements and regulations; and
 - iii. there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.
3. You have been appointed as statutory auditor of Entity XYZ where Auditor's report is prescribed by law and Regulation. Should he refer to SA's. Discuss.

Ans:

If the auditor is required by law or regulation applicable to the entity to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

(a) A title.

(b) An addressee, as required by the circumstances of the engagement.

- (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (see paragraph 27).
- (d) An identification of the entity's financial statements that have been audited.
- (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.
- (f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of SA 570 (Revised).
- (g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of SA 570 (Revised).
- (h) Where applicable, a section that includes the information required by SA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that
- (i) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses
- (j) A reference to Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses,
- (k) The auditor's signature.
- (l) The Place of signature
- (m) The date of the auditor's report

SA 701

1. Write a short note on the purpose of communicating the Key Audit Matters.

Ans:

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements.

2. "The auditor shall determine, from the matters communicated to those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the key factors". You are required to define Key audit matters and briefly discuss the factors determining the key audit matters.

Ans:

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

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

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

3. CA Amar has come across certain matters while auditing the accounts of PR Ltd. for the financial year 2021-22. He, being the associate of your firm, seeks your advice on "communicating Key audit matters" in the Auditor's report. Guide him.

Ans:

Communicating Key Audit Matters in the Auditor's Report: The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:

- (i) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

- (ii) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- (i) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- (ii) How the matter was addressed in the audit.

The auditor shall describe each key audit matter in the auditor's report unless:

- (i) Law or regulation precludes public disclosure about the matter; or
- (ii) 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. This shall not apply if the entity has publicly disclosed information about the matter.

The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.

SA 705

1. CA Omkar is the statutory auditor of S Ltd for the FY 2020-21. The company is engaged in the business of manufacture of floor tiles. During the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the financial statements. Discuss as to how should he deal with the situation in the auditor's report.

Ans:

- SA 705 (Revised) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.
 - The decision regarding which type of modified opinion is appropriate depends upon:
 - (i) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - (ii) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.
 - Further, the auditor shall modify the opinion in the auditor's report when the auditor concludes that based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
 - In the present case, during the course of audit, CA Omkar obtained certain audit evidence which were not consistent with the affirmation made in the financial statements.
 - Therefore, CA Omkar should modify his report in accordance with SA 705- "Modifications to The Opinion In The Independent Auditor's Report."
 - CA Omkar should issue either a qualified opinion or an adverse opinion depending upon the circumstances of the case:
 - CA Omkar shall express a qualified opinion when, having obtained sufficient appropriate audit evidence, he concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
 - CA Omkar shall express an adverse opinion, when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - Thus, since CA Omkar has obtained audit evidence which are inconsistent with the affirmations made in the financial statement, CA Omkar should modify his opinion as per the circumstances of the case.
2. MNO Ltd. is a power generating company having its plants in the north eastern states of the country. For the FY 2021-22. M/s PRT & Associates are the statutory auditors of the company. During the course of audit, the audit team was unable to obtain SAAE about a single element of consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investments (in XYZ Ltd), that represents over 90 % of the entity's assets. What kind of opinion should the auditor's issue in such case?

Ans:

M/s PRT & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements. Therefore, the statutory auditor should issue a disclaimer of opinion.

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

Disclaimer of Opinion:

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

Basis for Disclaimer of Opinion:

The Group's investment in its joint venture XYZ Company is carried at Rs. 95 crores on the Group's consolidated balance sheet, which represents over 90% of the Group's net assets as at March 31, 2021. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

3. While conducting audit of VED Ltd., you as an auditor are not only prevented in completing certain audit procedures but also are not able to obtain audit evidence even by performing alternative procedures. How you will deal with this situation?

Ans:

As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation. If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

1. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
2. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

- I. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
- II. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

1FIN BY INDIGOLEARN

SA 706

1. In respect of audit of B Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw attention of the users towards such matters, though the opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters:
 - a. The company has a plan to resume its construction activities with respect to one of its thermal power project. The activity of such power plant was suspended in the FY 2018-19. The thermal power project comprises of plant and equipment amounting to Rs. 5 crores and Capital WIP of Rs.4.75 cr.
 - b. The financial statements of 5 branches are included in the standalone financial statements of B Ltd, whose financial statements reflect total assets of Rs. 90 crores as at 31.3.2022 and total revenue from operations of Rs. 40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors.

Ans:

Emphasis of Matter:

We draw attention to the following note of the standalone financial statements: Note 27 regarding the plans of the Company to resume construction/developmental activities of a thermal power project. The carrying amounts related to the project as at 31st March, 2021 comprise of plant and equipment of Rs. 5.95 crore and capital work in progress of Rs. 147.50 crore.

Our opinion is not modified in respect of this matter.

Other Matter:

We did not audit the financial statements of 5 branches included in the Standalone Financial Statements of the company whose financial statements reflect total assets of Rs. 90 crores as at 31.03.2021 and total revenue from operations of Rs. 40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of the branch auditors.

Our opinion is not modified in respect of this matter

2. Enumerate certain important matters where “ Emphasis of Matter Paragraph” can be included in Audit Report.

Ans:

Matters which can be included in Emphasis of Matter Paragraph in Auditor’s Report:

As per 706 “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report” Emphasis of Matter is a paragraph which is included in auditor’s report to draw users’ attention to important matter (s) which are already disclosed in Financial Statements and are fundamental to users’ for understanding of Financial Statements.

Matters which can be included in ‘Emphasis of Matter Paragraph’ in an Auditor’s Report, may be listed as below:

- a) An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.

- b) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
 - c) Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.
 - d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
3. Beta Ltd., is a company registered with SEBI , having five subsidiaries. M/s XYZ, Chartered Accountants, have been appointed as Statutory auditors for the audit of the consolidated Financial statements for the year ending March 31, 2022. Out of five subsidiaries, the audit of one subsidiary was conducted by another auditor, M/s Badnam and Company, Chartered Accountants. The "opinion" para of the audit report furnished by M/s XYZ Chartered Accountants is given below,

OPINION

In our opinion and to the best of our information and according to the explanation given to us in the consolidated financial statements give true and fair view, except the financial statements of one subsidiary whose accounts were audited by M/s Badnam and Company, Chartered Accountants and about the same we are not in a position to express our opinion as the audit has not been performed by us:

- A. In case of the consolidated Balance Sheet, of the state of affairs of company as at March 31st 2022.
- B. In the case of consolidated Profit and Loss A/c, of the profit and loss for the year ended on that date.

Do you find any deficiencies in the opinion paragraph ? If yes, you are required to give suggestion and redraft the opinion para.

Ans:

Identification of deficiencies in opinion Para:

The opinion para contains the following deficiencies:

- 1. Out of five subsidiaries, the audit of one subsidiary was conducted by another auditor, M/s Badnam and Company – needs to be reported in other matter para.
- 2. Opinion regarding cash flow statement has not been covered.

As per SA 700 & 706 the redrafted opinion para and other matter para are given here under:

Opinion Para

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the subsidiaries as noted below, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- a. in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31,2021;
- b. in the case of the consolidated Profit and Loss Account, of the profit/loss for the year ended on that date; and
- c. in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

Other Matter Para

We did not audit the financial statements*cf one subsidiary, whose financial statements reflect total assets (net) of XXXX as at March 31,2021, total revenues of XXXX and net cash outflows amounting to XXXX for the year then ended. These financial statements have been audited by other auditor's M/s Badnam and Company, Chartered Accountants whose reports have been furnished to us by the Management, and our opinion is based solely on the reports of the other auditors. Our opinion is not qualified in respect of this matter.

1FIN BY INDIGOLEARN

SA 710

1. The Audit report of PVT Ltd. for the year 2020-21 contained a qualification regarding non-provision of doubtful debt. As the statutory auditor of the company for the year 2021-22, how would you report, If
- a. The company does not make provision for doubtful debts in 2021-22?
 - b. The company makes adequate provision for doubtful debts in 2021-22?

Ans:

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

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

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

In the instant Case, if P Ltd. does not make provision for doubtful debts the auditor will have to modify his report for both current and previous year's figures as mentioned above. If however, the provision is made, the auditor need not refer to the earlier year's modification.

2. Mr. A Participating chartered accountant audited the financial statements of C Ltd. for the previous year 2020-21 and expressed an unmodified opinion. C Ltd. was of the view that Mr. A was not conducting the audit properly and therefore, for the current year 2021-22, it appointed Ms. B, a leading participant Chartered Accountant to conduct the audit and present comparative Financial Statements. Ms. B, while performing the audit procedures, found that C Ltd. has undercharged the wages of Rs 10 Lakhs during the previous year resulting in overstatement of profits. What are the further procedures, Ms. B is required to pursue?

Ans:

Auditor's Procedures in respect of examination of Comparative F.S.:

1. SA 710 "Comparative Information" – Corresponding Figure and Comparative Financial Information deals with the auditor's responsibilities regarding comparative information in an audit of financial statements.

2. To examine the comparative information, auditor is required to perform the following procedures:
 - Determine whether F.S. include Comparative information required by FRF, & Whether such information is classified appropriately.
 - Evaluate Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and
3. In the present case, auditor identified material misstatement for the previous year, financial statements of which are audited by Mr. A. Ms. B Current Auditor is required to discuss the matter with the management and issue suitable report based on the action taken by the management in this regard.

Conclusion: Ms. B is required to communicate the matter to the management and request them to inform the same to Mr. A. After revision or non-revision of the prior period's financial statements, Ms. B may report accordingly.

3. It was observed from the modified audit report of financial statements of the As Ltd. for the year ended 31st March, 2021 that depreciation of 2.5 crores for the year 2020-21 had been charged off to the statement of Profit and Loss instead of including it in "Carrying value of asset under Construction". State in relation to the audit for the year ended 31st March 2022. Whether such modification in the previous year's audit report would have any audit implication for the current year and if Yes, how would you deal with it in the audit report?

Ans:

Impact of Modification in the predecessor auditor's report:

SA710 "Comparative Information – Corresponding Figure and Comparative Financial Information deals with the auditor's responsibilities regarding comparative information in an audit of financial statements.

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

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

Further, if the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

- a) That the financial statements of the prior period were audited by the predecessor auditor;

- b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and
- c) The date of that report.

In the instant case, it was observed from the modified audit report of the financial statements of AS Ltd. for the year ended 31st March, 2019 that depreciation of Rs. 2.50 crore for the year 2018-19 had been charged off to the statement of Profit and Loss instead of including it in "Carrying value of asset under construction".

Conclusion: Modification in the predecessor audit report will impact the current period audit report and auditor shall deal in accordance with SA 710 as mentioned above

SA 720

1. SA 720 requires the auditor to read and consider the other information because other information that is materially inconsistent with the FS or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the FS or that a material misstatement of the other information exists, either of which may undermine the credibility of the FS and the auditor's report thereon. Explain the meaning of the term Other Information and state the requirements of SA 720 as to obtaining and considering the other information.

Ans:

Other Information and Requirements of SA 720:

SA 720 "The Auditor's Responsibilities relating to Other Information" deals with the auditor's responsibilities relating to Other Information, whether financial or non-financial information included in an entity's annual report. SA 720 defines the term other information as Financial or non-financial information (other than F.S. and the auditor's report thereon) included in an entity's annual report.

Requirements of SA 720 as to obtaining the other information:

The auditor shall:

- (a) Determine, through discussion with management, which documents comprises the annual report, and the entity's planned manner and timing of the issuance of such documents;
- (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the documents comprising the annual report; and
- (c) When some or all of the documents determined above will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the documents will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this SA.

Requirements of SA 720 as to considering the Other information:

The auditor shall read the other information and, in doing so shall:

- (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and
- (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

While reading the other information, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

2. GS & Co., Chartered Accountants, have been appointed as statutory Auditors of MAP Ltd. for the FY 2021-22. The audit team has completed the audit and is in the process of preparing the audit report. Management of the company has also prepared the draft annual report. Auditor -in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. Audit manager discussed this issue with the partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management.

Do you think that the partner is correct in his approach on this issue?

Discuss with reference to relevant Standard on Auditing the auditor's duties with regard to reporting.

Ans:

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists:

As per SA 720, "The Auditor's Responsibility in Relation to Other Information", Descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other Items that may be Included in the other information.

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

Auditor's duties with regard to reporting in the given case are given hereunder:

As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (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.

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

Questions on Audit of Consolidated Financial Statements

1. JRS limited holds the majority ownership of R limited and K limited. S Ltd. is an intermediate subsidiary of JRS limited in Surat.

The JRS limited presents the consolidated financial statements for audit purposes to MMT and Co. As a statutory auditor MMT and Co. Obtains a listing of all the components and verifies all the components included in the financial statements and unless any component meets criterion for exclusion. Explain any two reasons which are considered by MMT and Co. for exclusion of the component from the consolidated financial statements and reporting of the reasons of exclusion thereof. (Jan 21 – New)

Ans.:

Where a component is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion and whether such exclusion is in conformity with the applicable financial reporting framework.

- (i) Under **companies (Accounting standards) Rules, 2006**, there would be **two reasons for exclusion of subsidiary, associate or jointly controlled entity**-one, that the relationship of a parent with the subsidiary, associate or jointly controlled entity is intended to be **temporary** or the subsidiary associate or joint venture **operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent**.
 - (ii) Similarly, under the companies Act, 2013, **intermediate subsidiary in India is not required to present consolidation financial statements**. Ind As 110 also prescribes certain criteria where consolidated financial statements are not required. In such cases, the auditor should satisfy himself that the exclusion made by the management falls within these categories, example in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture is temporary, the auditor should verify that the intention of the parent, to dispose off the subsidiary, investment in associate or interest in jointly controlled entity, in the near future, existed at the time of acquisition of the subsidiary, making investment in associate or jointly controlled entity.
 - (iii) The auditor should also verify that the **reasons for exclusion are given in the consolidated financial statements**. If an entity is excluded from the consolidated financial statements for reasons other than those allowed by the applicable financial reporting framework, the auditor should consider its effect on the auditor's report to be issued.
2. CA. Vimal is the auditor of Excellent limited, a parent company, which presents consolidated financial statements. The management of Excellent Limited has provided the list of components included in the consolidated financial statements. As an auditor of the CFS, CA Vimal has to verify that all the components have been included in the CFS and review the information provided by the management in identifying the components.
State the procedures to be followed by CA Vimal in respect of completeness of this information.

Ans.: A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.

The auditor should obtain a listing of all components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion.

In the given case, Excellent Ltd has provided the list of components included in the consolidated financial statements (CFSs). CA Vimal shall verify that all the components have been included in the CFSs.

Further, in respect of completeness of this information, CA Vimal should perform the following procedures:

- (i) Review his **working papers for the prior years** for the known components;
 - (ii) Review the **paper's procedures** for identification of various components;
 - (iii) Make **inquires of the management** to identify any new components or any component which goes out of consolidated financial statements;
 - (iv) Review the **investments** of parent as well as its components to determine the shareholding in the other entities;
 - (v) Review the **joint ventures** and **joint arrangements** as applicable;
 - (vi) Review the **other arrangements** entered into by the parent that have not been included in the consolidated financial statements of the group;
 - (vii) Review the **statutory records** maintained by the parent, for example registers under section 186, 190 of the companies Act, 2013;
 - (viii) Identify the **changes in the shareholding** that might have taken place during the reporting period.
3. H Company Limited is a holding company with two subsidiaries, R Ltd and S Ltd. The H Co. Limited adopts straight line method of depreciation for its assets. Whereas S Ltd follows a written down value or diminishing value method.
- Though R Company limited follows a straight line method of depreciation, it does not give effect to the component accounting of depreciation in respect of high value assets. While consolidating the financial statements of R Company limited and S Ltd with those of H Company limited, determine the possible issue that you might have to ensure for the compliance in the light of the above facts.

Ans.: When the component(s) Auditor reports on financial statements under an Accounting Framework is Different than that of the parent: 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 requirements of the

financial reporting framework under which the group's consolidated financial statements are prepared.

Thus, using group accounting policies as the financial accounting framework for the 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.

It may be noted that **change in the selection of the method of depreciation is an accounting estimate and not an accounting policy as per Ind-AS 8**. Accordingly, the entity should select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method should be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate financial statements as well as consolidated financial statements. Therefore, there can be different methods for calculation of depreciation for its assets, if their expected pattern of consumption is different. The method once selected in the standalone financial statements of the subsidiary should not be changed while preparing the consolidated financial statements.

In the given case, assets of R Co. Ltd. (Subsidiary company) is depreciated using straight method, assets of S Co. Ltd. (subsidiary company) is depreciated using written down value method and assets of parent company (H Co. Ltd.) are depreciated using straight line method, is in order. However, each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately under component method of depreciation as per AS 10 on property, plant and equipment.

Thus, R Co. Ltd., though adopting straight line method but does not giving effect to component accounting of depreciation in respect of high value assets, is not in compliance with Ind AS 16/ Accounting Standard 10 property plant and equipment.

4. Responsibility of Holding Company for preparing CFS.
(RTP Nov 21)

Ans.: Responsibility of holding company for preparation of consolidated financial statements:

The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent.

This includes:

- a) **Identifying components**, and including the financial information of the components to be included in the consolidated financial statements;
- b) Where appropriate, identifying **reportable segments** for segmental reporting;
- c) Identifying **related parties and related party transactions** for reporting;
- d) Obtaining **accurate and complete financial information** from components;
- e) Making appropriate **consolidation adjustments**;
- f) Harmonization of **accounting policies and accounting framework**; and
- g) **GAAP conversion**, where applicable.

Apart from the above, parent ordinarily issues instructions to management of component specifying requirements relating to financial information of components to be included in consolidated financial statements. Instructions ordinarily cover accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting time table.

5. Before commencing an audit of CFS, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. What are the important aspects that an auditor should consider in audit plan? (Jan 21 new)

Ans.: Before commencing an audit of consolidated financial statement, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. **The auditor should make plans, among other things, for the following:**

- (i) Understanding of the **group structure and group-wide controls** including assessment of information technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;
- (ii) Understanding of **accounting policies** of the parent and its component as well as of the consolidation process including the process of translation of financial statements of foreign components;
- (iii) Determining and programming the **nature, timing, and extent of the audit procedures** to be performed based on the assessment risk of material misstatement in the consolidation process;
- (iv) Determining the **extent of use of other auditor's work in the audit**; and
- (v) **Coordinating** the work to be performed.

A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial framework.

The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion.

Audit of LLP

1. MKC LLP, is a newly setup LLP. The operations of the LLP have been picking up and the management is currently in the process of setting up processes and procedures in the place. As per the understanding of the management of LLP, its accounts would not be required to be audited mandatorily because of its operation, but still the management decided that they would get the accounts audited voluntarily. In this regard, the management would like to understand some of the aspects which they could consider not only limited to the audit, but also about the maintenance of the books of accounts, as per the relevant laws. Please advise.

Ans:

Provisions relating to accounts and audit in case of LLP:

Books of accounts to be maintained by LLP:

- As per sec. 34 of LLP Act, 2008, LLP shall maintain such proper books of account as may be prescribed relating to its affairs for each year of its existence. Books may be maintained on cash basis or accrual basis and according to double entry system of accounting. Books shall be maintained at registered office for such period as may be prescribed.
- As per rule 24 of LLP Rules, 2009, the books of account shall contain:
 - a. 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;
 - b. A record of the assets and liabilities of the LLP;
 - c. Statements of cost of goods purchased, inventories, WIP, finished goods and cost of goods sold; and
 - d. Any other particulars which the partners may decide.
- The books of account which LLP is required to keep shall be preserved for eight years from the date on which they are made.

Statutory provisions as to audit of LLP:

As per sec. 34 of LLP Act, 2008, accounts of LLP shall be audited in accordance with such rules as may be prescribed.

- **Requirements of Audit:** A LLP whose turnover does not exceed, in any financial year ₹ 40 lacs, or whose contribution does not exceed ₹25 lacs shall not be required to get its accounts audited. If partners of such LLP decide to get the accounts of such LLP audited, the accounts shall be audited in accordance with these rules.
- **Eligibility for auditor:** A person shall not be qualified for appointment as an auditor of LLP unless he is a chartered Accountant in practice.
- **Period of appointment:** Auditor of a LLP shall be appointed for each financial year of the LLP for auditing its accounts.
- **Appointment of auditor by designated partner:** The designated partners may appoint an auditor:
 - a. At any time for the first financial year but before the end of the first financial year,
 - b. At least 30 days prior to the end of each financial year (other than the first financial year),
 - c. To fill a casual vacancy in the office of auditor, including in the case when the turnover or contribution of a LLP exceeds the limits, or
 - d. To fill-up the vacancy caused by removal of an auditor.

- Appointment of auditor by partner: Partners may appoint an auditor where the designated partners have power to appoint and have failed to appoint.
- Tenure of auditor: Auditor shall hold office in accordance with the terms of his appointment and shall continue to hold such office till the period the new auditors are appointed, or they are re-appointed.

Auditor's duty regarding audit of LLP:

- a. Auditor should obtain instructions in writing as to the work to be performed by him.
 - b. Auditor should read the LLP agreement & note the following provisions:
 - Nature of business of LLP
 - Capital contributed by each partner.
 - Interest in respect of capital contributed.
 - Duration of partnership
 - Drawings allowed to the partners.
 - Salaries, commission etc payable to partners.
 - Rights & duties of partners.
 - Method of settlement of accounts between partners at the time of admission, retirement, admission etc.
 - Any loans advanced by the partners.
 - c. Auditor should report (a) whether the records reflect true and fair view (b) whether he obtains all information & explanation (c) whether any restriction/limitation impose upon him.
 - d. If minute of book is being maintained, auditor shall refer it for any resolution passed regarding the accounts.
2. List the benefits that arise to LLP from getting its accounts audited.

Ans:

- Detection of Errors: Auditing accounts helps in detecting errors & frauds & verification of financial statements.
 - Disputes: Disputes, if any between any partners in the matter of accounts can be settled with the help of audited accounts.
 - Reliability: Banks & financial institutions lend money to the firms only on the basis of audited accounts.
 - Better Compliance and Management: Periodical visits & suggestions by the auditor will be helpful in improving the management of the LLP.
 - Reconstitution: For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc. audited accounts are accepted by those concerned who have dealings with the LLP.
3. Write short note on statutory provisions with regard to audit of LLP

Ans:

Statutory provisions as to audit of LLP:

As per sec. 34 of LLP Act, 2008, accounts of LLP shall be audited in accordance with such rules as may be prescribed.

- Requirements of Audit: A LLP whose turnover does not exceed, in any financial year ₹ 40 lacs, or whose contribution does not exceed ₹25 lacs shall not be required to get its accounts audited. If partners of such LLP decide to get the accounts of such LLP audited, the accounts shall be audited in accordance with these rules.
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- Appointment of auditor by designated partner: The designated partners may appoint an auditor:
 - a. At any time for the first financial year but before the end of the first financial year,
 - b. At least 30 days prior to the end of each financial year (other than the first financial year),
 - c. To fill a casual vacancy in the office of auditor, including in the case when the turnover or contribution of a LLP exceeds the limits, or
 - b. To fill-up the vacancy caused by removal of an auditor.
- Appointment of auditor by partner: Partners may appoint an auditor where the designated partners have power to appoint and have failed to appoint.
- Tenure of auditor: Auditor shall hold office in accordance with the terms of his terms of his or their appointment and shall continue to hold such office till the period the new auditors are appointed or they are re-appointed.

4. Write short note on: “ Books of Accounts to be maintained by LLP”

Ans:

LLP shall maintain such proper books of account which shall contain:

- 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;
- a record of the assets and liabilities of the LLP;
- Statements of cost of goods purchased, inventories, WIP, finished goods and cost of goods sold; and
- any other particulars which the partners may decide.

CARO, 2020

1. E Pvt.Ltd., which has aggregate outstanding loan of 20 lakhs from Bank and 30 Lakhs from Financial Institutions, defaulted in repayment thereto to the extent of 50%. The company holds that it being a Private Company, CARO, 2020 is not applicable.
You are required to state for which companies CARO 2020 is not applicable and state how would you deal with the given situation as an auditor of the company.

Ans.: Applicability of CARO, 2020:

- The Companies (Auditor's Report) order (CARO), 2020, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfils all the following conditions:
 - I. Its paid-up capital and reserves are not more than ₹1 Cr. as on Balance Sheet date, and
 - II. Its total borrowings any bank or financial institution are not more than ₹1 cr. at any point of time during the financial year; and
 - III. Its total revenue as disclosed in schedule iii (including revenue from discontinuing operations) does not exceed ₹10 Cr. during the financial year as per the financial statements.

In the instant case the total borrowings do not exceed ₹ 100 lakhs during the year, reporting under CARO is not required.

Conclusion: Contention of the E Pvt. Ltd., is correct that CARO, 2020 will not be applicable on it as outstanding loan from banks and financial institution in aggregate exceeds ₹1 Cr.

2. A Pvt Ltd.'s Paid up capital and Reserves are less than 1 crore and it has no outstanding loan exceeding 1 crore from any Bank or Financial Institution. Its sales are 12 crores before deducting trade discount of Rs.20 Lakhs and Sales returns of Rs. 1.90 Crore. The service rendered by the company amounted to Rs. 20 lakhs. The company contends that reporting under CARO is not applicable. Discuss.

Ans.: Applicability of CARO, 2020:

- The companies (Auditor's report) order (CARO),2020, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfils all the following conditions:
 - I. Its paid-up capital and reserves are not more than ₹ 1 Cr. as on balance sheet date, and
 - II. Its total borrowings any bank or financial institution are not more than ₹1 cr. at any point of time during the financial year; and
 - III. Its total revenue disclosed in schedule iii (including revenue from discontinuing operations) does not exceed ₹10 cr. during the financial year as per the financial statements.
- As per schedule iii, revenue from operations shall consists of revenue from sale of products, sale of service, and other operating revenues.

- While computing total revenue, trade discount as well as sales returns are required to be deducted.
- In the present case of the turnover of the company including value of service rendering after deducting trade discount and sales returns amounts to ₹10.10 crores (i.e., 12-0.20 -1.90 +0.20 crores)

Conclusion: Contentions of the company that CARO is not applicable is not correct, as total revenue exceeds ₹10 cr.

3. AKT Pvt Ltd. is a holding company of XYZ Ltd. Whether CARO is applicable to ABC Pvt. Ltd.?

Ans.: Applicability of CARO over a private company (holding of public company):

The companies (Auditor's report) order, 2020, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfils the following conditions:

- I. Its paid up capital and reserves are not more than ₹ 1 Cr. as on balance sheet date, and
- II. Its total borrowings any bank or financial institution are not more than ₹1 cr. at any point of time during the financial year; and
- III. Its total revenue disclosed in schedule III (including revenue from discontinuing operations) does not exceed ₹10 cr. during the financial year as per the financial statements.

In the present case, ABC Pvt. Ltd. Is holding company of XYZ Ltd., hence reporting under CARO is required.

Conclusion: CARO is applicable.

4. Under CARO, 2020, as a statutory auditor, how would you report: NSP Ltd has its factory building, appearing as fixed assets in its financial statements in the name of one of his director who was overlooking the manufacturing activities.

Ans.: Audit procedures w.r.t. reporting over title deeds of immovable properties under CARO:

- Para 3(i) (c) of CARO, 2020 requires the auditor to comment whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in the favor of the lessee) disclosed in the financial statements are held in the name of the company.
- The order is silent as to what constitutes 'title deeds. In general, title deeds means a legal deed or a document constituting evidence of a right, especially to the legal ownership of the immovable property.
- Title deeds of immovable property may be registered sale deed/transfer deed/conveyance deed, etc. of land, land & building transfer, etc. purchased, allotted, transferred by any person including any government, government authority/body/agency/corporation, etc. to the company.
- If title deeds are not held in the name of the company, details thereof to be provided in the below mentioned format:

Description of property	Gross Carrying value	Held in the name of	Whether promoter, director or their relative or employee	Period held indicate range, where appropriate	Reason for not being held in the name of company*

*Also indicate if in dispute

5. ABC limited, owns a piece of land and building situated at IPE Road, Mumbai, which was purchased before 30 years. The title deeds for the same are deposited with State Bank of India for obtaining credit facility by the company.

As a statutory auditor of the company, what are the audit procedures to be followed and what is the reporting under CARO?

Ans.: Audit procedures w.r.t. reporting over title deeds of immovable properties under CARO:

- Para 3(i) (c) of CARO, 2020 requires the auditor to comment whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in the favor of the lessee) disclosed in the financial statements are held in the name of the company.
- The order is silent as to what constitutes 'title deeds'. In general, title deeds means a legal deed or a document constituting evidence of a right, especially to the legal ownership of the immovable property.
- Title deeds of immovable property may be registered sale deed/transfer deed/conveyance deed, etc. of land, land & building transfer, etc. purchased, allotted, transferred by any person including any government, government authority/body/agency/corporation, etc. to the company.
- Where the title deeds of the immovable property have been mortgaged with the Banks/Financial Institutions, etc., for securing the borrowings and loan raised by the company, a confirmation about the same should be sought from the respective institution to this effect. The auditor may also consider verifying this information from the online records, if available, of the relevant state.
- If title deeds are not held in the name of the company, details thereof to be provided in the below mentioned format:

Description of property	Gross Carrying value	Held in the name of	Whether promoter, director or their relative or employee	Period held indicate range, where appropriate	Reason for not being held in the name of company*

*also indicate if in dispute

6. What are the reporting requirements for closing stock in CARO, 2020?

Ans.: Reporting Requirement for closing stock under CARO:

Para 3(ii) of Caro, 2020 requires the auditor to comment the following:

- (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and the procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt within the books of account;
- (b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹5 crores, in aggregate, from banks or financial Institutions on the basis of the security of current assets; whether the quarterly returns or statements filled by the company with such banks or financial institutions are in agreement with books of account of the company, if not, give details.

7. As a statutory auditor have ABC limited, to whom CARO, 2020 is applicable: How would you report in the following situations

Physical verification of only 50% (in value) of inventory items of inventory has been conducted by the company. The balance 50% will be conducted in the next year due to lack of time and resources.

Ans.: Physical verification of inventory:

- Para 3(ii) of CARO, 2020 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate.
- Physical verification of inventory is the responsibility of the management which would verify all material items at least once in a year and more often in appropriate cases.
- What constitutes "reasonable intervals" depends on the circumstances of each case. The periodicity of the feasibility of conducting a physical verification. The management of a company normally determines the periodicity of the physical verification of inventories considering these factors.
- Normally, wherever practicable, all the items of inventories should be verified by the management once in a year.
- The auditor in order to satisfy himself about the verification at reasonable intervals should examine the adequacy of evidence and record of verification.
- In the given case, physical verification of 50% of the items has not been conducted by the management during the year.

Conclusion: Auditor should point out the fact regarding inadequacies in the physical verification procedures of inventory in his report.

8. H Ltd., granted unsecured loan of 1 crore at the rate of 15% per annum to two of its subsidiaries during the current financial year. Before the year end, both the companies repaid the loan. The

management of H Ltd is of the opinion that since no balance is outstanding as at the end of the financial year, these loans are not required to be reported in CARO, 2020.

Comment and draft a suitable report.

Ans.: Reporting requirement under CARO, 2020:

- Para (iii)(a) of CARO, 2020 requires the auditor to report whether during the year the company has provided loans or advances in the nature of loans, or stood guarantee, or provided security to any other entity, if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances.
- Para (iii) (b) of CARO, 2020 requires the auditor to report whether the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest.
- Guidance Note on CARO, 2020 as issued by ICAI states that may so happen that a party might have taken a loan/advance in nature of loan from a company and repaid it during the same financial year. Therefore, while examining the loans, the auditor should also take into consideration the loans/advances in nature of loan transactions that have been squared-up during the year and report such transactions under this clause.
- In the given case, H Ltd. Has granted unsecured loan of ₹ 1crore @15% p.a. to two of its subsidiaries during the current financial year. During the year, both the companies have repaid its loan. Therefore, the auditor needs to consider the transaction and comment as follows:

“The Company has granted a loan of ₹ 1crore @ 15% p.a. to 2 of its subsidiaries during the current financial year. The maximum amount involved during the year was ₹ 1 crore and the year-end balance of such loans was NIL.”

9. As a company auditor, you notice that there is an inter corporate loan granted by the company. What are the reporting requirements as regarding the matters concerning terms of interest on the inter corporate loans?

Ans.: Reporting requirements as to inter corporate loan granted by the company:

As per para 3(iv) of CARO, 2020, the auditor is required to report, in respect of loans, investments, guarantees, and security whether provisions of Sections 185 and 186 of the companies Act, 2013 have been complied with. If not, provide details thereof. For this purpose of ensuring compliance of Sec.186, the auditor should:

- Obtain the details of the loans given to any person or other body corporate, guarantee given or security provided in connection with a loan to any other body corporate or person and securities acquired of any other body corporate by way of subscription, purchase or otherwise, made during the year as well as the outstanding balances as at the beginning of the year.
- Check whether the rate of interest is not lower than prevailing yield of one year, three-year, five year or ten-year government security closest to the tenor of the loan granted
- Check if the company is in default in the repayment of any deposits accepted or in payment of interest thereon, then the company is not allowed to give any loan or guarantee or any security or an acquisition till such default is subsisting.

- Non-compliance of Sec, 186 with respect to the inter-corporate loan may be reported incorporating following details:

S.No	Non-compliance of section 186				Remarks, if any
		Name of company/party	Amount Involved	Balance as at Balance Sheet Date	
1	Loan given at rate of interest lower than prescribed				
2	Any other default				

10. CARO, 2020 requires the auditor of the company to report whether maintenance of cost records has been specified by central government under Section 148 of the Companies Act 2013 and whether such records and accounts have been so made and maintained.

You are required to briefly explain the audit procedure to be followed by the auditor and suggest the reporting pattern

Ans.: Reporting requirement under CARO, 2020:

- Para 3(vi) of CARO, 2020 requires the auditor to comment “whether the maintenance of cost records has specified by the CG u/s 148(1) of the companies Act, 2013 and whether such accounts and records have been so made and maintained”.
- The word “made” applies in respect of cost accounts (or cost statements) and the word “maintained” applies in respect of cost records relating materials, labour, overheads, etc.
- The auditor has to report under the clause irrespective of whether a cost audit has been ordered by the central Government.
- The auditor should obtain the written representation from the management stating:
 - (a) Whether cost required to be maintained for any product(s) or services of the company u/s 148 of the Act, and the companies (cost records and audit) Rules, 2014; and
 - (b) Whether cost accounts and records are being made and maintained regularly.
- The auditor should also obtain a list of books/ records made and maintained in this regard.
- The Order does not require a detailed examination of such records. The auditor should, therefore, conduct a general review of cost records to ensure that the records as prescribed are made and maintained. He should, of course, make such reference to the records as is necessary for the purpose of his audit.
- It is necessary that the extent of the examination made by the auditor is clearly brought out in his report. The following wording is, therefore, suggested:

“We have broadly reviewed the books of account maintained by the company pursuant to the rules made by the Central Government for the maintenance of cost records under section 148 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.”

11. During the course of audit of M Ltd, it is noticed that 2 lakhs of employee contribution and 9.5 lakhs of employer contribution towards ESI contribution have been accounted in the books of

accounts in respective heads. Whereas, it was found that 4 lakhs only have been deposited with ESIC Department during the year.

The finance manager informed the auditor that due to financial crunch they have not deposited the amount due but will deposit the amount overdue along with interest.

as and when the financial position improves.

Comment as a statutory auditor.

Ans.: Reporting requirement under CARO w.r.t. payment of statutory dues:

- Para 3(vii) (a) of CARO, 2020 requires the auditor to comment whether the company is regular in depositing undisputed statutory dues including GST, provident fund, employees state insurance(ESI), Income-tax, Sales-tax, Wealth tax, service tax, Duties of customs, Duties of Excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extend of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable shall be indicated.
- SA 250 "Consideration of Laws and Regulations in an audit of financial statements, also requires the auditor to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination material amounts and disclosures in the financial statements.
- A company is required to deposit provident fund and employees state insurance dues to appropriate authorities within the period prescribed under the EPF Act and the rules governing it.
- In the present case company is not regular in depositing the provident fund/ESI contributions. The reason put forward by the chief accountant that the amount has not been deposited due to financial problems faced by the company is no excuse for not remitting the PF/ESI contributions.

Conclusion: Non-payment of PF/ESI contribution needs to be disclosed by the auditor in his audit report as per requirement of Para 3(vii) (a) of CARO, 2020.

12. Big and Small Ltd., received a show cause notice from GST department intending to levy a demand of 25 lakhs in December 2021.

The company replied to the above notice in January 22 contending that it is not liable for the levy. No further action was initiated by the GST department upon the finalization of audit for the year ended 31st March 2022. As the auditor of the company, what is your role in this?

Ans.: Reporting in case of statutory dues:

- Para 3(vii)(a) of CARO, 2020 requires the auditor to comment whether the company is regular in depositing undisputed statutory dues including GST, provident Fund, Employees state insurance (ESI), Income tax, sales tax, wealth tax, service tax duties of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they become payable shall be indicated.
- As per Para 3(vii) (b) of CARO, 2020, where statutory dues referred above have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

- A mere representation to the department shall not constitute the dispute.
- In the present case issuance of show cause notice by GST department does not tantamount to demand payable to the company. Inasmuch as the company as replied to the notice and no further correspondence was received from the department, it has to be constructed that there is no demand.

Conclusion: The auditor needs not to report on this.

13. XYZ Private Limited, has submitted the financial statements for the year ended 31/3/2022 for audit. The audit assistant observed and brings to your notice that the company's records show the following

- Income tax relating to Assessment Year 17-18 Rs. 125 lakhs- appeal is pending before Honorable ITAT since 30-09-2018.
- customs duty 85 lakhs -Demand notice received on 15/09/2021 but no action has been taken to pay or appeal. As an auditor, how would you bring this factor to the members?

Ans.: Reporting under CARO w.r.t. statutory Dues:

- Para 3(vii)(a) of CARO, 2020 requires the auditor to comment whether the company is regular in depositing undisputed statutory dues including GST, provident Fund, Employees state insurance (ESI), Income tax, sales tax, wealth tax, service tax, duties of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they become payable shall be indicated
- As per Para 3(vii) (b) of CARO, 2020, where statutory dues referred above have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.
- The auditor should obtain a management representation about the dispute dues, the amounts involved and the forum where the dispute is pending. The auditor should carry out necessary audit procedures to verify the information provided by the management.
- In the present case, there is Income Tax demand of ₹125lacs and the company has gone for an appeal, it should be brought to notice of members by reporting under Para 3(vii)(b) of CARO, 2020 as below:

S.No	Name of the Statute	Nature of Dues	Amount (in Lacs)	Period to which amount relates	Forum where dispute is pending
1	Income tax Act,1961	Income Tax	125.00	AY 2017-18	ITAT

In reference to demand notice received for custom duty of ₹85 lacs on 15.09.2021 for which company has not taken any action and is outstanding for more than 6 months, it leads to the irregularity which should be brought to notice of members by reporting under para 3(vii)(a) of CARO,2020.

14. O Ltd., has taken a term loan from a nationalized bank in 2017 for 200 lakhs repayable in five equal installments of 40 lakhs from 31st March 2018 onwards. It had repaid the loan due in 2018

and 2019, but defaulted in 2020, 2021 and 2022. As the auditor of O LTD, what is your responsibility assuming that company has sought reschedulement of the loan.

Ans.: Reporting w.r.t repayment of dues:

- As per Para 3(ix)(a) of CARO, 2020 auditors of a company are required to comment in his report whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and amount of default to be reported as per the format below:

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any

*Lender-wise details to be provided in case of defaults to banks, financial institutions and Government.

- As per the general instructions for preparation of balance sheet, provided under schedule to the companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts. It also requires disclosure of period and amount of continuing default as on the balance sheet date in repayment of loans and interest, separately in each case.
- Submission of application for reschedulement/restructuring does not mean that no default has occurred
- In this case O Ltd. Has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position.

Conclusion: The auditor has to report in his audit report that the company has defaulted in its repayment of dues to the bank to the extent of ₹120 lakhs.

15. Under CARO,2020 , as a statutory auditor, how would you comment on the following:

A term loan was obtained from a bank for 75 lakhs for acquiring R&D equipment, out of which 12 lakhs were used to buy a car for the use of a concerned director, who was overlooking the R & D activities.

Ans.: Utilization of Term Loans:

- Para 3(ix)(c) of CARO, 2020 requires the auditor to comment whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported.
- For this purpose, auditor should examine the terms and conditions of the term loan with the actual utilization of the loans. If the auditor finds that the fund has not been utilized for the purpose for which they are obtained, the report should state the fact.
- In the instant case, term loan was taken for the purpose of purchase of research and development equipment, but a part of it has been utilized for the purchase of vehicle for the use of Director.
- Purchase of vehicle for use by Director who was in charge of the R&D activities, cannot be considered as purchase of research and development equipment.

Conclusion: Auditor is required to report the fact in his audit report, Reporting may be as follows:

In our opinion and according to the information and explanations given to us, the company has utilized the money raised by the term loans during the year for the purposes for which they were raised, except for:

Nature of the fund raised	Name of lender	Amount diverted	Purpose for which amount was sanctioned	Purpose for which amount was utilized	Remarks

16. What are the reporting requirements in the audit report under the Companies Act 2013 / CARO 2020 for the following situations

- A fraud has been committed against the company by an officer of the company.
- A fraud has been committed against the company by a vendor of the company.
- The company has committed a major fraud on its customer and the case is pending in the court.
- A fraud has been reported in the cost audit report but not noticed by statutory auditor in his audit.

Ans.: Reporting under companies Act, 2013/CARO, 2020 w.r.t Fraud:

- Section 143(12) of companies Act, 2013 requires that if auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed. For this purpose, Rule 13 prescribes the amount of ₹1cr. or more.
- However, in case of a fraud involving lesser than the specified amount, i.e., below ₹1 cr., the auditor shall report the matter to the audit committee constituted u/s 177 or the board in other cases within such time and in such manner as may be prescribed.
- Para 3(xi) of CARO, 2020 requires the auditor to comment whether any fraud by the company or any fraud in the company has been **noticed or reported** during the year; if yes, the nature and the amount involved is to be indicated.
- Accordingly, reporting requirements will be:

S.No	Situation	Reporting under companies act, 2013	Reporting under CARO, 2020
1	A fraud has been committed against the company by an officer of the company	Reporting required to C.G if amount of fraud exceeds ₹1 cr.	Nature of fraud and amount involved need to be reported under Para 3(xi)
2	A fraud has been committed against the company by a vendor of the company	No reporting required	Nature of fraud and amount involved need to be reported under Para 3(xi)
3	The company has committed a major fraud on its customer and the case is pending in the court	Effect of such fraud on financial statements need to be reported	Nature of fraud and amount involved need

			to be reported under Para 3(xi)
4	A fraud has been reported in the cost audit report but not noticed by statutory auditor in his audit	Effect of such fraud on financial statements need to be reported	Nature of fraud and amount involved need to be reported under Para 3(xi)

17. CARO 2020, has made several significant changes and has introduced many new reporting requirements, as compared to CARO 2016. In the view of the above, described the relevant clause relating to the company's compliance with net own funds to deposit requirement and the relevant provisions.

Ans.: Clause relating to NIDHI companies under CARO, 2020:

Clause (xii) of para 3 of CARO, 2020 requires the auditor certain matters relating to Nidhi companies. The matter on which auditor is required to report are:

- Whether the Nidhi company has complied with the net owned fund to deposit in the ratio of 1:20 to meet our liability and
- Whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi rules, 2014 to meet out the liability.
- Whether there has been any default in payment of interest on deposit or repayment thereof for any period and if so, the details thereof;

Audit procedures for Verification and Reporting:

- Ministry of Corporate Affairs on 31st March 2014, vide its Notification No. GSR 258(E) notified the 'Nidhi Rules. 2014', which came into force on the first day of April 2014.
- As per Rule 3(d) Net owned funds are defined as the aggregate of paid-up equity share capital and free reserves as reduced by accumulated losses and intangible assets appearing in the last audited balance sheet. Provided that, the amount representing the proceeds of issue of preference shares, shall not be included for calculating Net Owned Funds.
- A Nidhi company can accept fixed deposits, recurring deposits and savings deposits from its members in accordance with the directions notified by the central Government. The aggregate of such deposits is referred to as "deposit liability".
- The auditor should ask the management to provide the computation of the deposit liability and net owned funds on the basis of the requirements mentioned above. This would enable him to verify that the ratio of deposit liability to net owned funds is in accordance with the requirements prescribed in this regard.

18. In the course of audit of M limited, your audit team has identified the following matter
An amount of 4 lakhs per month for marketing services rendered is paid to M/s MG & Associates, a partnership firm in which director of M Limited is also a managing partner, with a profit-sharing ratio of 30%. Based on an independent assessment, the consideration paid is higher than the arm's Length price by 1.5 lakhs per month. Whilst the transactions were accounted in the financial statements based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts.
Give your comments for reporting under CARO 2020.

Ans.: Reporting of related party transactions under CARO:

- Clause (xiii) of para 3 of CARO, 2020, requires the auditor to report whether all transactions with the related parties are in compliance with sections 177 and 188 of companies Act, 2013 where applicable and the details have been disclosed in the financial statement etc., as required by the applicable accounting standards.
 - Therefore, the duty of the auditor, under the clause is to report:
- I. Whether all transactions with the related parties are in compliance with sections 177 and 188 of the companies Act, 2013.
 - II. Whether related party disclosures as required by relevant accounting standards (As 18, as may be applicable) are disclosed in the financial statements.
 - In the given case, MG Associates is a related party and also rendering marketing services to MM Ltd. in return of consideration of ₹4 Lakhs which is related party transaction. No separate disclosure has been made in the notes to accounts in this context, which was required to be made.

In view of above, Auditor shall report as under:

1. Nature of the related party relationship and the underlying transaction: MG Associates is a partnership firm in which direction of MM Ltd is also managing partner, with a profit sharing ratio of 30%. Payment of ₹ 4 Lakhs to MG Associates is a related party transaction.
 2. Amount involved is consideration for the marketing services rendered by MG Associates (₹ 4 Lakhs p.m.) is higher than the arm's length pricing by ₹ 1.50 lakhs p.m. (₹ 18 lakhs p.a.)
19. Whilst the audit team has identified various matters. They need your advice to include the same in your audit report in view of CARO 2020.
- The long-term borrowings from the parent have not agreed terms and neither the interest nor the principal has been repaid so far. **(MPT – Nov 21)**
 - The company is in the process of selling its office along with the freehold land available at Chandigarh and is actively on the lookout for potential buyers whilst the same was purchased at 25 lakhs in 2008, the current market value is 250 Lakhs.
This property is pending to be registered in the name of company due to certain procedural issue associated with registration, though the company is having a valid possession and has paid its purchase cost in full. The company has disclosed this amount under Fixed assets though no disclosure of non-registration is made in the notes forming part of the accounts. **(MPT Oct-2021)**
 - An amount of 3.25 lakhs per month is paid to Messrs. WE CARE Associates, a partnership firm which is a related party in accordance with the provisions of the Companies Act 2013, for the marketing services rendered by the. Based on an independent assessment, the consideration paid is higher than the constant price by 0.25 lakhs per month. Whilst the transaction was accounted in the financial statement based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a related party transaction. **(MPT Oct 19, MPT Nov 21)**
 - The internal auditor of the company has identified a fraud in the recruitment of employees by the HR department when certain sums were alleged to have been taken as a kickback from the employee for taking them on board with the company. After the investigation,

the concerned HR manager was sacked. The amount of such kickbacks expected to be in the range of 12 Lakhs. **(MPT Mar 2019, RTP May 19)**

Ans.: Reporting under CARO, 2020

- a) Auditor is required to report the matter as per para 3(xiii) of CARO, 2020 which requires him to report “whether all transactions with the related parties are in compliance with sections 177 and 188 of companies Act, 2013 where applicable and the details have been disclosed in the financial statement etc., as required by the applicable accounting standards”.
- b) Auditor is required to report the matter as per para 3(i) (c) of CARO, 2020 which requires him to report, “whether the title deeds of all the immovable properties disclosed in the financial statements are held in the name of the company. If title deeds are not held in name of the company, details thereof to be provided in the below mentioned format:

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held indicate range, where appropriate	Reason for not being held in name of company*

*Also indicate if in dispute

- c) Auditor is required to report the matter as per para 3(xiii) of CARO, 2020 which requires him to report “whether all transactions with the related parties are in compliance with sections 177 and 188 of companies Act, 2013 where applicable and the details have been disclosed in the Financial statements etc., as required by the applicable accounting standards”. Reporting is required, as one of related party transaction ₹3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹0.25 lakh per month is exceeding the arm’s length price has not been disclosed highlighting the same as related party transactions as per AS 18
- d) Auditor is required to report the matter as per para 3(xi) of CARO, 2020 which requires him to report, “whether any fraud by the company or any fraud on the company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated”.

Reporting is required, as a fraud has been identified in recruitment of employees by the HR department wherein certain sums were alleged to have been taken as Kickback from the employees of company amounting to ₹12 lakhs. Approx.

Company Audit (sec 139 to 148)

1. ABC Private Limited, a new company, incorporated on 01/07/2021, is engaged in the manufacturing business. On 30/07/2021, the managing director of ABC Private Limited himself appointed CA Mohan, his daughter's husband as the first auditor of the company. You are required to
 - (i) State the provisions of the Companies Act 2013 relating to appointment of first auditor.
 - (ii) Comment on the action of the managing director.

Ans.: Appointment of First Auditor of Non-Govt. Company:

- Section 139(6) of the companies Act, 2013 lays down that “the first auditor or auditors of a company shall be appointed by the Board of directors within 30 days from the date of registration of the company.”
- In the instant case, the appointment of CA Mohan, a practicing chartered accountant as first auditors by the managing Director of ABC Pvt. Ltd. By himself is in violation of section 139(6) of the companies act, 2013, which authorizes the board of directors to appoint the first auditor of the company.

Conclusion: In the view of the above, the managing director of ABC Pvt. Ltd. Should be advised not to appoint the first auditor of the company.

Note: As the appointment of CA Mohan as such is not valid, there is no relevance of any discussion with regard to his relationship with the managing director.

2. First auditor of M/s. Healthy Wealthy limited, a government company, was appointed by the Board of directors. Comment.

Ans.: Appointment of first Auditor of Govt. Company

- Section 139(7) of the companies Act, 2013 lays down that in the case of a government company or any other company owned or controlled, directly or indirectly, by the CG, or by any SG, or SGs, or partly by the CG and partly by one or more SGs, the first auditor shall be appointed by the CAG of India within 60 days of registration of the company.
- In case the CAG of India does not appoint such auditor within the said period, the BOD of the company shall appoint such auditor within the next 30 days.
- In the case of failure of the board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor within 60days at an EGM.
- Hence in the case of M/s Healthy Wealthy Ltd., being a government company, the first auditor shall be appointed by the CAG of India.

Conclusion: The appointment of the first auditor made by the board of directors of M/s Healthy Wealthy Ltd., is null and void.

3. At the AGM of ICI limited, Mr. X was appointed as the statutory auditor. He however, resigned after three months since he wanted to give up practice and join industry. State

how the new auditor will be appointed by ICI limited, and the conditions to be complied for.

Ans.: Filling of Casual vacancy:

- As per Sec. 139(8) of the companies Act, 2013, any casual vacancy in the office of an auditor may be filled by Board of Directors within thirty days.
- However, if casual vacancy has been created by the resignation of the auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the board.
- The auditor so appointed shall hold office till the conclusion of the next annual general meeting.

Conclusion: In this case, the casual vacancy has been created on account of resignation. Therefore, Board of Directors will have to fill the vacancy within thirty days and such appointment shall be approved by the company at the general meeting within three months of the recommendations of the board. The new auditor so appointed shall hold office only till the conclusion of the next AGM.

4. **At an AGM of a listed company, Mr. R, retiring auditor, after completing the tenure of five consecutive years of service claims that he has been reappointed automatically, as the intended resolution of which a notice has been given to appoint Mr. P could not be preceded with due to P's death.**

Ans.: Restrictions over tenure of Auditor (Rotation of Auditor)

- As per Sec. 139(2) of the companies Act, 2013, listed companies and other prescribed class of companies shall not appoint or reappoint an individual as auditor for more than one term of five consecutive years.
- Sec. 139(10) of companies Act, 2013 provides that if no auditor is appointed or reappoint at AGM, existing auditor will continue.
- In the given case, notice has been given of an intended resolution to appoint some person or persons in the place of a retiring auditor, and by reason of the death, incapacity or disqualification of that person or of all those persons, as the case may be, the resolution cannot be proceeded with.
- In the instant case, if Sec. 139(10) of the companies Act, 2013 is invoked, it results into violation of Sec. 139(2). However, Mr. R cannot continue as auditor due to restrictions of Sec. 139(2).

Conclusion: Mr. R cannot continue as auditor of the company due to rotation provisions. Companies Act, 2013 does not provide any provisions for such kind of situations, hence it can be concluded that vacancy arises in the office of auditor which need to be filled by company in EGM.

5. **X Limited is an unlisted public company. Its Balance sheet shows a paid up share capital of 7.5 crore, and public deposits of 70 crores. The company appointed Messrs ABC and Company, a CA firm, as a statutory auditor in its AGM held at the end of September 2021 for 11 years. Comment.**

Ans.: Rotation of Auditor and cooling off period provisions:

- As per Section 139(2) of the companies Act, 2013, no listed company or a company belonging to such class or classes of companies as prescribed, shall appoint or reappoint-

- a. An individual as auditor for more than one term of five consecutive years; and
- b. An audit firm as auditor for more than two terms of five consecutive years.
- Rule 5 of companies (Audit and Auditors) Rules, 2014, prescribes the following classes of companies (excluding OPC and small companies) for the purpose of rotation:
 - a) All unlisted public companies having paid-up share capital of ₹ 10 crore or more;
 - b) All private limited companies having paid-up share capital of ₹ 50 crore or more;
 - c) All companies having paid-up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of ₹ 50 crores or more.
- In the given case, X Ltd. Is an unlisted public company having paid-up share capital of ₹ 7.50 crores and public deposits of ₹ 70 crores, the provisions relating to rotation of auditor will be applicable.

Conclusion: X Ltd. cannot appoint the auditor for more than two terms of five consecutive years each, i.e., M/s ABC & Co. shall hold office from the conclusion of this meeting upto conclusion of 6th AGM to be held in the year 2026 and thereafter can be reappointed as auditor for one more term of five years i.e. upto year 2031. As a result, the appointment of M/s ABC & Co. made by X Ltd. for 11 years is void.

6. **M/s. ABC and Co., is an audit firm having partners, Mr. A, Mr. B and Mr. C, whose tenure as a statutory auditor in R limited, an unlisted company, has expired, as per the Companies Act 2013. M/s XY, is another audit firm, which is appointed as a statutory auditor of R limited for the subsequent year. Mr. A joins M/s XY, as partners, three months after it was appointed as a statutory auditor of R limited. Comment**

May 17 (5 marks)

Ans.: Applicability of Rotation provisions:

- Sec 139(2) of companies Act, 2013 provides that no listed company or other prescribed companies, shall appoint or reappoint and audit firm as auditor for more than two terms of five consecutive years.
- As audit firm which has completed its term, shall not be eligible for reappointment as auditor in the same company for five years from the completion of such term.
- It is also provided that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.
- In the present case, on completion of tenure of M/s ABC & Co., retiring auditor, company has appointed M/s. XY as their auditor. After three months of the appointment of XY Ltd. as auditor, Mr. A, joins M/s. XY as partner. As per provisions of Sec. 139(2), incoming auditor shall not be eligible for appointment in case of common partner as on date of appointment. But in this case, there were no common partner as on date of appointment. Mr. A joins after three months of appointment.

Conclusion: Applying the provisions of Sec. 139(2), no issue arises as there were no common partners as on date of appointment.

Note: Interpretation of this provision appears to be against the intention of law, which intends for the cooling off period of retiring auditor for a period of 5 years in case of listed and other prescribed companies.

7. Under which circumstances, the retiring statutory auditor of a company cannot be reappointed.

Jan 21 (5 marks) (old Syllabus)

Ans.: Reappointment of retiring Auditor:

A retiring auditor cannot be reappointed at an annual general meeting, if-

- I. He is disqualified for reappointment;
 - II. He has given the company a notice in writing of his unwillingness to be reappointed; and
 - III. A special resolution has been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed;
 - IV. Where at any annual general meeting, other auditor is appointed or reappointed.
8. **Comment. "M/s PQR and Co. audit firm has been reappointed as a sole statutory auditor of a listed company in the AGM, where till last year M/s LMN and Co., audit firm was also one of the joint auditors along with M/s PQR & Co.**

One tenure of consecutive five years of both the firm Gets completed in the mentioned AGM. Mention the steps that should be taken by M/s PQR before commencing the audit.

Ans.: Appointment of sole auditor:

When one of the joint auditors of the previous year is considered for re appointment by the members as the sole auditor for the next tenure, it is similar to non re appointment of one of the retiring joint auditors. As per sec. 140(4) of the companies Act, 2013, special notice shall be required for a resolution at an AGM appointing as auditor a person other than a retiring auditor or providing expressly that a retiring auditor shall not be re-appointed, except where the retiring auditor has completed a consecutive tenure of five tears or, as the case may be, ten years, as provided u/s 139(2).

Accordingly, provisions of the companies Act, 2013 to be complied with are as under;

1. **Special Notice:** Ascertain that special notice u/s 140(4) of the companies Act, 2013 was received by the company from requisite number of members (1% of total voting power or paid-up capital not less than ₹ 5lacs) at least 14 days before the AGM date.
2. **Sending copy of notice:** Check whether the said notice has been sent to all the members at least 7 days before the date of the AGM.
3. **Contents of Notice:** Verify that the notice contains an express intention of a member for proposing the resolution for appointing a sole auditor in place of both the joint auditors who retire at the meeting but are eligible for re-appointment.
4. **Notice to Auditor:** Ensure that the notice has also been sent to the retiring auditor.
5. **Sending the representation:** Verify whether any representation, received from the retiring auditor was sent to the members of the company.
6. **Consideration of representation:** Verify from the minutes book whether the representation received from the retiring joint auditor was considered at the AGM.

In addition to requirements of companies Act, 2013, auditor is required to ensure the compliance of clauses 8 and 9 of part 1 of first schedule to chartered accountants Act, 1949.

9. **PQR Company Ltd, removed their first auditor by passing a resolution in the meeting of the Board of Directors for his removal without obtaining prior approval from the Central government. Offer your comments in this regard**

Ans.: Removal of first Auditor:

- As per Sec. 140(1) of the companies Act, 2013, an auditor appointed u/s 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the prior approval of the central Government.
- For this purpose, an application to the the central Government for the removal of auditor shall be made in form ADT-2 and shall be accompanied with prescribed fees.
- The application shall be made to the central government within thirty days of the resolution passed by the board.
- The company shall hold the general meeting within sixty days of receipt of approval of the central government for passing the special resolution.
- In the instant case the first auditor appointed by the board of directors was removed by a resolution in the meeting of the board of directors in spite of the special resolution of the company and without the prior approval of the central government in that behalf.

Conclusion: Removal of auditor is invalid as special resolution has not been passed and approval of central Govt. not obtained.

10. **The auditor of M/s Quick limited succumbed to the pressure of the management in certifying the financials with an overstated figure of turnover by not adhering to the cut-off principle of the timescale for the transaction of the year. On taking cognizance of this act of the auditor, the Tribunal under the Companies Act 2013, initiated the proceedings against him.**

Briefly list the power of the tribunal in this respect, including those relating to making orders against the auditor found to be guilty.

May 18 (4 marks)

Ans.: Power of Tribunal in case Auditor acted in a fraudulent manner:

- Sec. 140(5) of the companies Act, 2013, provides that the tribunal either suo motu or on an application made to it by the central government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors.
- However, if the application is made by the central government and the tribunal is satisfied that any change of the auditor is required, it shall within 15 days of receipt of such application, make an order that he shall not function as an auditor and the central government may appoint another auditor in his place.
- It may be noted that an auditor, whether individual or firm, against whom final order has been passed by the tribunal under this section shall not be eligible to be appointed as an

auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447 of the said act.

- It is hereby clarified that the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.

11. Questions on Disqualification of Auditor

- Mr. A, a practicing chartered accountant is holding securities of XYZ limited having face value of Rs. 900. Whether Mr. A is qualified for appointment as an auditor of XYZ limited. Would your answer be different if instead of Mr. A, Mr. B, the stepfather of Mr. A is holding the securities
- BC and Co. is an audit firm having partners Mr. B and Mr. C. And Mr. A, the relative of Mr. C is holding securities of M Ltd, having face value of Rs. 101000. Whether BC and Co is qualified from being appointed as an auditor of M Limited.
- A chartered accountant has been appointed as the auditor of Laxman limited in the AGM of the company held in September 2021, which assignment he accepted. Subsequently in January 2022, he joined B, another chartered accountant, who is the manager finance of Laxman limited as a partner.
- Mr. Amar, a chartered accountant bought a car financed at Rs. 7 lakhs by Chaudhary finance limited, which is a holding company of Charan limited and Das limited. He has been the statutory auditor of Das limited and continues to be even after taking the loan.
- Mr. Aditya, a practicing chartered accountant is appointed as "tax consultant" of ABC Ltd, in which his father Mr. Shanghvi is a managing director.
- Mr. Ram, a relative of a director was appointed as an auditor of the company. Comment.
- Mr. B and Co., Chartered Accountants appointed as a statutory auditor of A limited for the financial year 21-22. The company is also in need of some actuarial services. Consequently, the board of directors of the company offered the same to Mr. Srivastava and company, an associate to M/s B & Co. which has been duly accepted by the firm. Comment.
- PQ & Co. is an audit firm with P and Q as partners for the financial year 21-22. The firm has been appointed as a statutory auditor of M/s Mango Orchards Hotel Limited. The audit firm is a regular customer of the hotel, and the partners usually stay in the same hotel at various location in the course of traveling for their various professional assignments. Normally, payments for such stay are settled against quarterly bills raised by the company. Give your comment with respect to the Companies Act 2013.

May 19 (New Syllabus) (4 marks)

a.Ans : Disqualification as to security:

As per section 141(3)(d)(i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

However, the relative of the auditor may hold the securities or interest in the company of the face value not exceeding ₹ 1, 00,000.

Conclusion: In the present case, Mr. A. is holding security of ₹ 900 in the XYZ Ltd., therefore he is not eligible for appointment as an auditor of "XYZ Ltd".

However, in the second case, Mr. A is eligible, as relative may hold securities of face value up to ₹ 1lac

b.Ans .: Disqualification as to security:

- As per section 141(3)(d)(i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company.
- However, the relative of the auditor may hold the securities or interest in the company of the face value not exceeding ₹ 1, 00,000.

Conclusion: In the instant case BC & Co, will be disqualified for appointment as an auditor of MWF Ltd. as the relative of Mr. C i.e. partner of BC & Co., is holding the securities in MWF Ltd. which is exceeding the limit mentioned in provision to section 141(3)(d)(i).

C.Ans .:Disqualification as to security:

- Section 141(3)(c) of the companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company.
- Sec. 141(4) provides that an auditor who becomes subject, after his appointment, to any of the disqualifications specified in sec. 141(3), he shall be deemed to have vacated his office as an auditor.

Conclusion: In the present case, A, an auditor of M/s Laxman Ltd., joined as partner with B, who is Manager Finance of M/s Laxman Limited, will be disqualified by Sec. 141(3)(c) and, therefore, he shall be deemed to have vacated office of the auditor of M/s Laxman Limited.

d.Ans .: Disqualification as to indebtedness:

- As per Sec. 141(3)(d)(ii) of the Companies Act, 2013, a person is not eligible for appointment as auditor of any company, if he is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of ₹ 5lacs.
- In the given case Mr. Amar is disqualified to act as an auditor u/s 141(3)(d)(ii) as he is indebted to M/s Chaudhary finance Ltd. for more than ₹ 5 lacs.
- Further he cannot act as an auditor of any subsidiary of Chaudhary finance Ltd. i.e. he is also disqualified to work in Charan Ltd. & Das Ltd.
- Further Sec. 141(4) provides that a person appointed as auditor incurs any of disqualification mentioned u/s 141(3) after his appointment, he shall vacate the office immediately and it will be treated a casual vacancy.

Conclusion: Mr. Amar should vacate his office immediately and Das Ltd. must have to appoint any other CA as an auditor of the company.

e.Ans .: Appointment of relative as tax consultant:

- Sec. 141(3)(f) of companies Act, 2013 disqualifies a person to be appointed as auditor whose relative is a director or is in employment o the company as director or key managerial personnel.
- However, no such disqualification is prescribed under the law for appointing a person as a tax consultant. therefore sec. 141(3)(f) will not be attracted.

Conclusion: Mr. Aditya can be appointed as tax consultant irrespective that his father is the managing director of the company.

f.Ans.: Appointment of director's relative as auditor:

- Sec. 141(3)(f) of companies Act, 2013 disqualifies a person to be appointed as auditor whose relative is a director or is in employment of the company as director or key managerial personnel.
- The term relative has been defined u/s 2(77) of and explained under Rule 4 of the companies (Specification of Definitions Details) Rules, 2014. As per Sec. 2(77) the term relative with reference to any person, means who anyone who is related to another, if they are members HUF; they are husband and wife; or related to the other in prescribed manner. Rule 4 provides that a person shall be deemed to be relative of another, if he or she is related to another as father, mother, son, son's wife, daughter's husband, brother or sister.

Conclusion: Assuming that Mr. Ram falls within the above mentioned relations, he should not accept the appointment as an auditor of that company.

g.Ans.: Services not be rendered by auditor:

- Sec. 141(3)(i) of the companies Act, 2013 disqualify a person who, directly or indirectly, renders any service referred to in Sec. 144 to the company or its holding company or its subsidiary company.
- Sec. 141(4) of the Act provides that where a person appointed as an auditor of a company incurs any of disqualifications mentioned in Sec.141(3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.
- As per Sec. 144 of companies Act, 2013 an auditor appointed under this Act shall not provide certain service, directly or indirectly to the company or its holding company or subsidiary company. List of such services include actuarial services.
- In the given case, M/s B & Co., chartered Accountants, was appointed as an auditor of R Ltd. and, the company offered actuarial services to M/s Srivastava & Co., an associate to M/s B & Co., which has also duly accepted by the firm.

Conclusion: M/s B & Co. is disqualified to hold office as an auditor of R Ltd. u/s 141(3)(i) as its associate is involved in provided such services, to R Ltd., as mentioned in Sec. 144. Subsequently, M/s B & Co. shall have to vacate the office of auditor of R Ltd.

h.Ans.: Auditor's disqualifications as to business relationship:

- As per Sec. 141(3)(d)(ii) of the companies Act, 2013 read with Rule 10 of companies (Audit and auditors) Rules, 2014, a person who is indebted to the company for an amount exceeding ₹ 5 lacs shall be disqualified to be appointed as auditor.
- As per section 141(3)(e) of companies Act, 2013, a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding

or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed, is disqualified to be appointed as auditor of that company.

- As per Rule 10 of companies (Audit and Auditors) Rules, 2014, the term “ business relationship” shall be constructed as any transaction entered into for a commercial purpose, except:
 - I. Commercial transactions which are in nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules and regulations made under those Acts;
 - II. Commercial transactions which are in ordinary course of business of the company at arm’s length price- like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.
- In the present case, audit firm is a regular customer of the client running a hotel and the partners usually stay in the same hotel at various locations in the course of travelling for their various professional assignments. Normally, payments for such stay are settled against quarterly bills raised by the company

Conclusion: No disqualification arises as the services availed are in ordinary course of business of client and cannot be considered as business relationship. (It is assumed that outstanding does not exceed ₹ 5 lacs.)

12. A & Co. is an audit firm, having partners, Mr. A, Mr. B and Mr. C, Chartered Accountants. Mr. A, Mr. B and Mr. C are holding appointment as an auditor in 4, 6 and 10 companies respectively.

- (i) Provides the maximum number of audits remaining in the name of A & Co.
- (ii) Provides the maximum number of audits remaining in the name of individual partners i.e Mr. A, Mr. B and Mr. C.
- (iii) Can A& Co. accept the appointment as an auditor in 60 private companies having paid up capital of less than 100 crores and which has not committed default in filing its financial statements under Section 137 and Annual return under Section 92 of the Companies Act with the registrar, 2 small companies and 1 Dormant company.
- (iv) Would your answer be different if out of those 60 private companies, 45 companies are having paid up share capital of 110 crores each?

(MTP Oct 18, RTP Nov 19)

Ans.: Ceiling on Number of Audit:

As per Sec. 141(3)(g) of the companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person company, dormant companies, small companies and private companies having paid up share capital less than ₹ 100 crores, which has not committed default in filling its financial statements u/s 137 or annual return u/s section 92 of the companies Act with the registrar.

As per Sec. 141(3)(g), this limit of 20 company audit is per person. In the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits. Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

- i. A & Co. can hold appointment as an auditor of 40 more companies as computed below:
 Total number of audits available to the firm $= 20 \times 3 = 60$
 Number of audits already taken by all the partners
 In their individual capacity $= 4+6+10 = 20$
 Remaining number of audits available to the firm $= 40$
- ii. Mr. A can hold: $20-4 = 16$
 Mr. B can hold $20-6 = 14$ more audits and
 Mr. C can hold $20-10 = 10$ more audits.
- iii. M/s ABC & Co. can hold appointment as an auditor in all the 60 private companies having paid up share capital less than ₹ 100 crores, 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the companies Act, 2013.
- iv. M/s ABC & Co. can also accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies paid up share capital less than ₹ 100 crores and 40 private companies having already paid up share capital of ₹ 110 crores in addition to the above 20 company audits already holding.
- v.

13. CA Govind was appointed by DEP limited as a statutory auditor. While doing the audit of DEP limited. C A. Govind observed that certain loans and advances were made without proper securities, certain trade receivables and trade payables were adjusted inter se and personal expenses were charged to revenue.

As a company auditor, comment on the reporting responsibility of CA Govind.

Nov 19 (New Syllabus) (5 marks)

Ans.: Inquiry into property matters u/s 143(1):

- Section 143(1) of the companies Act, 2013 requires the auditor to conduct inquiry into certain matters and if the auditor finds the answer of any of those matters in adverse, auditor is required to report, otherwise no reporting is required. In relation to observations stated in the questions, the auditor should inquire as follows:
 1. Clause (a) of section 143(1) requires the auditor to inquire “whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members”
 2. Clause (b) of section 143(1) requires the auditor to inquire “Whether the transactions of the company which are represented merely by book entries are prejudicial to the interests company”.
 3. Clause (e) of section 143(1) requires the auditor to inquire “whether personal expenses have been charged to the revenue account”.
- If the auditor finds that the loans and advances have not been properly secured, he may enter an adverse comment in the report without modifying opinion on financial statements

if the loans and advances are properly described and presented in terms of part 1 of schedule III to the companies Act.

- If relation to his observation regarding inter se adjustment of trade receivables and trade payables, being a book entry, auditor should have inquired into the legitimate interests of the company. If appears prejudicial, he may enter adverse comment in the report.
- Regarding charging of personal expenses to revenue account auditor should inquire whether such expenses are incurred on the basis of the company's contractual obligations, or in accordance with accepted business practice. If personal business expenses incurred by the company are not covered by contractual obligations or by accepted business practice and charged to revenue account, it would be duty of the auditor to report thereon.

Conclusion: In the instant case, Mr. G, the statutory auditor of DP Ltd., needs to enquire in the light of above provisions, as a result of the enquiries if he is satisfied then there is no further duty to report on these matters.

14. What are the statements of facts that an auditor has to report u/s 143 of the Companies Act, 2013.

Ans.: Statements of Facts to be reported u/s 143:

Section 143(3) of companies Act, 2013 requires the auditor the comment on the following in addition to opinion on true and fair view of financial statements:

- a) Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
- b) Whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
- c) Whether the report on the accounts of any branch office of the company audited u/s 143 (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
- d) Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
- e) Whether, in his opinion, the financial statements comply with the accounting standards;
- f) The observations or comments of the auditors on financial transactions or matter which have any adverse effect on the functioning of the company;
- g) Whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;
- h) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- i) Whether the company has adequate internal financial control with reference to financial statements in place and the operating effectiveness of such controls;
- j) Such other matters as may be prescribed.

Rule 11 of the companies (Audit and Auditors) Rules, 2014 prescribes the other matters to be included in auditor's report.

15. What are the duties of an auditor regarding disqualification of directors under Section 164(2) of the Companies Act 2013.

May 09 (8 marks)

Ans.: Auditor's duties w.r.t. Director's disqualifications:

- Sec. 143 (3) (g) of the companies Act, 2013 imposes a specific duty on the auditor to report whether any director is disqualified from being appointed as directors u/s 164 (2) of the companies Act, 2013.
- As per Sec. 164 (2) of companies Act, 2013, no person who is or has been a director of a company which
 - a) has not filed financial statements or annual returns for any continuous period of three financial years; or
 - b) has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared any such failure to pay or redeem continues for one year or more,shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.
- Rule 14(1) of companies (Appointment and qualification of directors) rules, 2014 requires every director to inform to the company concerned about his disqualification u/s 164(2), if any, in Form DIR-8 before he appointed or reappointed.
- The auditor is required to ensure whether the director has submitted DIR-8 to the company at the time of appointment or reappointment.
- Auditor may also request for inspection of DIR-8 available with the company and obtain a copy of the same for the purpose of his record.

16. The board of directors of a company have filed a complaint with ICAI against their statutory auditor for their failing to attend the AGM of the shareholders in which audited accounts were considered.

Comment.

Ans.: Auditor's Attendance at Annual General Meeting:

- Sec. 146 of the companies Act, 2013 requires the auditor of a company to attend either by himself or through his qualified authorised representative to attend the general meeting, unless exempted.
- The said section provides that all notices and other communications relating to any general meeting of a company shall also be forwarded to the auditor.
- Further, it has been provided that the auditor shall have right to be heard at such meeting on any part of the business which concerns him as an auditor.

Conclusion: Complaint filed by the board of directors is valid if the auditor was not being exempted by the company.

17. Comment on the following: C Ltd., appointed CA Innocent as an auditor of the company for the current financial year. Further, the company offered him the services of actuarial, investment advisory and investment banking which was also approved by the Board of Directors. (MTP Oct 19)

Ans.: Services not to be rendered by the auditor:

Sec. 144 of the companies act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under this act shall provide to the company only such other service as are approved by the board of directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- i. Accounting and book keeping services;
- ii. Internal audit
- iii. Design and implementation of final information system;
- iv. Actuarial services;
- v. Investment advisory services;
- vi. Investment banking services;
- vii. Rendering of outsourced financial services;
- viii. Management services; and
- ix. Any other kind of services as may be prescribed.

Further Sec. 141(3)(i) of the companies act, 2013 also disqualify a person for appointment as an auditor of a company who, directly or indirectly, renders any service referred to in Sec. 144 to the company or its holding company or its subsidiary company.

In the given case, CA Innocent was appointed as an auditor of contravene Ltd. He was offered additional services of actuarial, investment advisory and investment banking which was also approved by the board of directors.

Conclusion: The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per Sec. 144 of the Act.

18. Sugar Limited is a top sugar manufacturer and exporter in India operating from Noida Specific economic zone, Uttar Pradesh. Its revenue from sale and export for the immediately preceding financial year is given below.

- (i) Sale within India: 1157 lakhs
- (ii) Sale outside India (export): 1353 lakhs
- (iii) Total revenue: 2510 lakhs.

Mr. X, the statutory auditor of Sugar Limited is of the view that the company is mandatorily required to include cost records in the books of accounts and consequently conduct cost audit. He also suggested the name of his friend who is a Cost Accountant in practice for the purpose of such cost audit. However, the management is of the view that the company neither required including cost records in their books of accounts nor to conduct the cost audit.

Being an expert in cost records and audit rules, you are required to guide the management in this regard.

Ans.: Applicability of provisions related to cost records and audit:

- The provisions relating to cost records and audit are governed by section 148 of the companies act, 2013 read with the companies (cost records and audit) rules, 2014. The

audit conducted under this section shall be in addition to the audit conducted under section 143.

- Rule 3 of the companies (cost records and audit) rules, 2014 provides the classes of companies (including foreign companies) required to include cost records in their books of account if they are having turnover ₹ 35 Cr. or more during immediately preceding final year. The said rule has also divided the list of companies into regulating sectors and non regulating sectors. Company belonging to sugar industry is one of the types of companies prescribed under the regulating sector.
- Rule 4 of companies (cost records and audit) rules, 2014 requires audit of cost records in case of regulating sector industries if final turnover from all products and services in immediately preceding financial year is ₹ 50 cr. or more and turnover of individual product or service is ₹ 25 cr. or more.
- Rule 4 further provides that requirement of cost audit shall not apply to a company whose revenue from exports in foreign exchange exceeds 75% of total revenue or which is operating from a SEZ.
- In the given case, Sugar Ltd., a sugar manufacturer and exporter in India, is operating from Noida specific economic zone, Uttar Pradesh and its turnover for immediate preceding year is just ₹ 25.10 Cr.

Conclusion: Sugar Ltd. is not required to include cost records in their books of account in accordance with Rule 3 of the companies (cost records and audit) rule, 2014 and no cost audit is required.

19. B Ltd., decided to appoint Mr. Rajiv, a Chartered accountant, as a branch auditor for the audit of its Lucknow branch accounts for the year 2021-22. The decision to appoint the branch auditor was taken by the board resolution in the meeting of board of directors of the company held in April 2021, subject to shareholders approval in the AGM of the company scheduled to be in June 2021.

Meanwhile, the principal auditor of the company raised an objection that the branch auditor cannot be appointed without his consent.

Advise whether the objection reached by the company auditor is valid.

(RTP Nov 19)

Ans.: Appointment of Branch Auditor:

- As per Sec. 143(8) of the companies act, 2013, where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.
- In the instant case, Bhishm Limited decided to appoint Mr. Rajvir, chartered accountant, as the branch auditor for the audit of its lucknow branch accounts and the decision to appoint branch auditor was taken by way of board resolution in the meeting of board of direction of the company subject to shareholders' approval in AGM of the company.

Conclusion: Objection raised by the company auditor is not valid as per section 143(8) of the companies act, 2013 and board has authority to appoint branch auditor but should be approved by the shareholders in general meeting.

Accounts of Company

20. M/s ALM LTD., is into the business of trading of toys since 2001. The company was performing well till the year 2016 And after that sales started showing downward trend. The company had borrowed working capital funds from LP Bank limited on 01.08.2021, account of the borrower was classified as NPA. Bank appointed forensic auditor to identify if any diversion of funds is there or not. Forensic auditor confirmed the diversion of funds. Matter went to the court of law and company was asked to recast its financial statements for the last five years. Management contended that the **Companies Act 2013 does not allow recasting for more than three preceding financial years. Do you agree with the views of the Management.**

July 21 (new Syllabus) (5 marks)

Ans: Reopening of accounts on courts or Tribunal order:

- Sec. 130 of companies Act, 2013 deals with the provisions relating to reopening of books of account and recasting of financial statements.
- A company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the C.G., the income tax authorities, the SEBI, any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the tribunal to the effect that:
 - i. the relevant earlier accounts were prepared in a fraudulent manner; or
 - ii. the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.
- In accordance with sub section (3) of Sec. 130, no order shall be made u/s 130(1) in respect of re-opening of books of accounts relating to a period earlier than 8 financial years immediately preceding the current financial year:
Provided that where a direction has been issued by the C.G. under the proviso to sub-section (5) of section 128 for keeping books of account for a period longer than eight years, the books of account may be ordered to be re-opened within such longer period.
- In the given case, company was asked to recast its financial statements for the last 5 years.

Conclusion: Management contention that companies act, 2013 does not allow recasting for more than 3 preceding financial years is not valid.

21. **PC & Co., Chartered Accountants, are the statutory auditors of various categories of companies and bodies corporate. In exercise of the power conferred under subsection (2) and (4) of section 132 of the Companies Act 2013, the central government made the National Financial Reporting Authority rules ,2018 (NFRA Rules) (MCA notification dated 13th November 2018).**

The audit firm seeks your guidance on the applicability of those categories of companies and bodies corporate, which are covered by NFRA rules.

Nov 20 (New Syllabus) (5 marks)

Ans.: Companies and bodies corporate which are covered by NFRA Rules:

As per Rule 3 of NFRA Rules, 2018, NFRA shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service u/s 132(2) or undertake investigation u/s 132(4) of the auditors of the following class of companies and bodies corporate:

- a) Companies whose securities are listed on any stock exchange in India or outside India;
- b) Unlisted public companies;

- Having paid up capital of not less than ₹ 500 crores or
- Having annual turnover of not less than ₹ 1000 crores or
- Having, in aggregate, outstanding loans, debentures and deposits of not less than ₹ 500 crores

As on 31st March of immediately preceding financial year;

- c) Insurance companies, banking companies, companies engaged in the generation and supply of electricity, companies governed by any special act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of section 1(4) of the companies Act, 2013;
- d) Any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the NFRA by the Central Government in public interest; and
- e) A body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d) above, if the income or net worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net worth of such company or the body corporate, as the case may be, referred to in the clauses (a) to (d) above.

Chapter – 5 Professional Ethics

What are the fundamental principles as per code of ethics of ICAI? What are the threats involved while complying with the fundamental principles? [Nov. 16 (4 Marks)]

Ans.: Fundamental Principles as per Code of Ethics:

1. **Integrity:** A professional accountant should be straightforward and honest in all professional and business relationships.
2. **Objectivity:** A professional accountant should not compromise professional or business judgements because of bias, conflict of interest or undue influence of others.
3. **Professional Competence and Due Care:** A professional accountant has a continuing duty to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation. A professional accountant should act diligently and in accordance with applicable technical and professional standards.
4. **Confidentiality:** A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships.
5. **Professional Behavior:** A professional accountant should comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

Threats involved in compliance:

1. **Self-interest threats:** The threat that a financial or other interest will inappropriately influence a professional accountant judgement or behavior.
 2. **Self-review threats:** The threat that a professional accountant will not appropriately evaluate the results of a previous judgement made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgement as a part of performing a current activity.
 3. **Advocacy threats:** The threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised.
 4. **Familiarity threats:** The threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work.
 5. **Intimidation threats:** The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.
-
1. A professional accountant in public practice is always subject to various threats in compliance with fundamental principles of his profession and you, as a professional accountant, is worried about engagement specific threat in your audit assignment of M/s Soft Ltd. and want to implement some measures to eliminate and reduce the same. Enumerate some safeguards which you may introduce to ward off such threats. [May 19- New Syllabus (5 Marks)]

Ans.: Safeguards to be introduced to ward off threats in compliance with fundamental principles:

Safeguards are actions, individually or in combination that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- a) Assigned additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
 - b) Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
 - c) Using different partners and engagement team with separate reporting line for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
 - d) Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
 - e) Separating teams when dealing with matters of a confidential nature might address a self-interest threat.
2. Comment on the following with reference to the chartered Accountant Act, 1949, code of ethics and Schedules to the Act: P, a Chartered Accountant in practice provides management consultancy and other services to his clients. During 2021, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients.

Or

Mr. SAM, a Chartered Accountant in practice, provides guidance on post-issue activities to his clients e.g. follow up steps which include listing of instruments, dispatch of certificates and refunds etc. with the various agencies connected with the work. During the year 2019-20, looking to the growing needs of his clients to invest in the stock markets, he also started advising them on portfolio Management Services whereby he managed portfolios of some of his clients.

Ans.: Advising on Portfolio Management Services:

- The council of the ICAI pursuant to section 2(2)(iv) of the CA Act, 1949 has passed a resolution permitted "Management Consultancy and other Services" by a CA in practice.
- A clause of the aforesaid resolution allows CAs in practice to act as advisor or consultant to an issue of securities including such matters as drafting of prospectus, filing of documents with SEBI preparation of publicity budgets, advice regarding selection of brokers, etc.
- It is, however, specifically stated that CAs in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services. Thus, a CA in practice is not permitted to manage portfolios of his clients.

Conclusion: P would be guilty of misconduct under chartered Accountants Act, 1949 as a practicing CA is not permitted to render portfolio management services.

3. CA Natraj, in practice, accepted an assignment as advisor and consultant to the public issue of shares by his client M/s Super Ltd. Besides helping the company as an advisor, he also underwrote

the public issue of the company to the extent of 25% at a commission of 1%. Remaining shares were underwritten by banks and other financial institutions at the same rate of commission. He contends that above assignments are part of management consultancy work permitted by the council of the Institute. Do you agree with the view of CA Natraj? Decide in the light of applicable code of conduct. [May 19- New Syllabus (4 Marks)]

Ans.: Advising on portfolio Management Services:

- The council of the ICAI pursuant to section 2(2)(iv) of the CA Act, 1949 has passed a resolution permitted "Management Consultancy and other Services" by a CA in practice.
- A clause of the aforesaid resolution allows CAs in practice to act as advisor or consultant to an issue of securities including such matters as drafting of prospectus, filing of documents with SEBI preparation of publicity budgets, advice regarding selection of brokers, etc.
- It is, however, specifically stated that CAs in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services. Thus, a CA in practice is not permitted to manage portfolios of his clients.

Conclusion: CA Natraj would be guilty of misconduct under chartered Accountants Act, 1949 as a practicing CA is not permitted to render portfolio management services.

4. Is there any misconduct on the part of a Chartered Accountant in the following circumstances: Mr. G, a Chartered Accountant in practice as a sole proprietor has an office in Mumbai near Church Gate. Due to increase in professional work, he opens another office in a suburb of Mumbai which is approximately 80 kilometers away from the municipal limits of the city. For running the new office he employs three retired Income-tax Officers.

Ans.: Maintenance of Branch Office:

- In terms of Section 27 of the CA Act, 1949 if a Chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute.
- There is however an exemption for the above if the second office is located in the same premises, in which first office is located; or the second office is located in the same city, in which the first office is located; or the second office is located within a distance of 50 kms from the municipal limits of a city, in which the first office is located.

Conclusion: As the second office is situated beyond 50 kms of municipal limits of Mumbai city, Mr. G would be liable for committing a professional misconduct and provisions of Clause 1, part II, second Schedule will be attracted.

5. Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto: XY & Co., a firm of Chartered Accountant having two partners X & Y, one in charge of the head office and another in charge of Branch at a distance of 80 kms, puts up a name- board of the firm in both premises and also in their respective residences.

Or

Mr. Gautam & Mr. Mahaveer, partners of a Chartered Accountant Firm, one in-charge of Head office and another in-charge of Branch at a distance of 80 km. from the municipal limits, puts up a name-board of the firm in both premises and also in their respective residence. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

[MTP – Nov. 21]

Ans.: Putting up of name Board:

- The council of the institute has decided that with regard to the use of the name-board, there will be no bar to the putting up of name-board in the place of residence of a member with the designation of chartered accountant, provided, it is a name-plate or board of an individual member and not of the firm.
- In the given case partners of XY & Co., put up a name board of the firm in both offices and also in their respective residences.

Conclusion: The Chartered Accountants are guilty of misconduct, as name board of the firm cannot be put in place of residence.

6. Mr. Z, a newly qualified chartered accountant started his practice in February 2021 by setting up an office in the hill station kodaikanal. Initially, since he was getting very less assignments, he decided to set a temporary office in the nearby city Marudai, situated at about 100 kms from the main office. As planned, he took an office space on rent for the months of Dec. Jan. and Feb. During these months, his regular office was not closed and Mr. Z was in charge for the both offices. Mrs. A, another newly qualified chartered accountant who is also in practice in Marudai came to know about the new office of Mr. Z. Thinking that he would be a potential competitor, she informed the institute stating that Mr. Z had violated the provisions of Chartered Accountant Act. As a member of the Board of Discipline of ICAI, you are requested to analyze this complaint. [MTP- March 21]

Ans.: Maintenance of Branch office:

- In terms of Sec. 27 of CA Act 1949, if a Chartered Accountant in practice has more than one office in India, each of such offices should be in separate charge of a member of the Institute. This condition applies to any additional office situated at a place beyond 50kms from municipal limits in which any office is situated.
- However, exemption has been given to members in practicing in hill areas subject to certain conditions such as:
 1. Such members are allowed to open temporary offices in a city in the plants for a limited period not exceeding 3 months in a year.
 2. The regular office should not be closed during this period and all correspondence can continue to be made at the regular office.
 3. The name board of the firm in temporary office should not be displayed at times other than the period such office is permitted to function.
 4. The temporary office should not be mentioned in letter head, visiting card, any other documents as a place of business of the member/ firm.
 5. Before commencement of every winter, it shall be obligatory on the member/ firm to inform the Institute that he/ it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the institute by registered post.
- In the given case, Mr. Z. has set up his regular office in the hill area of kodaikanal he decide to set up a temporary office in the nearby city of Marudai, situated at about 100 kms from the main office. As planned, he took an office space on rent for the months of Dec. Jan. and Feb. During these months, his regular office was not closed. Further he was in charge for both the offices.

- In view of above mentioned criteria's, he is eligible to avail the benefits of the above exemptions. Also, it is given that the temporary office was open in Madurai for only 3 months and not beyond that. The fact that Mr. Z is in charge for both the offices, the temporary office being set up in the plains which is 100 kms away and the regular office kept open during the 3 months does not constitute any violation of the provisions of the Chartered Accountant Act. Assuming Mr. Z has informed the Institute regarding such temporary office in the prescribed manner.

Conclusion: No penal action needs to be taken on the basis of complaint registered by Mrs. A, as Mr. Z is not guilty of professional misconduct.

Questions of First Schedule (Part I, II, III and IV)

1. CA Sant, a newly qualified chartered accountant with a certificate of practice approached CA Pant, the auditor of his father's company M/s Max limited, to allow him to have some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA Pant allowed him to sit in his office for six months and allotted a small chamber with other office infrastructure facilities. In the course of his association with CA Pant's office he used to provide tax consultancy independently to the client of the firm and also filed a few IT and GST returns and represented himself before various tax authorities on behalf of the firm. Although no documents were signed by him. During his association in CA Pant's office, he did not get any salary or share of profit or commission, but only reimbursement of usual expenses like conveyance, telephone, etc. was made to him. After the end of the agreed period, he was given a lump sum amount of Rs.3,00,000 by CA Pant for his association out of gratitude.

Examine the case in the light of code of professional misconduct.

Ans:

Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.

The above clause is intended to safeguard the public against unqualified accountant practicing under the cover of qualified accountants. It ensures that the work of the accountant will be carried out by a Chartered Accountant who may be his partner, or his employee and would work under his control and supervision.

In the instant case, CA Pant allowed CA Sant (who is a newly qualified CA professional with COP) to sit in his office for 6 months, and allowed him to provide tax consultancy independently to his firm's clients, filing of some IT and GST Returns. He also allowed him to appear before various tax authorities on behalf of his firm. CA Sant was only reimbursed with his usual expenses and was not paid any salary or share of profit for the same. However, after the end of agreed period he was given a lump-sums of rupees 3,00,000 for his association out of gratitude.

Thus, in the present case CA. Pant will be held guilty of professional misconduct as per Clause (1) of Part I of First Schedule to the Chartered Accountants Act, 1949 as he allowed CA Sant to practice in

his name as Chartered accountant and CA Sant is neither in partnership nor in employment with CA. Pant.

2. CA Keshav, obtained a loan from a finance company for the purchase of office building, agreeing to pay interest at the rate of 6% per annum and 10% of his gross professional receipts till the loan is repaid. Comment

Ans:

Sharing Professional Receipts with others:

As per Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than

- a member of the Institute or
- a partner or
- a retired partner or
- the legal representative of a deceased partner,
- or a member of any other professional body or
- with such other persons having such qualification as may be prescribed,

for the purpose of rendering such professional services from time to time in or outside India. In the given case in substance the CA has agreed to share his receipt with a finance company from whom he has taken a loan, which is not permitted.

Conclusion: Mr. K will be deemed to be guilty of professional misconduct under Clause 2 of Part I of First Schedule.

3. K, a practicing Chartered Accountant gave 50% of the audit fees received by him to L, who was not a chartered accountant, under the nomenclature of office allowance and such an arrangement continued for a number of years. Comment with reference to Chartered Accountants Act, 1949 and the schedule thereto.

Ans:

Sharing of Audit Fees with Non-Member: As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty if a Chartered Accountant in practice pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In the instant case, Mr. K, a practising Chartered Accountant gave 50% of the audit fees received by him to a non-Chartered Accountant, Mr. L, under the nomenclature of office allowance and such an arrangement continued for a number of years. In this case, it is not the nomenclature to a transaction that is material but it is the substance of the transaction, which has to be looked into.

The Chartered Accountant had shared his profits and, therefore, Mr. K will be held guilty of professional misconduct under the Clause (2) of Part I of First Schedule to the Chartered Accountants Act, 1949.

4. A chartered accountant who was in practice since last 20 years died in a road accident. His widow sold the practice to another chartered accountant practice for 30 lakhs .The price also included the right to use the firm name. .Comment

Ans:

Sale of Goodwill: With reference to Clause (2) of Part I to the First Schedule to Chartered Accountants' Act, 1949, the Council of the Institute of Chartered Accountants of India had an occasion to consider whether the goodwill of a proprietary concern of chartered accountant can be sold to another member who is otherwise eligible, after the death of the proprietor. It lay down that the sale is permitted subject to certain conditions. It further resolved that the legal heir of the deceased member has to obtain the permission of the Council within a year of the death of the proprietor concerned.

5. CA Pranav is a newly qualified Chartered Accountant in practice and in order to increase his professional practice and client base, enter into agreement with Mr. E , a qualified and experienced registered valuer to share 20% of the professional fees for all cases of valuation referred to him by CA Pranav . Based on this agreement Mr. E received Rs. 120000 during the year 21-22 from CA Pranav . Is CA Pranav guilty of professional misconduct under Chartered Accountant Act, 1949 ?

Ans:

Sharing Fees of professional work of others:

As per Clause 3 of Part I of the First Schedule to the Chartered Accountants Act, 1949, a CA in Practice is deemed to be guilty of professional Misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute. However, such a restriction does not apply in respect of member of any other professional bodies or with such other persons having prescribed qualifications.

Regulation 53A of CA Regulations, 1988 prescribes the qualifications of persons with whom profits can be shared.

In this case, CA. P a practicing Chartered Accountant entered into an agreement with Mr. A, a qualified and experienced registered valuer to share 20% professional fees for all cases of valuation referred to him by CA. P. Based on this, CA. P received ₹ 1,20,000 during the year 2018-19 from Mr. A.

Conclusion: Mr. P will be deemed to be guilty of professional misconduct by virtue of Clause 3, Part I of First Schedule as he accepts professional fees from a person who is not a member of ICAI. Further, registered valuers are not recognised for profit sharing purpose under Regulations 53A and 53B.

6. Mr. B, a Chartered Accountant in practice entered into partnership with Mr. I an advocate for sharing of fees for work sent by one to another. However, due to some dispute, the partnership was dissolved after one month without any fee having made received. Comment.

Ans:

Partnership with an Advocate:

As per Clause 4, Part I of First Schedule, a CA in Practice is deemed to be guilty of professional Misconduct if he enters into partnership in or outside India with any person other than the following:

- C.A. in practice, or
- Member of any other professional body having prescribed qualifications, or
- a person who but for his residence abroad would be entitled to be registered as member, or
- a person whose qualifications are recognized by CG or Council for the purpose of permitting such partnerships.

As per Regulations 53A and 53B of Chartered Accountant Regulations, 1988, a member is permitted to enter into partnership with an advocate, member of Bar council of India, besides other qualified persons and members of other professional bodies.

Conclusion: Mr. P will not be deemed to be guilty of professional misconduct as clause 4 permits a CA in practice for entering into partnership with members of any other professional bodies or with such other persons having prescribed qualifications and members of bar council of India and persons having Bachelor of Law are prescribed.

7. A partner of a firm of Chartered Accountants during a TV interview handed over bio data of his firm to the chairperson. Such a bio data contained the standing of the firm with international firms and also his achievement and recognition as an expert in the field of taxation. The bio data was read out during the said interview.

Comment with respect to Chartered Accountants Act, 1949 and the schedules there.

Ans:

Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits solicitation of client or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means since it shall constitute professional misconduct. The bio-data was handed over to the chairperson during the T.V. interview by the Chartered Accountant which included details about the firm and the achievements of the partner as an expert in the field of taxation. The chairperson simply read out the same in detail about association with the international firm as also the achievements of the partner and his recognition as an expert in the field of taxation. Such an act would definitely lead to the promotion of the firms' name and publicity thereof as well as of the partner and as such the handing over of bio-data cannot be approved. The partner would be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

8. XYZ and Co. created a website www.xyzindia.com. The website beside containing details of the firm and bio data of each of the partners also contains photographs of all the partners of the firm. Comment

Ans:

Hosting Details on Website: As per detailed guidelines of the ICAI laid down in Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant of the firm can create its own website using any format subject to guidelines. However, the website should be so designed that it does not solicit clients or professional work and should not amount to direct or indirect advertisement. The guidelines of the ICAI to allow a firm to put up the details of the firm, bio-data of partners and display of a passport size photograph.

Conclusion: In the case of M/s XYZ, all the guidelines seem to have been complied and there appears to be no violation of the Chartered Accountants Act, 1949 and its Regulations

9. Mr. X is a practicing- Chartered accountant. Mr. Y is a practicing advocate representing matters in the court of law. X and Y decided to help each other in the matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law, and Y consults in all the matters relating to finance and other related matters, which comes to him in arguing various cases. Consequently, they started sharing profits of their professional work. Is Mr. X liable for professional misconduct?

Ans:

Sharing Fees with Advocate or of Advocate:

As per clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services to time in or outside India.

As per Clause 3 of Part 1 of the First Schedule to the CA Act, 1949, a CA in Practice is deemed to be guilty of professional Misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute. However, such a restriction does not apply in respect of member of any other professional bodies or with such other persons having prescribed qualifications.

For the purpose of Clauses 2 & 3, Regulation 53A of CA Regulations, 1988 allows sharing of profit with an advocate.

Conclusion: Mr. X will not be deemed to be guilty of professional misconduct as Clauses 2 & 3 permits a CA in practice for profit sharing with members of any other professional bodies or with such other persons having prescribed qualifications and advocates are prescribed under Regulation 53A.

10. CA P, is a newly qualified chartered accountant in practice and in order to increase his professional practice and client base, enter into agreement with Mr. A a qualified and experienced registered valuer to share 20% professional fees for all the cases of valuations referred to him by CA P. Based on this, CA P received 120000 during the year 2021-22 from Mr. A. Is CA P guilty of misconduct under the Chartered Accountants Act, 1949.

Ans:

Sharing Fees of professional work of others:

As per Clause 3 of Part I of the First Schedule to the Chartered Accountants Act, 1949, a CA in Practice is deemed to be guilty of professional Misconduct if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute. However, such a restriction does not apply in respect of member of any other professional bodies or with such other persons having prescribed qualifications.

Regulation 53A of CA Regulations, 1988 prescribes the qualifications of persons with whom profits can be shared.

In this case, CA. P a practicing Chartered Accountant entered into an agreement with Mr. A, a qualified and experienced registered valuer to share 20% professional fees for all cases of valuation referred to him by CA. P. Based on this, CA. P received ₹ 1,20,000 during the year 2018-19 from Mr. A.

Conclusion: Mr. P will be deemed to be guilty of professional misconduct by virtue of Clause 3, Part I of First Schedule as he accepts professional fees from a person who is not a member of ICAI. Further, registered valuers are not recognised for profit sharing purpose under Regulations 53A and 53B.

11. Mr S is a Chartered accountant who published a book and gave his personal details as the author. These details also mentioned his professional experience and his present Association as a partner with M/s RST. & company. Comment.

Ans:

Soliciting Professional Work: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means. Therefore, members should not adopt any indirect methods to advertise their professional practice with a view to gain publicity and thereby solicit clients or professional work. Such a restraint must be practiced so that members may maintain their independence of judgement and may be able to command the respect of their prospective clients. While elaborating forms of soliciting work, the Council has specified that a member is not permitted to indicate in a book or an article, published by him, his association with any firm of chartered accountants. In this case, Mr. S, a Chartered Accountant published the book and mentioned his professional experience in detail in the same.

Conclusion: Mr. S being a chartered accountant in practice has committed the professional misconduct by mentioning his professional experience.

12. Comment on the following: M/s LMN and Co. a firm of Chartered Accountants responded to a tender from the state government for computerization of land revenue records for their purpose. For this purpose, the firm also paid 50,000 as earnest deposit as part of the terms of the tender.

Ans:

Responding to Tenders: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 lays down guidelines for responding to tenders, etc. As per the guidelines if a matter relates to any services other than audit, members can respond to any tender. Further, in respect of a non-exclusive area, members are permitted to pay reasonable amount towards earnest money/security deposits. However, on having received complaint/ instance of exorbitant EMD/Deposit, the Ethical Standards Board may look into the matter on case to case basis.

Conclusion: In the instance case, since computerization of land revenue records does not fall within exclusive areas for chartered accountants, M/s LMN can respond to tender as well as deposit

Rs.50,000 as earnest deposit and shall not have committed any professional misconduct.

13. CA S and CA M are two partners of the firm SM and company .Being very pious, CA S organized a religious ceremony at his home, for which he instructed his printing agent to add his designation as Chartered Accountant with his name on the invitation cards. Later on the invitations were distributed to all the relatives, close friends and clients of both the partners .

Ans:

Using designation “Chartered Accountant” on invitation cards:

As per Clause 6, Part I of First Schedule of Chartered Accountants Act, 1949, a CA in practice shall 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.

Guidelines issued by the Council of ICAI under Clause 6 allowed a member to use designation “Chartered Accountant” as well as name of firm in greeting cards, invitations for marriages and religious ceremonies and any invitation for opening or inauguration of office, or letters regarding change in office premises or telephone numbers provided these are sent only to clients, relatives and close friends of concerned member.

In the present case, CA. S is adding the designation Chartered Accountant with his name on invitation cards and these cards were distributed to his and his partner’s relatives, close friends and clients.

Conclusion: CA. S shall be deemed to be guilty of professional misconduct for sending the invitation cards using designation chartered accountant to partner’s relatives, close friends and clients.

14. A Chartered Accountant in practice started to project consultancy work as a part of his practice. And to advance the same sent mails to all the CAs in the country, informing them of the service and for securing professional work. Comment.

Ans:

Soliciting the professional work from another chartered accountant:

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

However, it is specifically provided under Clause 6, that nothing contained in Clause 6 shall be construed as preventing or prohibiting any chartered accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice.

In the present case, CA. N sent mail to all the CAs in the country informing them of his services and for securing professional work.

Conclusion: There is no misconduct on Part of CA. N as exceptions to Clause 6 of Part I of First Schedule allows a CA in practice to secure professional work from another CA in practice.

15. M/s LMN & Associates, a firm of Chartered Accountants responded to a tender issued exclusively for Chartered Accountants by an organization in the area of tax audit. However, no minimum fee was prescribed in the tender document. Comment

Ans:

Responding to Tenders: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 lays down guidelines for responding to tenders, etc. It states that a member may respond to tenders or enquiries issued by various users of professional services or organizations from time to time and secure professional work as a consequence.

However, a member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services. Though, 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 instant case, OPAQ & Associates responded to a tender of tax audit which is exclusively reserved for Chartered Accountants even though no minimum fee was prescribed in the tender document.

Therefore, OPAQ & Associates shall be held guilty of professional conduct for responding to such tender in view of above-mentioned guideline.

16. Mr X, a chartered accountant and the proprietor of X&M company, wrote several letters to the assistant Registrar of cooperative societies, stating that though his firm was on the panel of the auditors, no audit work was allotted to the firm and further requested him to look into the matter. Comment

Ans:

Mr. X, a Chartered Accountant and proprietor of M/s X and Co, wrote several letters to the Assistant Registrar of Co-operative Societies, requesting for allotment of audit work. In similar cases, it was held that the Chartered Accountant would be guilty of professional misconduct under clause 6 of Part I of the First schedule to the Chartered Accountants Act, 1949. The writing of continuous letter to ascertain the reasons for not getting the work is quite alright but in case such either amount to request for allowing the work than Mr. X will be liable for professional misconduct. In fact Mr. X would be therefore held guilty under clause 6 of Part I of the Act.

17. XYZ and Associates, Chartered Accountants have a website and on the letterhead of the firm it has mentioned that visit our website www.xyzindia.com. In the website the nature of assignments handled, names of prominent clients and the fees charged are also displayed without any disclosure of requirement by any regulator.

Ans:

Website Particulars:

The Council of the ICAI has issued guidelines for posting the particulars on Website by CA in practice and firms of CA in practice under Clause (6) of Part I of First Schedule to the CA Act, 1949.

According to the guidelines the details in the website should be so designed that it does not amount to soliciting client or professional work. It is permitted to mention the website address on letterhead but soliciting people to visit website is not permitted.

XYZ and Associates letterhead invites to people to visit their website. Similarly, the website mentions the nature of assignments, names of the prominent clients and fees charged. The nature of assignments is permitted for display only on specific 'Pull' request, and the name of clients, the fees charged is not permitted at all.

Disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator, whether or not constituted under a statute, in India or outside India, provided that such disclosure is only to the extent of requirement of the regulator.

Conclusion: XYZ & Associates will be held guilty of Professional Misconduct under Clause 6 of Part I of First Schedule to the Chartered Accountants Act, 1949.

18. A CA firm has sent letters to the GST Council stating the firm has two partners who specialize in the law of GST, and asked the said council to include their names in the panel whenever formed for providing advisory to the Chartered Accountants Act, 1949. Comment

Ans:

Roving Enquiries:

As per Clause 6 of Part 1 of the First Schedule to the CA Act, 1949, a CA in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

Such a restraint has been put so that the members maintain their independence of judgment and may be able to command respect from their prospective clients.

In case of making an application for the empanelment for the allotment of audit and other professional work, the Council has opined that, "where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel.

However, it would not be proper for the member to make roving inquiries by applying to any such organization for having his name included in any such panel."

Conclusion: The member is guilty of misconduct in terms of the above provision as he has solicited professional work by making roving inquiries about the panel.

19. During the opening ceremony of a new branch office of CA Young, his friend CA Old, introduced to CA Young, his friend and client Mr. Rich, the owner of export house whose accounts have been audited by CA Old for more than 15 years. After a few days Mr. Rich visited CA Young and offered a certification work which hitherto had been done by CA Old, CA Young undertook the work for a fee, which was not less than the fee charged by CA Old in the earlier period. Comment whether if CA Young had done anything professionally wrong.

Ans:

Acceptance of original professional work by a member emanating from the client Introduced to him by another member: As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

Further, some forms of the soliciting work which the Council has prohibited include that a member should not accept the original professional work emanating from a client introduced to him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.

In the given case, CA Old introduced his friend CA. Young to his friend and client Mr. Rich, the owner of an Export House whose accounts has been audited by CA. Old for more than 15 years.

After a few day Mr. Rich approached CA. Young and offered a certification work which hitherto had been done by CA. Old. Fees charged by CA. Young is also not less than fee charged by CA. Old. In view of above decision CA Young should ask the client to come through CA Old. However, CA Young undertook the work without informing CA. Old. Thus, CA. Young is held guilty under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

20. Discuss whether the following action by chartered accountant would amount to misconduct or not.

A practicing Chartered Accountant uses a visiting card in which he designates himself beside the Chartered Accountant as a

- a. tax accountant
- b. cost accountant

Ans:

(a) Section 7 of the Chartered Accountants Act, 1949 read with Clause (7) of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public.

Under the clause, use of any designation or expression other than chartered accountant for a chartered accountant in practice, on professional documents, visiting cards, etc. amounts to a misconduct unless it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council.

Conclusion: Thus, it is improper to use designation "Tax Accountant" since neither it is a degree of a University established by law in India or recognised by the Central Government nor it is a recognised professional membership by the Central Government or the Council.

(b) This would also constitute misconduct under section 7 of the Act read with Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949. A chartered accountant in practice cannot use any other designation than that of a chartered accountant. Nevertheless, a member in practice may use any other letters or descriptions indicating membership of accountancy bodies which have been approved by the Council. Thus, it is improper for a chartered accountant to state in his documents that he is a "Cost Accountant". However as per the Chartered Accountants Act, 1949, the Council has resolved that the members are permitted to use letters indicating membership of the Institute of Cost and Works Accountants but not the designation "Cost Accountant".

21. Mr. D, Chartered Accountant in practice, has printed visiting cards which besides the details also carries a quick response (QR) code. The visiting card as well as the QR code contains his name, office and residential address, contact details, email ID and the name of the firms website. Comment.

Ans:

Printing of QR Code on Visiting Cards: As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he advertises his professional attainments or services.

Ethical Standards Board has also clarified that a member in practice is allowed to print Quick Response Code (QR Code) on the visiting Card, provided that the Code does not contain information that is not otherwise permissible to be printed on a visiting Card.

In the given case, Mr. M has printed visiting cards which carries Quick Response Code (QR Code) besides other details. The visiting card as well as the QR Code contains his name, office and residential address, contact details, e-mail id and name of the firm's website which are otherwise allowed to be printed on the visiting cards of a Chartered Accountant in practice.

Thus, Mr. M is not guilty under Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

22. Examine whether Chartered Accountant is to be held guilty of professional misconduct under the following circumstances. W, a Chartered Accountant, has sent letters under certificate of posting to previous auditor informing him about his appointment as an auditor before the commencement of audit. Also, would this be correct if the same was communicated over phone to the previous auditor?

Ans:

Prior Communication with the previous auditor:

As per Clause 8 of Part 1 of First Schedule to the CA Act, 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing.

This requirement would apply to all types of audit i.e. statutory audit, tax audit, internal audit, concurrent audit, etc.

It is further provided that incoming auditor is required to send his communication by Registered post acknowledgement due or by hand against an acknowledgement in writing. Mere posting of a letter under certificate of posting is not sufficient to establish communication.

In the present case, Mr. W has sent letter under Certificate of posting.

Conclusion: Mr. W will be guilty of professional misconduct by virtue of clause 8 of Part I of first schedule in accordance with which communication need to be sent "Registered Post Acknowledgement Due" or by "hand against a written acknowledgement".

23. CA T, in practice, was appointed to carry out internal audit of a stockbroker listed with BSE. However, he failed to intimate his appointment with the statutory auditor of the company. The statutory auditor feels this is a violation of professional ethics. Comment

Ans:

Prior Communication with the previous auditor:

As per Clause 8 of Part I of First Schedule to the CA Act, 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing.

This requirement would apply to all types of audit i.e. statutory audit, tax audit, internal audit, concurrent audit, etc.

Further the requirement of Clause 8 is applicable in situation of replacing of one auditor by another auditor and not in case of parallel positions.

In the present case, CA T was appointed as Internal Auditor, he owes no duty towards statutory auditor for prior communication.

Conclusion: There is no violation of professional ethics as Clause 8 of Part I of First schedule applies in case of replacement positions and not in case of parallel positions.

24. CA X was appointed as the auditor of ABC limited for the year 21-22. Since he declined to accept the appointment, the Board of Directors appointed CA Y as the auditor in case of CA X, which was also accepted by CA Y. Comment.

Ans:

Violation of Clause 9:

Clause (9) of Part I of the First Schedule to the 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 224 and 225 of the Companies Act, 1956 (now Sections 139 and 140 read with Section 141 of the Companies Act, 2013), in respect of such appointment have been duly complied with. Board of Directors has been given powers u/s 139 (6) and u/s 139 (8) (i) to appoint first auditors and to fill casual vacancy respectively. The non-acceptance of appointment by CA. X does not constitute a casual vacancy to be filled by the Board. In this case, it will be deemed that no auditor was appointed in the AGM.

As per Sec. 139(10) of the Companies Act, 2013 when at any AGM, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company. Hence, the appointment of the auditor by the Board is not valid in law.

Conclusion: CA. Y is guilty of professional misconduct as per clause 9 of the First Schedule as he accepted the appointment without verification of statutory requirements.

25. X Y Z limited appoints you as the auditor of the company. You observed that the previous auditors of the company resigned. Also, Balance Sheet as on 31-3-21 shows an audit fee payable of rupees 25,000. What precautions will you take before commencing the audit work

Ans:

Precautions before Commencing the Audit Work:

- I. Check whether a statement, in the prescribed form, has been filed by the resigning auditor within a period of 30 days from the date of resignation, to the company and the registrar, indicating the reasons and other facts as may be relevant with regard to the resignation, for the compliance of Section 140(2) of the Companies Act, 2013.
- II. Ascertain that the appointment of new Auditor is in compliance with Section 139(8) of the Act as mentioned above i.e. the resolution appointing the new auditor has been approved by the company in the general meeting as it is case of casual vacancy by resignation.
- III. The auditor should also refer the resignation statement file by the previous auditor and communicate with him (previous auditor) to ascertain the circumstances which led up him to retire.
- IV. The auditor must ascertain whether there exist any circumstances on account of which he should not accept the appointment. As per Section 139 of the Act, the auditor must ensure that before any appointment or reappointment of auditors is made at an AGM, a written certificate has been provided by him to the company that his appointment is in accordance with the limits specified in Section 141(3)(g).

- V. He should also satisfy himself that the notice provided for under Sections 139 and 140 has been effectively served on the outgoing auditor.
- VI. Further, Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing.
- VII. Moreover, Clause (9) of Part I of the same Schedule, 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 224 and 225 of the Companies Act, 1956 (now Sections 139 and 140 of the Companies Act, 2013), in respect of such appointment have been duly complied with.

26. CA D, a Chartered Accountant, prepared project report for one of his client to obtain bank finance (long term) over 50 lakhs from a commercial bank. Consequent to the sanction of the loan by the bank CA D raised a bill for his service at the rate of 2% of the loan sanctioned.

Ans:

Charging fees on %age basis:

Clause 10 of Part I to First Schedule to the CA Act, 1949 prohibits a CA in practice to charge, or offers to charge, accept or offers to accept in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or results of such employment.

However, this restriction is not applicable where such payment is permitted by the regulations made in this behalf. The Council of the Institute has framed regulation 192 which exempts certain professional services from the operation of clause 10.

Conclusion: Mr. D is guilty of professional misconduct as he charges fees on % age basis.

Note: It is assumed that Bank finance is not covered within the meaning of fund-raising service. Alternatively, if it is presumed that bank finance is covered within the meaning of fund-raising services, charging fees on a %age of loan sanctioned will not amount to professional misconduct.

27. Efficient Limited is running into losses and in order to optimize resource utilization and cost reduction approaches you to carry out the assignment and offers a fee of 5% of the benefit derived from the suggestions made by you. Comment

Ans:

Charging Fees on Percentage Basis:

Clause 10 of Part I of First Schedule to CA Act, 1949, prohibits a CA in practice to charge or offer to charge, accept or offer to accept in respect of any professional work, fees which are based on a percentage of profits or which are contingent upon the findings or result of work.

However, this restriction is not applicable where such payment is permitted by the regulations made in this behalf. The Council of the Institute has framed regulation 192 which exempts certain professional services from the operation of clause 10.

As per Regulation 192, in the case of services related to cost optimization, fees may be charged on the basis of percentage of benefit derived.'

Conclusion: No Misconduct arises under Clause 10 of Part I to First schedule as charging fees as a percentage of benefit derived while providing services related to cost optimisation is permitted by Regulation 192.

28. Chartered Accountant in practice takes up the appointment as managing director of a public limited company. Comment.

Ans:

Engagement in other occupations:

Clause 11 of Part I of First Schedule to the CA Act, 1949 prohibits a member in practice to engage in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage.

It does not prohibit a CA from being a director of a company, except MD or a whole-time director. But if any of the partners is interested in such company as an auditor then he cannot be director of the said company. To accept the position of MD in a company, member is required to obtain prior permission from Council of ICAI.

In the present case, a CA in practice has taken up the appointment as managing director of a public limited company.

Conclusion: Appointment requires prior and specific approval from Council. In absence of such approval, member will be held to be guilty of professional misconduct (by virtue of clause 11 of Part I of First Schedule and Regulation 190AJ, otherwise not).

29. CA Preeti is a leading Income Tax practitioner in Delhi. She is very much fond of cooking. Due to this passion of hers she also wrote a cookery book "delight your tummy" during the year, but she didn't take any permission from the Council of the Institute for engaging herself into authorship of such a book. Comment.

Ans:

Engagement in other occupations:

Clause 11 of Part 1 of First Schedule to the CA Act, 1949 prohibits a member in practice to engage in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage.

It does not prohibit a CA from being a director of a company, except MD or a whole time director. But if any of the partners is interested in such company as an auditor then he cannot be director of the said company.

General permission is granted under Regulation 190A for authorship of any book or article.

In the present case CA. Preeti has authored a cookery book for which no specific permission is required.

Conclusion: Clause 11 permits authorship of any book, hence no misconduct arises on part of CA. Preeti.

30. CA Z, who is a leading income tax practitioner and consultant in Jaipur, is also trading in derivatives comment.

Ans:

Engagement into other occupation:

As per clause 11 of Part I of First Schedule of CA Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he "engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage".

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary. In this case CA Z is engaged in the occupation of trading in commodity derivatives which is not covered under the general permission, hence specific permission of the Institute has to be obtained.

Conclusion: If Mr. Z has obtained specific permission of the council, then there is no misconduct, otherwise he will be deemed to be guilty of professional misconduct under clause 11 of Part I of First Schedule of CA Act, 1949.

31. CA S, a practicing Chartered Accountant gives power of attorney to an employee Chartered Accountant to sign reports and financial statements on his behalf.

Ans:

Delegation of Certification work:

As per clause 12 of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

This clause should be read in conjunction with Section 26 of Chartered Accountants Act, 1949 which stipulates that no person other than a member of the Institute shall sign any document on behalf of a chartered accountant in practice or a firm of such chartered accountants in his or its professional capacity.

In this case CA 'S' gives power of attorney to an employee to sign reports and financial statements on his behalf, which is not permitted as such.

Conclusion: S is guilty of professional misconduct under clause 12 of Part I of First Schedule.

32. Mr S, the auditor of ABC Private Limited has dedicated following works to his article and stuff.

- Issue of audit queries during the course of audit,
- issue of Memorandum of cash verification and other physical verification,
- letter forwarding draft observation/ financial statements,
- issuing acknowledgement for records produced
- signing financial statements of the company.

Is this correct as for the Professional ethics .

Ans:

As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

- (i) Issue of audit queries during the course of audit
- (ii) Asking for information or issue of questionnaire

- (iii) Letter forwarding draft observations/financial statements
- (iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
- (v) Acknowledging and carrying on routine correspondence with clients.
- (vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
- (vii) Issuing acknowledgements for records produced.
- (viii) Raising of bills and issuing acknowledgements for money receipts.
- (ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.
- (x) Any other matter incidental to the office administration and routine work involved in practice of accountancy

In instant case, Mr. S, the auditor of ABC Pvt. Ltd. has delegated certain task to his articles and staff such as issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced and signing financial statements of the company.

Therefore, Mr. S is correct in allowing first four tasks i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles.

However, if the person signing the financial statements on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, Mr.S is wrong in delegating signing of financial statements to his staff.

Conclusion: In view of this, S would be guilty of professional misconduct for allowing signing of financial statements on his behalf to his articles and staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

33. Mr. N, a chartered accountant in practice, delivered a speech in the national conference organized by the Ministry of textiles. While delivering the speech, he told to the audience that he is a management expert and his firm provides a service of taxation and audit at a reasonable rate. He also requested the audience to approach his firm of Chartered Accountants for these services and on the request of the audience, he also distributed business cards and telephone numbers of his office for those in the audience. Comment

Ans:

Solicitation of Professional Work and Advertisement:

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

Section 7 of the Chartered Accountants Act, 1949 read with Clause 7 of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a Chartered Accountant in documents through which the professional attainments of the member would come to the notice of the public.

Guidelines issued under clauses 6 & 7 permits a practicing member to give lectures at forums and may give their names and describe themselves as Chartered Accountants, but no reference should be made, to the name and address or services of his firm.

In the present case, Mr. Nigal uses the designation of "Management Expert" and also made reference to the services provided by his firm of Chartered Accountants at reasonable rates and distribute business cards to audience.

Conclusion: Mr. Nigal will be held guilty of professional misconduct under clauses 6 & 7 of Part I of First Schedule to the CA Act 1949 due to solicitation of professional work and advertisement of services rendered by his firm.

34. Mr. R, a practicing Chartered Accountant is a director in X limited, a public company. The prospectors of X limited mentions the name of Mr. R as a director, along with his professional attainments, his areas of specialization and expertise in the field of international taxation. Comment.

Ans:

Advertisements of professional attainments:

As per clause 7 of Part 1 of First Schedule, a CA in practice is deemed to be guilty of professional misconduct if he

(i) advertises his professional attainments or services or

(ii) uses any designation or expressions other than 'Chartered Accountant' on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the Central Government or a title indicating membership of the ICAI or of any other institution that has been recognized by the Central Government or may be recognized by the council.

As per guidelines issued under Clause 7, name of CA acting as director in the company is permissible to appear in the prospectus of the company, however descriptions regarding his expertise, specialisation and knowledge in any particular field is not permitted.

In the present case, R, a practicing Chartered Accountant, is a Director in X Ltd. a Public Company. The prospectus of X Ltd. mentions the name of Mr. R as a director along with his various professional attainments, his areas of specialization and expertise in the fields of international taxation.

Conclusion: Mr. R will be deemed to be guilty of professional misconduct under Clause 7, Part I of First Schedule.

35. Mr B was appointed as the auditor of XYZ limited in place of Mr. A. Mr. B had sent a letter of communication to Mr. A under a certificate of posting and proceeds to conduct the audit. Mr. A makes a complaint to the Institute on the basis of non-receipt of communication. Comment.

Ans:

Prior Communication with the previous auditor:

As per Clause 8 of Part I of First Schedule to the CA Act; 1949, a chartered accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing.

This requirement would apply to all types of audit i.e. statutory audit, tax audit, internal audit, concurrent audit, etc.

It is further provided that incoming auditor is required to send his communication by Registered post acknowledgement due or by hand against an acknowledgement in writing. Mere posting of a letter under certificate of posting is not sufficient to establish communication.

In the present case, Mr. B has sent letter under Certificate of posting.

Conclusion: Mr. B will be guilty of professional misconduct by virtue of clause 8 of Part I of first schedule in accordance with which communication need to be sent "Registered Post Acknowledgement Due" or by "hand against a written acknowledgement".

36. Mr P, Chartered Accountant in practice, accepts appointment as a statutory auditor for E Private Limited. Q brother of P, has substantial interest in E Private Limited.. Comment

Ans:

Appointment as Company Auditor:

As per Clause (4) of Part 1 of Second Schedule to the CA Act, 1949, a CA is deemed to be guilty of professional misconduct if he expresses his opinion on financial statements in which his firm or a partner has substantial interest.

Chapter IV of Council General Guidelines 2008 further provides that a member of the Institute shall not express his opinion on financial statements of any business or enterprise in which one or more persons who are his "relatives" within the meaning of AS 18 has/have, either by themselves or in conjunction with such member, a substantial interest in the said business or enterprise. As per AS 18, the term 'Relative' includes brother. Violation of Council Guidelines amounts to professional misconduct under Clause 1 of Part II of Second Schedule.

Further, as per Section 141(3)(d) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor of a company if his relative is holding shares in the company for face value exceeding ₹ 1 Lac. Non-compliance of Secs. 139, 140 & 141 amounts to professional misconduct under Clause 9 of Part I of First schedule. Face Value of the shares held by brother is not given in the question. It may be assumed that it exceeds ₹ 1 Lac.

In the instant Case, since Q, a relative has a substantial interest in LMN Pvt. Ltd, P cannot conduct the audit.

Conclusion: Mr. P will be guilty of professional misconduct under various clauses as mentioned above.

37. CA Mehta was appointed as the auditor of CSL limited for the year 21-22 in the place of retiring auditor CA Gupta. CA Mehta accepted the appointment after obtaining a certificate from the management that the provisions of Section 139 and section 140 of the Companies Act 2013 have been complied with. Comment with reference to the Chartered Accountants Act 1949 and the schedules there to.

Ans:

In the given case, CA Mehta accepted the appointment in place of retiring auditor after obtaining a certificate from the management that the provisions of the Sections 139 and 140 of the Companies Act, 2013 have been complied with.

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 on 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.

Under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949, the incoming auditor has to ascertain whether the Company has complied with the provisions of the above sections. The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 139 and, 140 of the Companies Act, 2013. In this respect, it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with. It is necessary for the incoming auditor to verify the relevant records of the Company and ascertain as to whether the Company has, in fact, complied with the provisions of the above sections. If the Company is not willing to allow the incoming auditor to verify the relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor should not accept the audit assignment.

Applying the above clause to the given case, the Company is not willing to allow the incoming auditor to verify the

relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor, CA Mehta should not have accepted the audit assignment. But on the other hand, CA Mehta accepted the appointment in place of retiring auditor after obtaining a certificate from the management which is not enough and hence CA Mehta is deemed to be guilty of professional misconduct.

38. Mr. P, a practicing chartered accountant, acting as a liquidator of ABN company, charges professional fee as a percentage of the realization of the assets

Ans:

Charging Fees on Percentage Basis:

Clause 10 of Part I of First Schedule to CA Act, 1949, prohibits a CA in practice to charge or offer to charge, accept or offer to accept in respect of any professional work, fees which are based on a percentage of profits or which are contingent upon the findings or result of work.

However, this restriction is not applicable where such payment is permitted by the regulations made in this behalf. The Council of the Institute has framed regulation 192 which exempts certain professional services from the operation of clause 10.

As per Regulation 192, in case of a receiver or a liquidator, the fees may be charged on a percentage of the realisation or disbursement of the assets.

Conclusion: No Misconduct arises on part of Mr. P under Clause 10 of Part I to First schedule as charging fees as a percentage of realisation of assets while acting as a liquidator is permitted by Regulation 192.

"ICAI Examiner Comments"

Few candidates were not aware of the exception granted under Regulation to liquidator to charge fees on percentage basis on realization.

39. Mr A, chartered accountant holding certificate of practice and having four article clerks registered under him accepts appointment as a full time lecturer in the college. Also he becomes a partner with his brother in the business. Examine If he is guilty of professional misconduct.

Ans:

Partnership with a relative and entering into business:

As per Clause 4, part I of First Schedule, a CA in Practice is deemed to be guilty of professional Misconduct if he enters into partnership in or outside India with any person other than the following:

- C.A. in practice, or
- Member of any other professional body having prescribed qualifications, or
- a person who but for his residence abroad would be entitled to be registered as member, or
- a person whose qualifications are recognized by CG or Council for the purpose of permitting such partnerships.

As per Clause 11 of Part 1 of First Schedule to the CA Act, 1949 a member in practice is prohibited to engage in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage.

In the present case, A CA in practice entered into partnership with his brother in a business. And accepts appointment as a full time lecturer in a college which requires prior approval from the Council of the ICAI.

Conclusion: A CA in practice cannot engage in any business or occupation other than the profession of Chartered Accountant unless permitted by the council so to engage. Hence the CA will be guilty under clauses 4 & 11.

40. CA Sufi is a practicing Chartered Accountant since 2008 in the field of company auditing, due to his good practical knowledge, he was offered editorship of a “company audit” journal, which he has accepted. However, he did not take any permission from the Council regarding such a editorship. Comment

Ans:

Engagement in other occupations:

- Clause 11 of Part 1 of First Schedule to the CA Act, 1949 prohibits a member in practice to engage in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage.
- It does not prohibit a CA from being a director of a company, except MD or a whole-time director. But if any of the partners is interested in such company as an auditor then he cannot be director of the said company.
- General permission is granted under Regulation 190 A for being appointed as editor of professional journal.
- In the present case CA Sufi has accepted the appointment as editor of a “Company Audit”, which is a professional journal.

Conclusion: Clause 11 permits editorship of professional journals, hence no misconduct arises on part of Mr. Sufi.

41. CA T, a leading income tax practitioner and a consultant for derivative products. He resides in Mumbai near to the ABC commodity Stock Exchange and does trading in commodities derivatives everyday and invests nearly 50% of his time to settle the commodity transactions. Is CA T liable for professional misconduct.

Ans:

Engagement into other occupation:

As per clause 11 of Part I of First Schedule of CA Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he “engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage”.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary. In this case CA Z is engaged in the occupation of trading in commodity derivatives which is not covered under the general permission, hence specific permission of the Institute has to be obtained.

Conclusion: If Mr. Z has obtained specific permission of the council, then there is no misconduct, otherwise he will be deemed to be guilty of professional misconduct under clause 11 of Part I of First Schedule of CA Act, 1949.

42. Mr. E is a practicing chartered accountant working as a proprietor of M/s E and Company. He went abroad for three months. He delegated the authority to Mr. Y, a Chartered Accountant, his employee, for taking care of routine matters of the office. During his absence Mr. Y has conducted the undermentioned jobs in the name of M/s E and company.
- He issued the audit queries to the client which were raised during the course of audit.
 - He issued production certificate to the client under GST law.
 - He attended income tax proceedings for a client as authorized representative before the authorities.

Please comment on the eligibility of Mr. Y for conducting the jobs in the name of M/s E and company.

Ans:

Delegation of Certification work:

As per clause 12 of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct “if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements”.

In this case CA A' proprietor of M/s A & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Y, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed, may be delegated and such delegation will not attract provisions of clause 12. Examples of such instances are issue of audit queries, asking for information or issue of questionnaire, attending to routing matters in tax practice etc.

Conclusion:

Issuing audit queries during the course of audit falls under routine work, which can be delegated by the auditor. Therefore, there is no misconduct in this case.

Issuance of production certificate to a client under GST Laws by Mr. "Y" is not a routine work and it is outside his authorities. Thus, CA A' is guilty of professional misconduct under clause 12 of Part I of First Schedule of the

Attending Income tax proceedings for a client as authorized representative before Income Tax Authorities falls under routine work, hence Mr. Y, the employee of M/s A & Co. can attend to routine matter in tax practice. Therefore, there is no misconduct in this case.

43. Mr C, a Chartered Accountant holds a certificate of practice while in employment also, recommends a particular lawyer to his employer in respect of a case. The lawyer out of the professional fee received from employer gave a particular sum as a referral fee to Mr. C. Comment.

Ans:

Referral Fee from Lawyer:

As per Clause 2 of Part II of First Schedule of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

In the present case, Mr. C who besides holding a certificate of practice, is also an employee and by referring a lawyer to the company in respect of a case, he receives a particular sum as referral fee from the lawyer out of his professional fee.

Conclusion: Mr. C is guilty of professional misconduct by virtue of clause 2 of Part II of First schedule for accepting referral fees from the lawyer of his employer.

44. Give your comment with reference to CA Act and Schedules thereto.

Mr. X, A Chartered accountant, employed as a paid assistant with the Chartered Accountant firm. On 31st December 2021, he leave the service of the firm. Despite many reminders from ICAI, he fails to reply regarding the date of leaving the services of the firm.

Ans:

Failed to supply information called for:

Clause 2 of Part III of the First Schedule to the Chartered Accountants Act, 1949, a member, whether in practice or not, will be deemed to be guilty of professional misconduct if he does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate authority.

In the given case, Mr. X has failed to reply to the letters of the Institute asking him to confirm the date of leaving the service as a paid assistant.

Conclusion: Mr. X is held guilty of professional misconduct as per Clause 2 of Part III of the First Schedule to the Chartered Accountants Act, 1949.

45. XYZ Associates, a Chartered Accountant firm is having a relationship with a multinational accounting firm in India. The ICAI require that all the firms having network in relationship with any other entity needs to furnish information online within the stipulated time. XYZ and Associates failed to respond. comment

Ans:

Failed to supply information called for:

Clause 2 of Part III of the First Schedule to the Chartered Accountants Act, 1949, a member, whether in practice or not, will be deemed to be guilty of professional misconduct if he does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate authority.

In the given case, XYZ Associates, a Chartered Accountants Firm is having a relationship with a multi-national accounting firm in India. The ICAI required that all firms having networking relationship with any other entity need to furnish information online within the stipulated time. XYZ Associated failed to respond.

Conclusion: XYZ Associates will be deemed to be guilty of professional misconduct as per Clause 2 of Part III of the First Schedule to the Chartered Accountants Act, 1949.

46. CA D, a Chartered Accountant in practice, availed a loan against his personal investment from a bank. He issued two checks towards repayment of the said loan as per the installments due. However, both the checks were returned back by the bank with remarks "insufficient funds". Comment.

Ans:

Bringing disrepute to the profession:

As per Clause 2 of Part IV of First Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if in the opinion of the council, that member brings disrepute to the profession or the Institute, as a result of his action, whether or not related to his professional work.

Accordingly, a Chartered Accountant is also expected to maintain the highest standards and integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case, two cheques were dishonoured and returned back with the remarks "Insufficient Funds". Issuing cheques without having sufficient balance in the account is punishable offence under the Negotiable Instruments Act, 1881.

Conclusion: As the cheques were dishonoured due to insufficiency of funds, the drawer will be held guilty of offence under Negotiable Instruments Act, 1881 and consequently he would be held guilty of "Other Misconduct".

47. Mr. B, a Chartered Accountant in practice approached manager of a Nationalized bank for a loan of 25 lakhs. He had also informed the manager that if the loan is sanctioned, the IT returns of the manager and the staff will be filed without charging any fee as quid pro quo for the loan sanctioned.

Ans:

Coercive Method for Sanction of Loan:

Clause 2 of Part IV of First Schedule to the Chartered Accountants Act, 1949 states that member of the Institute, whether in practice or not, shall be deemed guilty of other misconduct, if he in the opinion of the Council, brings disrepute to the profession or to the Institute as a result of his action whether or not related to his professional work.

Accordingly, a Chartered Accountant is also expected to maintain the highest standards and integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case, the action of Mr. P, a Chartered Accountant in practice offering free service in return to sanction of loan brings disrepute to the profession of a Chartered Accountant.

Conclusion: Mr. P will be held guilty of other misconduct under Clause 2 of Part IV of the First Schedule of the Chartered Accountants Act, 1949.

48. Give your comments with reference to CA Act 1949, YKs and company, a proprietor firm of Chartered Accountants was appointed as concurrent auditor of a bank. YKS used his influence for getting some checks purchased and thereafter failed to repay the loan or overdraft

Ans:

Bringing disrepute to profession:

Clause 2 of Part IV of First Schedule to the Chartered Accountants Act, 1949 states that member of the Institute, whether in practice or not, shall be deemed guilty of other misconduct, if he in the opinion of the Council, brings disrepute to the profession or to the Institute as a result of his action whether or not related to his professional work.

Accordingly, a Chartered Accountant is also expected to maintain the highest standards and integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case YKS & Co, being a concurrent auditor used his position to obtain the funds and failed to repay the same to the bank. This brings disrepute to the profession of a Chartered Accountant.

Conclusion: YKS & Co will be held guilty of other misconduct under clause 2 of Part IV of First Schedule of the Chartered Accountants Act, 1949.

49. Miss Prieto, a CA had an account with the bank. The normal balance in this account remained at the level below 5000. The bank inadvertently credited this account with a check of Rs.27000 belonging to another account holder. When CA Prieto came to know about this, she withdrew the amount of 2,75,000 and closed the bank account. After one year the bank noticed the mistake and claimed 275000 With interest. CA Prieto contested this claim. Can the bank approach the Institute of Chartered Accountants of India for disciplinary action against CA Prieto.

Ans:

Bringing disrepute to the Profession:

As per Clause 2 of Part IV of First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant will be deemed to be guilty of other misconduct if he in the opinion of the Council brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

In the instant case, CA Prieto, had an account with a bank from which she withdrew the amount of ₹ 2,75,000 and closed the account. This amount of ₹ 2,75,000 was pertaining to ₹ 5,000 minimum balance and ₹ 2,70,000 belonging to other account holder and inadvertently credited to his account by the bank.

The said act of CA Prieto to withdraw the money which does not belong to her will bring disrepute to the profession.

Conclusion: Bank can file a suitable complaint under Clause 2 of Part IV of First Schedule of the Chartered Accountants Act, 1949 with the Institute of Chartered Accountants of India for a case of "Other Misconduct".

50. Mr. P, a practicing Chartered Accountant, did not reply within a reasonable time and without any cause to the letter received from the local police station, a public authority soliciting suggestions as regards some nonprofessional work. Comment.

Ans:

Section 21 of the Chartered Accountants Act, 1949 provides that a member is liable for disciplinary action if he is guilty of any professional or "Other Misconduct." Though the term "Other Misconduct" has not been defined in the said Act, this provision enables the Council to enquire into any misconduct of a member 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. The Council has also laid down that among other things "non-replying within a reasonable time and without a good cause to the letter of the public authorities. "would amount to "other misconduct"

In the given scenario, CA. P did not reply within a reasonable time and without any cause to the letter received from the local police station, a public authority regarding soliciting his suggestion as regards some non-professional work. Thus, in the instant case, CA.P would be liable for disciplinary action

Professional Ethics

1. Tiger Ltd. has applied to a bank for loan facilities. The bank on studying the financial statements of the company notices some discrepancies in the books of the company. Upon discussion with the auditor of the company, the bank manager requested for detailed information regarding a few items in the financial statements. The information is available in the working paper file of the auditor. What should be the response of the auditor in this regard? [Nov 20 – old syllabus (5 marks)]

Hint: There is no requirement compelling the auditor to divulge information obtained in the course of audit and included in the working papers to any outside agency except as and when required by any law or permitted by the client

Ans.: Divulging information obtained in the course of audit:

- As per Clause (1) of part 1 of the Second Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force.
- SA 200 on “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” requires that the auditor should respect confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.
- In the instant case, Tiger Ltd. has applied to a bank for loan facilities and the bank asked the auditor for detailed information regarding few items in the financial statements available in the working papers. Having regard to the position stated earlier, the auditor cannot disclose the information in his possession without specific permission of the client.
- As far as working papers are concerned, working papers are the property of the auditor. The auditor may at his discretion, make portions of or extracts from his working papers available to his client.

Conclusion: There is no requirement compelling the auditor to divulge information obtained in the course of audit and included in the working papers to any outside agency except as and when required by any law or permitted by the client.

2. Give your comments with reference to chartered Accountants Act, 1949 and schedules thereto: Mr. C, a practicing Chartered Accountant, in the course of the audit of a listed company discovered serious violations of the provisions of the companies Act, 2013, informed the registrar of Companies out of public interest.

[May 13(4 Marks)]

Hint: Mr. C will be guilty of professional misconduct covered by clause 1 of part 1 of second schedule to the Chartered Accountants Act, 1949.

Ans.: Disclosure of Confidential Information:

- As per clause 1 of Part 1 of the second Schedule to the chartered Accountants Act, 1949 a member in practice will be guilty of professional misconduct if he discloses the information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.
- Further, Sec. 143(12) of the Companies Act, 2013 requires that if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within 60 days of his knowledge and after following the prescribed procedure.
- In the given case, Mr. C has disclosed serious violations of the provisions of the Companies Act, 2013 to Registrar of Companies without the consent of the client under the impression that it would be in public interest. It is not clear from the questions whether the violations of provisions involve fraud being committed by officers or employees of the company.
- Hence, in the present case, instead of disclosing the violations to the ROC directly, auditor should mention the violations in his report in due compliance of SA 250 "consideration of Laws and regulations in an audit of financial statements".

Conclusion: Mr. C will be guilty of professional misconduct covered by clause 1 of part 1 of second schedule to the chartered accountants act, 1949.

3. Comment on the following: Mr. Z, a chartered Accountant was invited by the chamber of commerce to present a paper in a symposium on the issues facing Indian Leather Industry. During the course of his presentation, he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.

[Nov 14(4 Marks)]

Mr. B a chartered accountant in practice was invited to deliver a seminar on GST which was attended by professionals as well as by representatives of various industry to which it pertains. Mr. B enthusiastically explained the issue and elaborate how he actually solved this for his client facing the same issue with worked out examples from the computer storage device using the actual data of one of his clients with full identification of client details being displayed to the group for the sake giving clarity on a topic in a real life situation. Comment his acts in the light of code of conduct.

[May 18 – New Syllabus (4 Marks)]

Hint: Disclosing the client's information without obtaining consent of client amounts to professional misconduct under Clause 1 of part 1 of Second Schedule to the CA Act, 1949.

Ans.: Disclosure of Client's Information:

- Clause 1 of Part 1 of the Second Schedule to the CA Act, 1949 deals with the professional misconduct relating to the disclosure of information by a CA in practice relating to the business of his clients to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force would amount to breach of confidence.
- The code of ethics further clarifies that such a duty continues even after completion of the assignment. The CA may, however, disclose the information in case it is required as a part of performance of his professional duties.

- In the given case, Mr. Z has disclosed vital information of his client's business without the consent of the client under the impression that it will help the nation to compete with other countries at the international level.

Conclusion: Disclosing the client's information without obtaining consent of client amounts to professional misconduct under clause 1 of part 1 of second Schedule to the CA Act, 1949.

4. L, a chartered accountant prepares and certifies projected financial statements of his client Abacus Ltd. Abacus Ltd. forwarded the same to their banks to secure loans and bank, on that basis sanctioned a loan. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

[May 17(4 Marks), MTP Aug 18]

Hint: Mr. L will be deemed to be guilty of professional misconduct under clause 3 of part 1 of second schedule assuming that conditions stated in SAE 3400 are not being fulfilled.

Ans.: Certification of Financial forecast:

- As per clause 3 of part 1, second schedule to the CA Act, 1949 chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he permits his name or the name of the firm to be used in connection with the estimates of earnings, contingent upon future transactions, in a manner which may lead to the belief that he vouches for the accuracy of the forecast.
- Further SAE 3400 "The Examination of prospective Financial Information", provides that the management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions.
- The auditor may be asked to examine and report on the prospective financial information to enhance its credibility, whether it is intended for use by third parties or for internal purposes. Thus, while making report on projection, the auditor need to mention that his responsibility is to examine the evidence supporting the assumptions and other information in the prospective financial information, his responsibility does not include verification of the accuracy of the projections, therefore, he does not vouch for the accuracy of the same.
- In the given case, Mr. L a chartered accountant **prepares and certifies** projected financial statements of his client Abacus Ltd. Abacus Ltd. forwarded the same to their banks to secure some loans and bank, on that basis sanctioned a loan.
- Preparing as well as certifying projected financial statements by the same chartered accountant is not in order.

Conclusion: Mr. L will be deemed to be guilty of professional misconduct under clause 3 of part 1 of second schedule assuming that conditions stated in SAE 3400 not being fulfilled.

5. Give your comments with reference to Chartered Accountants Act, 1949 and Schedules thereto: Mr. 'E', a practicing Chartered Accountant, was requested by one of his clients to prepare a projection for next five years and also a report on the same. Mr. 'E' after having prepared the same stated in his report. "The sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. He also stated that he does not vouch for the accuracy of the forecasts.

[May 14(4 Marks)]

Hint: Mr. E is permitted to prepare projections on behalf of client and make a report over the projection subject to fulfilment of conditions as stated in SAE 3400. No misconduct arises on part of Mr. E.

Ans.: Certification of Financial forecast:

- As per clause 3 of part 1, second schedule to the CA Act, 1949 chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he permits his name or the name of the firm to be used in connection with the estimates of earnings, contingent upon future transactions, in a manner which may lead to the belief that he vouches for the accuracy of the forecast.
- Further SAE 3400 "The Examination of prospective Financial Information", provides that the management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions.
- In the given case, Mr. E is being engaged by the client to prepare and report the projection. Mr. E is required to ensure that the requirements of SAE 3400 have been fulfilled. Mr. E after having prepared the projections for next five years stated in his report, "the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts." He also stated that he does not vouch for the accuracy of the forecasts.

Conclusion: There is no violation of the Chartered Accountants Act, 1949 and its regulations.

6. Mr. D, a practicing CA, is appointed as Director *Simplicitor* in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and accepted the Statutory Auditor position of the company. Is Mr. D right in accepting the auditor position?

Hint: Mr. D would be guilty of professional misconduct under Clause 4 of part 1 of Second Schedule of the Chartered Accountants Act, 1949.

Ans.: Accepting appointment as auditor:

- As per Clause (4) of Part 1 of the Second Schedule of the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he expresses his opinion on F.S. of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.
- Sec. 141 of the companies Act, 2013 specifically prohibits a member from auditing the accounts of a company in which he is an officer or employee.
- Further, as per the clarifications issued by the council, a member shall not accept the assignment of audit of a company for a period of 2 years from the date of completion of his tenure as director, or resignation as director of the said company.
- In the instant case, Mr. D, a practicing CA, is appointed as a Director *Simplicitor* in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and accepted the Statutory Auditor position of the company. In view of above provisions Mr. D cannot accept the Directorship of the company until the completion of the two years after his resignation.

Conclusion: Mr. D would be held guilty of the professional misconduct under clause 4 of part 1 of second schedule of chartered accountants act, 1949.

7. Mr. Y used to deliver audit report without any comments or disclosures, thereupon. Comment on the following with reference to Chartered Accountants Act, 1949 and Schedules thereto: Mrs. X is a Director of ABC Pvt. Ltd. During the year 2021-22, the company appointed CA Mr. Y, Mrs. X's spouse, as its statutory auditor

Hint: Guilty of professional misconduct under Clause 9 of part 1 of first Schedule and Clause 4 of part 1 of second Schedule due to accepting appointment as statutory auditor of the entity in which his relative is a director and expressing opinion on F.S. of that entity.

Ans.: Auditing the F.S of entity in which relative is a director:

- As per clause (9) of part 1 of the first schedule to the 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 Sec. 139 and 140 read with sec. 141 of the companies act, 2013, in respect of such appointment have been duly complied with.
- As per Clause (4) of Part 1 of the Second Schedule of the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he expresses his opinion on F.S. of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.
- As per Sec. 141(3)(f) of the companies act, 2013, a person shall not be eligible for appointment as an auditor of a company whose relative is a director or is in the employment of the company as director or KMP. The definition of 'Relative' includes husband and wife.
- In this case Mrs. X is a Director of ABC Pvt. Ltd. and the company has appointed Mr. Y, Chartered Accountant, Mrs. X's spouse, as its statutory auditor. Mr. Y should not accept the appointment as statutory auditor of the company, where his wife Mrs. X is a director. This is contravention of section 141 of the companies act, 2013.

Conclusion: Mr. Y is guilty of professional misconduct under clause 9 of part 1 of first schedule and clause 4 of part 1 of second schedule due to accepting appointment as statutory auditor of the entity in which his relative is a director and expressing opinion on F.S. of that entity.

8. Comment on the following with reference to Chartered Accountants Act, 1949 and Schedules thereto: Mr. A was appointed by H Ltd. to audit the PF trust maintained by the company. While conducting the audit he noticed that the large number of loans have been given out of the trust to the employer company in contravention of the rules of the PF trust. He disclosed the irregularities to the trustees and to the company but not to the individual subscribers of the PF. When queried on his omission to disclose, he explained that he owed no duty to the individual members.

Hint: Guilty by virtue of Clause 5 of part 1 of Second Schedule to the CA Act, 1949, as he was required to disclose the facts to beneficiaries of the fund just like he gives his report to the shareholders of the company.

Ans.: Failure to Disclose Material Facts:

- As per clause (5) of Part 1 of second schedule to the CA Act, 1949, a CA in practice will be held liable for misconduct if he fails to disclose a material fact known to him, which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading.

- In the case, Mr. A has noticed that the large number of loans were given out of the trust to the employer company in contravention of the rules of the PF trust.
- Mr. A has disclosed the irregularities to the trustees, but not to the subscribers. Mr. A was required to disclose such facts to beneficiaries of a fund just like he gives his report to the shareholders of a company.

Conclusion: Mr. A will be attracted by the provisions of professional misconduct under clause (5) of Part 1 of second schedule to the chartered accountants act, 1949.

9. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto:
CA. Dice had signed the Balance Sheet of QR Ltd. for the year ended 31st March, 2022 which failed to give disclosure of the charge created for ₹ 4.35 crores against the Corporate Guarantee given in favor of a group company. The balance sheet size of the company filed with the registrar of Companies was ₹ 26.12 crores.

[Nov 20 – New syllabus (4 Marks)]

Hint: Mr. Dice will be attracted by the provisions of professional misconduct under Clause (5) of part 1 of Second Schedule to the Chartered Accountants Act, 1949 as he fails to disclose the material facts in the financial statements.

Ans.: Failure to disclose material facts:

- As per Clause (5) of part 1 of second schedule to the CA Act, 1949, a member in practice will be held liable for misconduct if he fails to disclose a material fact known to him which is not disclosed in a F.S, but disclosure of which is necessary in making such F.S not misleading where he is concerned with that F.S in a professional capacity.
- It may be observed that this clause refers to failure to disclose a material fact, which is known to him, in a financial statement reported on by the auditor. It is obvious, that before a member could be held guilty of misconduct, materiality has to be established. The determination of materiality has been provided in SA 320, “Materiality in Planning and Performing an Audit.”
- FRFs often discuss the concept of materiality in the context of the preparation and presentation of F.S. Although FRFs may discuss materiality in different terms, they generally explain, among of other points, that judgements about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.
- In this case, CA Dice has signed a Balance Sheet which failed to give disclosure of ₹ 4.35 crores (considered material fact applying above SA 320 principle) against the corporate guarantee given in favor of a Group Company. Size of Balance Sheet of QR Ltd is ₹ 26.12 crore. This material fact has to be disclosed in the financial statements.

Conclusion: Based on the above discussion, it may be concluded that Mr. Dice is attracted by the provisions of the professional misconduct under clause (5) of part 1 of second schedule to the chartered accountant act, 1949.

10. Mr. X partner of X & Co. Chartered Accountants, has complied and signed the balance sheet of False Ltd. for submission to the bankers of the said company. Mr. X has also complied and signed at the request of the company another balance sheet inflating the value of assets by 20% for submission to a term lending institution. Both the balance sheets were not in conformity with the books of account maintained by the company as they were not up to date. Comment on Mr. X liability.

Hint: Mr. X would be held guilty under Clauses 5 and 6 of Part 1 of Second Schedule to the CA Act, 1949 as Mr. X had complied the two different balance sheets for the same date without reference to the actual books of account, but on instructions of the client. As per clause 5 he has failed to disclose material fact known to him & as per clause 6 has also failed to report a material misstatement known to him.

Ans.: Failure to disclosure the material irregularities:

- As per clause 5 of part 1 of second schedule to the chartered accountant act, 1949, a member in practice will be deemed to be guilty of professional misconduct if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading, where he is concerned with the financial statement in a professional capacity.
- As per clause 6 of part 1 of second schedule, a member in practice will be deemed to be guilty of professional misconduct if he fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.
- In the present case, Mr. X partner of X & Co. Chartered Accountants, has complied and signed the balance sheet of False Limited, for submission to the bankers of the said company. Mr. X has also complied and signed at the request of the company another balance sheet inflating the value of assets of 20% for submission to a term lending institution. Both the balance sheets were not in conformity with the books of account maintained by the company as they were not up to date.

Conclusion: Mr. X would be guilty under clauses 5 & 6 of part 1 of second schedule to the CA Act, 1949 as Mr. X had complied the two different balance sheets for the same date without reference to the actual books of account, but no instructions of the client. As per clause 5 he has failed to disclose material fact known to him and further, as per clause 6 he has also failed to report a material misstatement known to him.

11. Mr. Fair a practicing CA, was appointed to carry out a Balance Sheet Audit of a Non- Profit Organization. The Internal Auditors detected certain irregularities at one of the branches of the organization which Mr. Fair had failed to detect.

[Nov 97 (5 Marks)]

Hint: Mr. Fair is not guilty as he was appointed to carry out balance sheet Audit, hence he is not required to check matters relating to branch in depth.

Ans.: Auditor's responsibilities in relation to branch audit:

- As per clause 7 of parts-1 of second schedule of chartered Accountants Act, 1949, a chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties."

- In the present case, internal auditor detected certain irregularities at one of the branches of the organisation which the statutory auditor Mr. Fair had failed to detect.
- Statutory auditor has been appointed to carry out the balance sheet audit, he is not required to check the matters relating to branch in depth.

Conclusion: There is no professional misconduct on part of Mr. Fair.

12. A search under section 132 of Income tax Act in the premises of a leading merchant led to the discovery of two sets of accounts books- one set to record all income correctly and second to record only limited income. A CA has issued audit report on the basis of second set of books. What would be your answer if the first set of account books carried evidence of checking by the CA?

Hint: In the first case, he would not be deemed to be guilty of misconduct. But in the second case, he would be deemed to be guilty of misconduct.

Ans.: Auditor's negligence in performance of duties:

- As per clause 7 of part-1 of second schedule of chartered Accountants Act, 1949, a chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".
- In the present case, it has been found that client has maintained two sets of account books- one set to record all the income correctly and second to record only limited income. CA has issued audit report on the basis of second set of books. In this case, there will not be any misconduct on part of CA if the auditor is not aware of the first set of books.
- However, if there exist evidences that auditor is aware of first set of books also, then he will be deemed to be guilty of professional misconduct being grossly negligent in performance of his duties.

Conclusion: In the first case, he would not be deemed to be guilty of misconduct. But in the second case, he would be deemed to be guilty of misconduct.

13. Mr. X, a CA in practice and statutory auditor of True Ltd. advised the Managing Director of the company to include in sales, "Orders under negotiation" to reflect a better financial position for obtaining bank loan. Mr. X, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts.

[MTP- May 20]

Hint: Guilty of misconduct under Clauses 2 & 7 of part 1, Second Schedule to the CA Act, 1949 as he issued the report without examining the accounts and has acted in a negligent manner.

He will also be deemed guilty of other misconduct under Clause (2) of part IV of first schedule for advising unethical practice to the client.

Ans.: Auditor's negligence in performance of duties:

- As per clause 7 of part-1 of second schedule of chartered Accountants Act, 1949, a chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

- In the present case, Mr. X, a partner of X & Co., advised the M.D. of true Ltd. to include in sales orders under negotiations to reflect a better financial position for obtaining bank loan.

Conclusion: Mr. X is guilty of professional misconduct under clause 7 of part 1, second schedule to the CA Act, 1949, as he has acted in a negligent manner.

He will also be deemed guilty of other misconduct under clause (2) of part IV of first schedule for advising unethical practice to the client.

14. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto: Z, a practicing Chartered Accountant issued a certificate of circulation of a periodical without going into the most elementary details of how the circulation of a periodical was being maintained i.e. by not looking into the financial records, bank statements or bank pass books, by not examining evidence of actual payment of printers bills and not caring to ascertain how many copies were sold and paid for.

[May 12 (4 Marks)]

Hint: CA Z is guilty of professional misconduct as per clauses 2, 7 and 8 of part 1 of Second Schedule of CA Act, 1949 as certificate is issued without examination of related records, failed to exercise due diligence and failed to obtain necessary information.

Ans.: Failure to exercise due diligence and to obtain necessary information:

- Clause 2 of part 1 of second schedule of CA Act, 1949 states that a CA in practice shall be guilty of professional misconduct if he certifies or submits in his name or in the name of his firm a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another CA in practice.
- Clause 7 of part 1 of second schedule of CA Act, 1949 states that a CA in practice shall be deemed to be guilty of professional misconduct if he “does not exercise due diligence or is grossly negligent in the conduct of his professional duties”.
- Clause 8 of part 1 of second schedule to CA Act, 1949 states that if a CA in practice fails to obtain sufficient information to warrant the expression of an opinion or its exceptions are sufficient material to negate the expression of an opinion, the CA shall be deemed to be guilty of a professional misconduct.
- In the present case, Mr. Z, did not exercise due diligence and is grossly negligent in the conduct of his professional duties since he certified the circulation figures without the examination of records and other required documents. He should not express his opinion before obtaining the required data and information.
- As an auditor, Mr. Z ought to have verified the basics records such as print order, printer’s bill, number of copies sold and paid for, number of copies returned unsold to ensure the correctness of circulation figures.

Conclusion: Mr. Z will be held guilty of professional misconduct as per clause 2, 7 and 8 of part 1 of second schedule of chartered Accountants Act, 1949.

15. NAM & Co, conducted stock Audit of DEF Ltd. as per instructions issued by HEG Bank. However instead of visiting the site where the stock was lying, the firm relied on the Management Information Systems report along with inspections reports and photographs of stock taken by the employees of DEF Ltd. The photographs were also carrying the date and time printed on them. Comment with reference to the Chartered Accountants Act, 1949 and its schedules thereto.

[Jan 2021- New syllabus (4 Marks)]

Hint: NAM & Co, guilty of professional misconduct as per clauses 2, 7 and 8 of part 1 of Second Schedule of CA Act, 1949 due to the reason that stock audit is being done without examination of related records, failure to exercise due diligence and failure to obtain necessary information.

Ans.: Negligence in performance of duties:

- As per clause 7 of part 1 of second schedule to the chartered accountant act, 1949, a CA in practice shall be guilty of professional misconduct if does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.
- To conduct stock audit, ascertainment of existence and physical condition of stocks, cross tallying the stock with Stock statement submitted by bank borrower, correct clarification of stocks for valuation purpose etc. is essential. Further submitting stock audit report without physically verifying the stock amounts to gross negligence.
- As per clause 8 of part 1 of second schedule, a CA in practice will be deemed to be guilty of professional misconduct if he fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.
- In the present case, Mr. Z, did not exercise due diligence and is grossly negligent in the conduct of his professional duties as instead of visiting the site where the stock was lying, the firm relied on the Management information systems report along with inspections reports and photographs of stock taken by the employees of DEF Ltd.

Conclusion: Nam & Co. is guilty of professional misconduct as per clause 7 and 8 of part 1 of second schedule of CA Act, 1949 due to the reason that stock audit is being done without examination of related records, failure to exercise due diligence and failure to obtain necessary information.

16. Comment on the following with reference to Chartered Accountants Act, 1949 and schedules thereto: A charitable institution entrusted ₹ 10 lakhs with its auditor's M/s Ram and Co, a chartered Accountant firm, to invest in some specified securities. The auditor's pending investment of the money deposited it in their saving bank account and no investment was made in the next three months.

Hint: M/s Ram & Co. will be held guilty of professional misconduct as he deposited the client money in his saving bank account.

Ans.: Deposit of client's Money in Separate Bank account:

- As per Clause 10 of Part 1 of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he fails to keep moneys of his client other than the fees or remuneration or money meant to be expended in a

separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

- The term reasonable time would depend upon the circumstances of the case. Moneys which are intended to spent within a reasonably short time need not put in a separate bank account.
- In the instant case, M/s Ram & Co. should have deposited the amount into a separate bank account. Further, they are not permitted to provide to service of portfolio management to the client.

Conclusion: M/s Ram & Co. will be held guilty of professional misconduct as he deposited the client money in his saving bank account.

17. Mr. Ram, a chartered Accountant in practice, received ₹ 15, 00, 000 on 15th December 2021 on behalf of one of his clients, who has gone to USA. Mr. Ram deposited the said amount in his saving bank account (SB Account). As per instruction of the client, the said amount is to be returned to the client on March 31, 2022 when he will return to India. On the occasion of birthday of his wife Sita, Mr. Ram withdrew ₹ 5, 00, 000 and spent on Birthday party. He re-deposited ₹ 5, 00, 000 in the said SB account on 25th March 2022 and then returned the entire amount of ₹ 15, 00, 000 to the client on March 31, 2022.

Hint: Mr. Ram will be guilty of professional misconduct under clause 10 of part 1 to second schedule due to utilization of ₹ 5, 00, 000 for personal purposes.

Ans.: Deposit of client's Money in Separate Bank account:

- As per Clause 10 of Part 1 of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he fails to keep moneys of his client other than the fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.
- The term reasonable time would depend upon the circumstances of the case. Moneys which are intended to spent within a reasonably short time need not put in a separate bank account.
- In the instant case, M/s Ram & Co. should have deposited the amount into a separate bank account. Further, he was not supposed to spent the amount for personal purposes.

Conclusion: Mr. Ram will be guilty of professional misconduct for his failure to keep the client money in separate bank account and using the client money for personal purposes.

18. Comment: M/s. ABC a firm of Chartered Accountants received ₹ 2 Lakhs in March 2022 from a client to pay the advance tax. However, the firm has used that money for its own purpose and later on adjusted the same with the outstanding fee payable.

[Nov. 14 (4 Marks)]

Hint: Since M/s ABC have failed to keep the sum of ₹ 2 Lakhs received on behalf of their client in a separate Bank Account, it amounts to professional misconduct under clause 10 of part 1 of second schedule

Ans.: Deposit of client's Money in Separate Bank account:

- As per Clause 10 of Part 1 of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if "he fails to keep

moneys of his client other than the fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended.”

- In the present case, M/s ABC received the money in March, 2022 for payment of the advance tax; hence it should be deposited in a separate bank account. However, firm has used that money for its own purposes.

Conclusion: Since M/s ABC have failed to keep the sum of ₹ 2 lakhs received on behalf of their client in a separate bank account, it amounts to professional misconduct under clause 10 of part 1 of second schedule.

19. CA N was appointed as an auditor of JAL Ltd. The company has branches all over the state of Haryana. CA N, in consultation with management, decided to visit 6 out of 10 branches. Management decided to pay him advance of ₹ 2.00 Lakhs on visit to be conducted as a part of services rendered. As agreed, ₹ 2.00 Lakhs was transferred in his bank account from which he met all the expenses. Comment with reference to chartered Accountants act, 1949 whether the action of CA N of receiving the advance money in his saving accounts and not keeping it in separate bank account is valid.

[Jan 2021- New syllabus (4 Marks)]

HINT: An advance money by a Chartered Accountants against services to be rendered does not fall under Clause (10) of part 1 of the second schedule, hence no misconduct arises on part of CA. N.

Ans.: Deposit of client's Money in Separate Bank account:

- As per Clause 10 of Part 1 of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if “he fails to keep moneys of his client other than the fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended.”
- In connection with compliance of Clause 10, Council has considered some practical difficulties of the members and suggest that an advance received by a Chartered Accountant against services to be rendered does not fall under clause (10) of part 1 of the second schedule.
- In the given case, CA N was appointed as an auditor of IAI Ltd. The company has branches all over the state of Haryana. CA N, in consultation with management, decided to visit 6 out of 10 branches. Management decided to pay him advance of ₹ 2.00 lacs on visits to be conducted as a part of services rendered. As agreed, ₹ 2.00 lacs was transferred in his bank account from which he met all the expenses.

Conclusion: An advance received by a chartered accountant against services to be rendered does not fall under Clause (10) of part 1 of the second schedule, hence no misconduct arises on part of CA. N.

20. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto: Mr. Dheeraj, an aspiring student of ICAI, approached Mr. Murli, a practicing CA, for the purpose of articleship. Mr. Murli, the principal, offered him stipend at the rate of ₹ 2,000 p.m. to be paid every 6th month along with interest at the rate of 10% p.a. compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is 6 months.

Mr. Dheeraj agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Murli, however, used to disburse salary to all of his employees on time.

CA X is Chartered Accountant in practice. He has an articled trainee Mr. H. X has informed H that since his practice and receipt of fees is seasonal, the stipend would not be paid in the months of April to December but would be paid from January to March and the shortfall for the earlier 9 months will be made good in these 3 months along with interest @ 5% p.a. Comment with reference to the Chartered Accountants Act, 1949.

[Nov. 17 (4 Marks)]

Hint: Mr. Murli (CA X) has violated the regulation 48 of CA Regulations, 1988, hence would be guilty of professional misconduct under Clause 1, part II of second Schedule.

Ans.: Contravening Provisions of the Act/ Regulations:

- As per Clause (1) of part II of Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct under, if he contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the council.
- Regulation 48 of Chartered Accountants Regulations, 1988 requires that payment to articled clerks to be made on monthly basis.
- In the present case, Chartered Accountant has failed to make the payments of stipend to articled assistant every month in accordance with Regulation 48. The fact that the articled assistant will be compensated with extra sum in the form of interest on late payment and the plea that his receipts are seasonal is of no relevance and hence not acceptable.

Conclusion: Regulation 48 of CA Regulation, 1988 has been violated, hence chartered accountant would be guilty of professional misconduct under clause 1, part II of second schedule.

21. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto: The manager of ABC (P) Ltd. approached CA.X in the need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (COP), CA. X issued the certificate to the manager of the company, acting as a CA in practice and applied for the COP to the Institute on very next day to avoid any dispute.

[RTP. May 18]

Hint: Mr. X has violated the provisions of sec. 6 of CA Act, 1949 and hence would be guilty of professional misconduct under Clause 1, Part II of second Schedule.

Ans.: Contravening Provisions of the Act:

- As per clause (1) of part II of second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the council.
- Section 6 of Chartered Accountant Act, 1949 provides that no member of the Institute shall entitled to practice (whether in India or elsewhere) unless he has obtained from the council a certificates of practice.

- In the given case, CA. X has issued a certificate in respect of a consumption statement of raw material to the manager of ABC (P) Ltd., as a Chartered Accountant in practice when he had not even applied for the COP to the Institute, thereby contravening the provisions of section 6 of the Chartered Accountant Act, 1949.

Conclusion: Mr. X has violated the provisions of Sec. 6 of CA Act, 1949 and hence would be guilty of professional misconduct under Clause 1, Part II of Second Schedule.

22. Give your Comments with reference to the Chartered Accountants Act, 1949 and schedules thereto: X, a practicing Chartered Accountant in an application for permission to study submitted by his Articled Assistant to the Council had confirmed that the normal working hours of his office were from 11 A.M to 6 P.M and the hours during which the Articled Assistant was required to attend classes were 7:00 A.M to 9:30 A.M. According to the information from college, the Articled Assistant attended the college from 10 A.M to 1:55 P.M. on all week days. About the Articled attending the classes even during office hours, x pleaded ignorance.

[May 12. (4 Marks)]

Hint: Mr. X will be deemed to be guilty of professional misconduct under Clause 1 of part II of second Schedule for contravention of regulations of the Institute and under Clause 3 of Part II of second Schedule for submission of false information to the ICAI.

Ans.: Failure to Observe the Regulations:

- As per Clause 1 of Part II of Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty of professional misconduct if he contravenes any of the provisions of the Act or the regulations made thereunder or any guidelines issued by the council.
- As per Clause 3 of Part II of Second Schedule to the CA Act, 1949, a member is deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the institute, council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.
- The chartered Accountant, as per regulations also, is expected to impart proper practical training. There is a specific circular issued which guides on timing for training for articleship.
- In the instant case, the articled clerk must have not been attending office on regular basis and the explanation of the chartered accountant cannot be accepted. It is also quite likely that the articled clerk would be availing leave quite often and coming late to the office. X knew about the college timing of his articled assistant and he had given information to the institute knowing them to be false.

Conclusion: Mr. X will deemed to be guilty of professional misconduct under clause 1 of part II of second schedule for contravention of regulations of the Institute and under Clause 3 of part II of Second Schedule for submission of false information to the ICAI.

Questions on Audit of Dividend

Integrated Case Study (RTP Dec 21)

Kiwspace Ltd. is an unlisted public company incorporated in the year 2009, having 90 shareholders with an equity share capital of ` 27 lakhs. There are total four directors in its board.

For the financial year 2020-21 as well as for the quarter ended on 30th June, 2021, Kiwspace Ltd. had suffered a loss.

2017-18	10%
2016-17	15%
2015-16	20%
2014-15	14%

The said dividend was paid to the shareholders on 10th June, 2021, through account payee cheque, by withdrawing an amount of 5% from the total free reserves available with Kiwspace Ltd. The balance of free reserves after such withdrawal fell to 20% of its paid up share capital as appearing in the latest audited financial statements.

One of the shareholders, Mr. Mahesh, had submitted a transfer deed to the company on 28 th April, 2021, for registration relating to transfer of all shares held by him in Kiwspace Ltd. in the name of Mr. Govardhan, along with an authorization letter for paying the amount of dividend on his shares to Mr. Govardhan.

However, till 10th June, 2020, due to certain reasons, Kiwspace Ltd. could not register the aforesaid transfer of shares in the name of Mr. Govardhan.

The dividend remaining unpaid of ` 2 lakhs was transferred to the unpaid dividend account by the company on 15th June, 2021.

Kiwspace Ltd. prepared a statement on 30th September, 2021, containing the names of shareholders to whom payment of dividend had remained pending, their last known addresses and the amount of dividend to be paid to them. The said statement was placed on the same date on the company's website and also on the website approved by the Central Government for this purpose.

Rao & Co. is the statutory auditor of Kiwspace Ltd. for F.Y. 2020-21 which issued its audit report on 30th June, 2021 on the financial statements approved on 20th June, 2021.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Question No.: (1-5)

1. At what maximum rate, the board of Kiwspace Ltd. would have declared the interim dividend for quarter ended March, 2021?
 - (a) 10.6%.
 - (b) 12.67%.
 - (c) 14.5%.

- (d) 15%.
2. How much amount of interest shall be payable by Kiwspack Ltd. for delay in payment of dividend to the shareholders?
- (a) ` 13,151.
- (b) ` 8,877.
- (c) ` 10,521.
- (d) ` 15,781.
3. In which account, Kiwspack Ltd. would have transferred the dividend amount in relation to shares which were held by Mr. Mahesh?
- (a) Account of Mr. Mahesh.
- (b) Account of Mr. Govardhan.
- (c) Unpaid Dividend Account.
- (d) Investor Education and Protection Fund.
4. How much maximum amount of fine could be levied on every director of the company who was knowingly a party to the default in payment of dividend to the shareholders?
- (a) ` 9,000.
- (b) ` 11,000.
- (c) ` 16,000.
- (d) ` 1,00,000.
5. By what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account and also by what date, the statement in relation to details of such Unpaid Dividend should have been prepared by Kiwspack Ltd. and placed on its website?
- (a) 01st June, 2021 and 13th September, 2021, respectively.
- (b) 25th May, 2021 and 15th July, 2021, respectively.
- (c) 01st June, 2021 and 15th July, 2021, respectively.
- (d) 25th May, 2021 and 13th September, 2021, respectively.

Ans: 1. B 2. D 3. B 4. C 5. A

2. AARK LTD is a large sized listed company having annual turnover of INR 4000 crores. The company has also planned to get listed on the New York Stock Exchange for the next year.

The company has paid a good amount of dividend during the year to its shareholders, which is significantly higher as compared to the earlier years. The statutory auditor would like to focus on this aspect at the time of the statutory audit.

Please advise the relevant procedures that the auditor should perform in respect of this area. (RTP May 19)

Ans:

Steps for verification of dividend:

To ensure that dividend is paid out of profits, auditor should take the following steps:

- i. Ensure that all the rules and regulations concerning the declaration or payment of dividends have to be complied with.
- ii. Ensure that the dividends have been declared or paid only out of distributable profit i.e., profits for the current year for which dividend is declared, or accumulated profits for the previous years, or money provided by the Central or State Government as per Sec.123(1) of the companies Act,2013.
- iii. In case of inadequacy or absence of profits in any financial years, if dividend has been paid out of accumulated profits, earned by it in previous years and transferred to the reserves, verify that the rules related to such distribution has been complied.
- iv. Verify that the dividend recommended by the Board has been approved by the members at the AGM.
- v. Verify that the dividend has been transferred to the separate scheduled bank account within 5 days from the declaration of such dividend as required by Sec.123(4) of the companies Act,2013.
- vi. Verify that the dividend has been paid within 30days from the declaration. If in case the dividend has not been claimed or paid within 30 days from the declaration, verify that the unpaid or unclaimed dividend amount has been transferred to a special account called unpaid dividend account as per Sec.124(1) of the companies Act, 2013.
- vii. Verify that the company has prepared a statement within a period of 90 days of making any transfer of an amount to the unpaid dividend account containing the specified particulars, and have placed it on the website of the company, if any, and also on any other website approved by the C.G. for this purpose as required under Sec. 124(2) of the companies Act, 2013.
- viii. Verify that, if any money transferred to unpaid dividend account has remained unpaid or unclaimed for a period of 7 years from the date of such transfer then, whether it has been transferred by the company along with interest accrued, if any, thereon the investor education and protection fund established u/s 125(1) of the companies Act, 2013 and a statement regarding such transfer has also been sent to the authority which administers such fund.
- ix. In case the company has outsourced the activity to the service organisation, check that all the compliances with laws, regulations, accounting and disclosure related to the dividends have been made appropriately.
- x. If dividends are declared after the balance sheet date but before the F.S. are approved for issue, check that the dividends have not been recognised as a liability as per AS 4 and Ind AS 10, but whether a disclosure of the same has been made in the notes.

3. For the year ended 31st March 2022, P limited proposes to pay a dividend of 25% on equity shares, and it further proposed to transfer 20% of net profit for the year after tax towards reserves. Its auditors objected to the same stating that 10% is a maximum permissible limit to transfer to reserves.

May 14 (4 marks)

Ans:

Transfer to reserve:

- Section 123(1) of the companies Act, 2013 provides that the dividend cannot be declared or paid by a company for any financial year except out of profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of section 123(2) or, out of the profits or the company for any financial year or years arrived at after providing for depreciation in the manner aforementioned and remained undistributed, or out of both.
- First proviso to section 123(1) provides that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company. Therefore, company is not mandatorily required to transfer the profit to the reserves, it is an option available to the company to transfer a percentage of profit to reserves.
- In the present case, P Ltd. has proposed to pay a dividend of 25% on its equity share and a transfer of 20% of Net profit to its reserves.

Conclusion: Assuming that the company has complied with the depreciation requirement, the dividend can be declared by transferring any amount of profits to reserves.

5. As a statutory auditor of the company, comment on the following: For the year ended 31st March 2022, the financial statements of A Pvt limited were adopted on 30th April 2022. At this meeting, the directors proposed a dividend for the year 21-22 of 25% on the equity share capital amounting to rupees 10 lakhs. No entry was passed for the proposed dividend in the books of the company. Since in the view of the directors the same was not required as per Schedule III.

Nov 12 (5 marks)

Ans:

Non provisions for proposed dividends:

- Schedule III requires disclosure of the amount of dividend proposed to be distributed to equity and preference shareholders for the period and related amount per share to be disclosed separately. It also requires separate disclosure of the arrears of fixed cumulative dividends on preference shares.
- As per AS -4, "Contingencies and events occurring after the balance sheet date" there are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.
- In the present case, no entry was passed for proposed dividend.

Conclusion: Contention of the management not to provide dividend is correct

Questions on Council General Guidelines, 2008

1. Comment on the following with reference to Chartered Accountants Act, 1949 and the schedules thereto. Mr. P, a Chartered Accountant did not maintain any books of account on the grounds that his income did not exceed the limit prescribed under Section 44AA of the Income Tax Act 1961.

Ans:

Maintenance of Books of Account:

As per Clause 1 of Part II of Second Schedule, a member of the Institute will be held guilty of professional misconduct if he Contravenes any of the provisions of this act or the regulations made there under or any guidelines issued by the council.

Chapter V of the Council General Guidelines, 2008 specifies that a member of the Institute in practice or the firm of Chartered Accountants of which he is a partner shall maintain and keep in respect of his/its professional practice, proper books of account including the following:

1. a Cash Book
2. a Ledger

In the instant case, Chartered Accountant being in practice was required to maintain the books of account, but he does not maintain the books and writes the fees received from various clients in small pocket diary. A small pocket diary maintained by him cannot be books of account.

Conclusion: Mr. P will be held guilty for professional misconduct for violation of Council General Guidelines, 2008.

2. A member of the Institute Shall Not Accept in a year more than the specified number of tax audits mentioned under Section 44AB of the Income Tax Act. Mr. Gaurav is a partner of M/s XYZ and Co, a firm of Chartered Accountants with six partners . During the assessment year 21-22, Mr. Gaurav alone has signed 290 tax audit reports consisting of both corporate and non corporate assesses.

Comment

Ans:

Signing of Tax Audit Report:

- As per Chapter VI of Council General Guidelines, 2008, a member of the Institute in practice shall not accept, in a financial year, more than the “specified number of tax audit assignments” u/s 44AB of the Income-tax Act, 1961.
- In the case of a firm of CAs in practice, the “specified number of tax audit assignments” shall be construed as the specified number of tax audit assignments for every partner of the firm.
- The specified number of tax audit assignments in the case of firm of CAs in practice, 60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesseees.
- It is further clarified by the Council of ICAI that tax audit report accepted by the firm of Chartered Accountants can be signed by any partner on the behalf of the firm.
- In the present case, there are six partners in the firm and hence the firm can accept 360 tax audit assignment and any partner can sign the tax audit report on the behalf of the firm.

Conclusion: Mr. Gaurav can sign the 29(f) tax audit reports on behalf of the firm

3. comment on the following with reference to the Chartered Accountants Act 1949 and the schedule is thereto. A, is the auditor of Z limited, which has a turnover of 200 crores. The audit fee for the year is fixed at rupees 50 lakhs. During the year, the company offers Mr. A, an assignment of management consultancy within the meaning of Section 2(2)(iv) of the CA 1949, for a remuneration of 1 crore. Advice on accepting the assignment.

Ans:

Appointment as a statutory auditor of a PSUs'/Govt. company/listed company and other public company:

As per Clause 1 of Part II of Second Schedule, a member of the Institute will be held guilty of professional misconduct if he Contravenes any of the provisions of this act or the regulations made there under or any guidelines issued by the council.

Council General Guidelines 2008, specifies that a member of the Institute in practice shall be deemed to be guilty of professional misconduct if he accepts the appointment as a statutory auditor of a PSUs'/Govt. companies/listed companies and other public company having a turnover of ₹ 50 crores or more in a year and accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking.

Conclusion: In view of the above position it would be a misconduct on A's part if he accepts the management consultancy assignment.

Note: Applicability of Chapter IX of Council General Guidelines, 2008 seems to be redundant in case of companies, because as per Section 144 of the Companies Act, 2013, auditor of a company cannot render management services to the company, its holding company or subsidiary company, directly or indirectly.

4. E. who conducts the tax audit under Section 44AB of the Income Tax Act 1961. Of M/s ABC, a partnership firm has received the audit fees of Rs. 25,000 in April 2021 on progressive basis in respect of tax audit for the year ended 31 -3-21. the audit report was however, signed on 25- 5- 2021.

Ans:

Appointment of an auditor when he is indebted to the concern:

As per Clause 1 of Part II of Second Schedule, a member of the Institute will be held guilty of professional misconduct if he Contravenes any of the provisions of this act or the regulations made there under or any guidelines issued by the council.

Council General Guidelines, 2008 specifies that a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 10,000/-.

As per explanation to Sec. 288 to Income Tax Act, 1961, an individual who, or his relative or partner is indebted to the assessee cannot conduct tax audit, provided that the relative may be indebted to the assessee for an amount not exceeding ₹ 1,00,000.

In the instant Case, D is appointed to conduct a tax audit u/s 44AB of the Income Tax Act, 1961. In view of the above-mentioned provision, D is disqualified to be appointed as tax auditor of the company being indebted to the assessee.

Conclusion: Mr. D will be held guilty of professional misconduct by virtue of clause I of Part II of Second Schedule.

However, if fees were recovered on progressive basis, no professional misconduct arises.

5. M/s ASKS is a firm of Chartered Accountants having three partners. They accept an audit assignment of private limited company for a fee of 4000 only . Comment.

Ans:

Minimum Audit Fees:

- Council of ICAI has prescribed minimum audit fees for the practicing members. However, prescribed minimum audit fee is recommendatory, not mandatory in nature.
- Therefore, acceptance of audit assignment by M/s ASKS, a firm of Chartered Accountants having 3 partners of a private limited company for audit fees of ₹ 4,000 is not violation of any provisions.

Conclusion: M/s ASKS will not be held liable for guilty of misconduct.

6. Mr. E a proprietor of M/s E and Co. is the statutory auditor of a company which owns a store dealing in computer equipment. During the year 21-22 he purchased a computer from the store costing 25,000 for his son. He did not make any payment for the same but asked the company to adjust the same against the audit fee payable of Rs. 50,000. Comment

Ans:

Auditor indebtedness:

As per Sec. 141(3)(d)(ii) of Companies Act, 2013 a person who, or his relative or partner is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company for an amount exceeding ₹ 5 Lacs is disqualified to be appointed as auditor of that company.

Further, it has been provided by Council General Guidelines 2008 that a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 10,000/-

The audit fees can be received on progressive basis, but not as an advance. Any advance received from the client amounts to indebtedness and brings disqualification.

Conclusion: Mr. E is permitted to continue the office as his indebtedness does not exceed ₹ 5 Lacs.

7. CA R, a Chartered Accountant in practice specializes in the field of Information system audit. He is considered to be one of the experts in this field because of his command over the subject. HKC limited, a company engaged in rendering management consultancy offered him to appoint as its

Managing Director. CA R accepted the position of managing director without obtaining prior permission from the institute. One of his friends CA S, informed him that now he cannot retain full time certificate of practice. Thus cannot do attestation functions and train article assistants. Comment with reference to the provision of Chartered Accountants Act, 1949 and the Schedules thereto

Ans:

Provisions of the Chartered Accountants Act, 1949 and Schedules thereto –

As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

The Council decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act, 2013 provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to

Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the conditions(s) as specified by the Council from time to time in this regard. The name of the Management Consultancy Company is required to be approved by the Institute and such Company has to be registered with the Institute.

The members can retain full time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such Management Consultancy Company.

There will be no restriction on the quantum of the equity holding of the members , either individually and/ or along with the relatives, in such Company. Such members shall be regarded as being in full- time practice and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

Thus, the action of CA R is valid.