

**MOCK TEST PAPER - 2**  
**FINAL (NEW) COURSE: GROUP – I**  
**PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS**  
**SUGGESTED ANSWERS/HINTS**

**DIVISION A - MCQs (30 Marks)**

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

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

Questions (11-20) carry 2 Marks each

11. (b)
12. (a)
13. (b)
14. (d)
15. (c)
16. (b)
17. (a)
18. (b)
19. (d)
20. (c)

**DIVISION B - DESCRIPTIVE QUESTIONS (70 Marks)**

- 1 (a) **Reporting by the User Auditor:** As per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation", the user auditor shall modify the opinion in the user auditor's report in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements.

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

Thus, in view of above, contention of CA. Vasu in removing reference of the work done by service auditor is in order as in case of unmodified audit report, user auditor cannot refer to the work done by service auditor.

- (b) 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, Sudharma Limited appointed Mr. S, Mr. D and Mr. M, 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 Sudharma Ltd. does not specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.

- (c) As per SA 570, "Going Concern",** loss of a major market or a key customer is one of the operating indicators that may cast significant doubt on the company's ability to continue as a going concern.

In the present case, OM Ltd. has a key customer in South Korea from which the demand for its products has ended on account of outbreak of war, subsequent destruction and government ban on import and export in South Korea. Further, the company has not yet identified new customers and is in the process of doing the same. As such, the identification of new customer is a material uncertainty that cast a significant doubt on the company's ability to continue as a going concern.

However, this matter is duly disclosed by the management of OM Ltd. in the financial statements for the year ended 31.03.2021.

As such, considering that the going concern assumption is appropriate but a material uncertainty exists with respect to identification of new customer, CA Shanti should:

- (1) Express an unmodified opinion and
- (2) Include in his audit report, a separate section under the heading "Material Uncertainty Related to Going Concern" to:
  - (i) Draw attention to the note in the financial statements that discloses the matters and
  - (ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Thus, CA Shanti should deal with this matter in his auditor's report in the above mentioned manner.

- 2 (a). In the given scenario, Mr. Bharat was appointed as statutory auditor of two listed entities i.e., N Limited and O Limited. For the financial year 2020-21, Mr. Bharat had signed limited review reports for first three quarter i.e., till the quarter ended 31<sup>st</sup> December 2020 for both the companies. Owing to his personal commitments and increased workload, he resigned from N Limited and asked the Company to appoint another auditor to issue audit report for the remaining quarter and audit report for the FY 2020-21.

Further, Mr. Bharat immediately informed the management of O Limited that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter as Mrs. D (wife of Mr. Bharat) had borrowed a sum of ₹ 5.85 lakh from the Company for her personal use.

As per SEBI LODR Regulations, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year. This provision will not apply if the auditor is disqualified due to Section 141 of the Companies Act, 2013.

Thus, in the given situation, in view of above conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary with respect to limited review / audit report as per SEBI LODR Regulations, Mr. Bharat is required to issue the audit report for the last quarter and audit report for the year 2020-21 for N Limited as he has issued audit report for the first three quarters whereas Mr. Bharat is not required to issue the audit report for remaining quarter and audit report for the year 2020-21 as a whole for O Limited as he is disqualified under section 141 of Companies Act.

Accordingly, contention of Management of N Limited is correct and tenable for issuing the audit report for remaining quarter and audit report for financial year 2020-21 however, contention of management of O Limited is not correct regarding the legal responsibility of Mr. Bharat to issue audit report for remaining quarter and for the whole year.

- (b) (i) **Disclosure of Boiler Plant under Construction:** Boiler plant under construction should be shown under the heading 'Capital Work in Progress' instead of Property Plant and Equipment. Thus, inclusion of value of boiler plant under construction in Property Plant and Equipment is not in order.
- (ii) **Disclosure of Cash and Cash Equivalents deposited with Nationalised Bank:** Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets'. Therefore, disclosure of deposits rupees 1.25 crores in a nationalised bank for 18 months as Cash and Cash Equivalents is not in order as per Division II of Schedule III.
- (iii) **Disclosure of Cost of Cultivation for bringing to yield level the Cashewnut trees:** Cost of 1.5 crore rupees for Cultivation for bringing to yield level, the cashewnut trees whose yield period is more than one period will form part of 'Bearer Plant'. Hence it will not be considered as 'Biological Assets other than bearer plant'. Therefore, it should be shown under the heading 'Property Plant and Equipment' as Bearer Plant as per Division II of Schedule III.
- (c) **Engaging into a Business:** As per Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

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, C.A. Bahubali is Special Executive Magistrate, engaged in the occupation of trading in commodity derivatives and also took over as the Executive Chairman on 01.04.2021.

In this context, it may be noted that the Special Executive Magistrate which is generally permitted for Members of the Institute in practice, further specific permission is required for holding the position of Executive Chairman and getting engaged in the occupation of trading in commodity derivatives.

In the given situation, C.A. Bahubali is acting as Special Executive Magistrate which is generally permitted for Members of the Institute in practice. Further, He is engaged in the occupation of trading in commodity derivatives which is not covered under the general permission. He also took over as the Executive Chairman for which specific permission is required. CA. Bahubali got the permission for the same from the Council of ICAI.

**Conclusion:** Hence, CA. Bahubali is not guilty for acting as Special Executive Magistrate as it is covered under the general permission. He is also not guilty for holding the position of Executive Chairman after getting specific permission of the Institute.

However, he is guilty of professional misconduct under Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949 for getting engaged in the occupation of trading in commodity derivatives which is not covered under the general permission.

- 3 (a) **Maintenance of Solvency Margin:** Section 64VA of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015 requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the regulations.

If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Sub-section (2) of section 64VA states that if an insurer or re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall deemed to be insolvent and may be wound up by the Court on an application made by the authority.

Therefore, in the said case Concession Ltd has not maintained the Solvency Margin throughout the year. Accordingly, contention of Concession Ltd. that solvency margin is required to be maintained as per limits prescribed only on last day of the financial year is not tenable.

- (b) The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 applies to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of ₹ 1 crore (Provided that in the case of a person whose aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment, the limit of one crore rupees shall change to five crore rupees) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of ₹ 50 lakh in any previous year. However, the term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for the applicability of the section.

Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by the Institute are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from the turnover.
- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in the nature of trade discount and should be deducted from the figure.
- (iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, Excellent Ltd. is engaged in manufacturing business. Therefore, the tax audit would be applicable if the turnover exceeds ₹ 5 crore during the financial year 2020-21. The calculation of effective turnover for the prescribed limit purpose, in accordance with abovementioned conditions, is given below:

Expected turnover during the year		₹ 8,13,00,000
Less:	(i) Discount allowed in the Sales Invoice	(₹ 8,20,000)
	(ii) Trade discount	(₹ 2,90,000)
	(iii) Sales Return	<u>(₹ 1,60,000)</u>
	Effective turnover	<u>₹ 8,00,30,000</u>

Conclusion: The expected effective turnover of Excellent Ltd. is Rupees Eight Crore and Thirty Thousand only which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit would be applicable to the company and would therefore be liable for tax audit.

- (c) As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

- (i) Issue of audit queries during the course of audit.
- (ii) Asking for information or issue of questionnaire.
- (iii) Letter forwarding draft observations/financial statements.
- (iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
- (v) Acknowledging and carrying on routine correspondence with clients.
- (vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

- (vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.
- (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 the instant case, CA. Paras, the auditor of Vardhman Pvt. Ltd. has delegated certain task to his articles and staff such as asking for information or issue of questionnaire, letter forwarding draft observations/financial statements, issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients and signing financial statements of the company.

Therefore, CA. Paras is correct in allowing first three tasks i.e. asking for information or issue of questionnaire, letter forwarding draft observations/financial statements and issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

However, if the person signing the financial statements on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, CA. Paras is not right in delegating signing of financial statements to his staff.

**Conclusion:** In view of this, CA. Paras would be guilty of professional misconduct for allowing the person signing the 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.

#### **4 (a) Obligation of auditor to submit an exception report to the RBI:**

- (I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavorable or qualified, or in the opinion of the auditor the company has not complied with:
  - (a) the provisions of Chapter III B of RBI Act (Act 2 of 1934); or
  - (b) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or
  - (c) Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

It shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the RBI under whose jurisdiction the registered office of the company is located as per first Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

- (II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.
- (b) Operational audit,** (functional audit) as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Chinmay travels for the organisation.

The operational auditor should possess some very essential personal qualities to be effective in his work:

1. In areas beyond accounting and finance, his knowledge ordinarily would be rather scanty, and this is a reason which should make him even more inquisitive.
2. He should ask the who, why, how of everything. He should try to visualise whether simpler alternative means are available to do a particular work.
3. He should try to see everything as to whether that properly fits in the business frame and organisational policy. He should be persistent and should possess an attitude of skepticism.
4. He should not give up or feel satisfied easily. He should imbibe a constructive approach rather than a fault-finding approach and should give a feeling that his efforts are to help attaining an improved operation and not merely fault finding.
5. If the auditor succeeds in giving a feeling of help and assistance through constructive criticism, he will be able to obtain co-operation of the persons who are involved in the operations. This will itself be a tremendous achievement of the operational auditor. He should try to develop a team comprised of people of different backgrounds. Involvement of technical people in operational auditing is generally helpful.

- (c) **Putting Name Board of the Firm at Residence:** 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 a 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 Mr. Gautam and Mr. Mahaveer, put up a name board of the firm in both offices but not in their respective residences.

**Conclusion:** Thus, Mr. Gautam and Mr. Mahaveer are guilty of misconduct. Distance given in the question is not relevant for deciding.

- 5 (a) Banks are required to implement and maintain a system of internal controls for mitigating risks, maintain good governance and to meet the regulatory requirements. Given below are examples of internal controls that are violated in the given situation:

In the instant case, P who is a peon opens all the mail and forwards it to the concerned person. Further, he does not have a signature book so as to check the signatures on important communications is not in accordance with implementation and maintenance of general internal control. As the mail should be opened by a responsible officer. Signatures on all the letters and advices received from other branches of the bank or its correspondence should be checked by an officer with the signature book.

All bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.) should be kept in the possession of an officer, and another responsible officer should verify the issuance and stock of such stationery. In the given case, Q has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which were also verified on test check basis.

Further, contention of bank that being a small branch with shortage of manpower they are not able to check the work and records on regular basis, is not tenable as such lapses in internal control pose risk of fraud.

The auditor should report the same in his report accordingly.

- (b) **Area of analysis in order to ensure that assets are not stated at over-valued amounts are:**

✍ Uncollected/uncollectable receivables.

- ✍ Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc. with name of company.
- ✍ Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
- ✍ Assets carried at much more than current market value due to capitalization of expenditure/foreign exchange fluctuation, or capitalization of expenditure mainly in the nature of revenue.
- ✍ Litigated assets and property.
- ✍ Investments carried at cost though realizable value is much lower.
- ✍ Investments carrying a very low rate of income / return.
- ✍ Infertuous project expenditure/deferred revenue expenditure etc.
- ✍ Group Company balances under reconciliation etc.
- ✍ Intangible assets of no value.

- 5 (c) (i) As per clause (xiii) of para 3 of CARO 2016 the auditor is required 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”.

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016 regarding receipt of long term borrowing from Parent Company which qualifies as a transaction with the related party.

- (ii) As per clause (xiii) of para 3 of CARO 2016, the auditor is required 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;”

Therefore, the duty of the auditor, under this clause is to report (i) Whether all transactions with the related parties are in compliance with section 177 and 188 of the Companies Act, 2013 (“Act”); (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 present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016, as one of related party transaction amounting ₹ 2.35 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.35 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. Thus, the auditor is required to report accordingly.

- 6 (a) The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. However, in general, the covered areas are those of investment decisions, project formulation, organisational effectiveness, capacity utilisation, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems, etc.

**Some of the issues examined in comprehensive audit are:**

- (i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
- (ii) Have the planned production or operational outputs been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?



- (iii) Has the planned rate of return been achieved?
  - (iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
  - (e) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
  - (f) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
  - (g) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
  - (h) If the enterprise has an adequate system of repairs and maintenance?
  - (i) Are procedures effective and economical?
  - (j) Is there any poor or insufficient or inefficient project planning?
- (b) (i).** When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent: The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent's GAAP because of their unfamiliarity with such GAAP.

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

A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group's consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies".

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

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

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

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

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

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

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

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

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

Or

- (c) ` **Classification of Entity as per Statement of Peer Review**

Name of Entity	Type of Entity	Reason for such classification based on the Statement of Peer Review
Abhinandan & Co.	Level I entity	A Practice Unit which has undertaken Statutory Audit of a company which is an associate of an entity having net worth of more than ₹ 250 Crores at any time during the period under Review, shall be treated as a Level I entity.
Sambhav & Co.	Level I entity	A Practice Unit which has undertaken Statutory Audit of a mutual fund shall be treated as a Level I entity.
Kunthu &	Level II entity	A Practice Unit which has undertaken Statutory Audit of an

Associates		entity which has raised funds from public or banks or financial institutions of more than ₹ 25 crore but less than ₹ 50 crore during the period under Review, shall be treated as a Level II entity.
Dharam & Co.	Level I entity	A Practice Unit which has undertaken Statutory Audit of a company which is a subsidiary of an entity having net worth of more than ₹ 250 Crores at any time during the period under Review, shall be treated as a Level I entity.