

PAPER – 3 : ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

PART I: MCQs

1. *M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd., a PSU engaged in generation of electricity from solar power. The Committee on Public undertakings with a view to examining PSU's physical and financial performance is examining the reports and accounts of public undertaking and also audit findings of the C & AG. Following are some of the functions of specialised committees:*
- (i) to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament;*
 - (ii) to examine the estimates to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;*
 - (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices;*
 - (iv) to examine public enterprises through comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.*

From the above functions, which are the functions of Committee on Public Undertakings (COPU)?

- A. (i) & (iv)
- B. (ii) & (iii)
- C. (i) & (ii)
- D. (iii) & (iv)

(2 Marks)

2. KALI Ltd. is India's one of the largest FMCG Company with 50-year heritage in the country. In terms of compliance of reporting under Business Responsibility and Sustainability Report (BRSR), for the F.Y. 2023-24, CEO & MD of the company reports that "At KALI Ltd. our BRSR adheres to the nine principles of the SEBI framework on sustainability reporting, informing stakeholders of our sustainability endeavours." While giving principle wise performance the following core elements associated with the respective principle need to be covered in the report:

- (i) Entities, when in the business of providing essential goods and services (e.g. Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
- (ii) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over consumption.
- (iii) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.
- (iv) The entities are responsible to educate and make aware their consumers and clients about their rights.

From the above information, identify which core elements are related to Principle-9?

- A (i) & (iv)
- B (i), (ii) & (iii)
- C (i), (iii) & (iv)
- D (ii), (iii) & (iv)

(2 Marks)

3. For conducting the statutory audit for the financial year 2024-25, CA P has been appointed by SEA Ltd., which is on the verge of becoming sick unit and has accumulated losses but the said losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24. The audited accounts for the year 2021-22, 2022-23 were showing liability for payment of undisputed audit fees payable to predecessor auditors but were settled completely during last F.Y. 2023-24.

In terms of Council General guidelines, 2008, Chapter 7, read with relevant proviso of the said guideline, which of the following statement is correct in respect of the aforesaid scenario?

- A. CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which had not paid undisputed audit fee for the year 2021-22 and 2022-23 of predecessor auditor, though settled in F.Y. 2023-24.
- B. CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit but whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-2024.
- C. CA P would not be held guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd., which is not a sick unit, whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24 and there are no unpaid undisputed audit fees of predecessor auditors.
- D. CA P shall be deemed to be guilty of professional misconduct as he has accepted the appointment as auditor of SEA Ltd. which is on the verge of becoming sick unit and it had not paid undisputed audit fee of predecessor auditor though settled in subsequent year. **(2 Marks)**

Integrated Case scenario - I

Tom Ltd. is in to the business of manufacturing and distributing of Toys for the past 25 years. Since inception, the company is having its own in-house dedicated internal audit department, having team of competent & qualified chartered accountants, headed by the Chief Internal Auditor, who with systematic and disciplined approach monitors various Internal Controls laid down at all levels of the functional areas. M/s Deva & Co., Chartered Accountants, have been newly appointed as the statutory auditors of the company for the F.Y. 2024-25.

- *M/s Deva & Co. want to use the work of the internal audit function in respect of testing of the operating effectiveness of controls and in respect of substantive procedures involving limited judgement. Due to time constraints and the extensive scope of statutory audit, M/s Deva & Co. want to take direct assistance of internal auditors in the areas of Physical verification of fixed assets, inventory*

verification and Goodwill impairment assessment. Accordingly, M/s Deva & Co. are in the process of determining in which areas and to what extent internal auditors can be used and in which areas statutory auditors shall not use internal auditors to provide direct assistance to perform procedures.

- M/s Deva & Co. during the course of identifying and assessing the risks of material misstatement through understanding the entity and its environment and during the course of performing the audit procedures finds that the company is holding significant bank accounts and having branch operations in tax-haven jurisdictions for which there appears to be no clear business justification. Also, there were significant related party transactions which do not appear to be in the normal course of business.
- The audit report of Tom Ltd. for the last F.Y. 2023-24, audited by predecessor auditor, contained a qualification regarding non provision of doubtful debts. In F.Y. 2024-25 also, the company does not want to make provision for doubtful debts. The statutory auditors, M/s Deva & Co., in their auditor's report on the current period's financial statements want to report the same.
- Pursuant to the reporting requirements under CARO, 2020 in respect of the company's regularity in depositing undisputed arrears of outstanding statutory dues to the appropriate authorities, M/s Deva & Co. are considering to take a view on the following issue observed during the audit of Tom Ltd.

The company in view of voluminous pay roll data consistently follows the method of making lump sum deposit of estimated amount of ESI collections and adjust the excess or deficit against next following months' deposit and the difference of the said amount always remains insignificant.

Based on the above facts, answer the following Questions (Q.Nos.4 to 7):

4. M/s Deva & Co., in their auditor's report on the current period's financial statements wants to report that Tom Ltd. does not want to make provision for doubtful debts in F.Y. 2024-25. Identify the correct action to be resorted out of the following:
 - A. As per SA 710, can modify their report for previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.

- B. As per SA 710, can modify their report for current year's figures of financial statements but need not refer to the previous year's modification.
- C. As per SA 710, will have to modify their report for both current and previous year's figures of financial statements since the auditor's report on the prior period, as previously issued, included a qualified opinion.
- D. As per SA 710, cannot modify their report but need to refer to the earlier year's modification. **(2 Marks)**
5. M/s Deva & Co. assigned the following procedures to internal auditors to provide direct assistance.
- (i) that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.
 - (ii) that relate to work with which the internal auditors have been involved and which will not be reported to management or those charged with governance by the internal audit function.
 - (iii) that relate to decisions the statutory auditor makes in accordance with SA.
- From the above, identify the appropriate procedure(s) that can be assigned to internal auditors:
- A. (i), (ii), (iii)
- B. (ii) only
- C. (ii) & (iii)
- D. (iii) only **(2 Marks)**
6. Issue identified by Deva & Co., with regard to holding significant bank accounts and having branch operations in tax-haven jurisdictions and significant related party transactions is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?
- A. The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting.
- B. The risk factor creates an incentive /pressure for the fraud and results in a misstatement due to misappropriation of assets.

- C. *The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to fraudulent financial reporting.*
- D. *The risk factor creates a perceived opportunity for the fraud and results in a misstatement due to misappropriation of assets* **(2 Marks)**
7. *Out of the following which view of M/s Deva & Co. is the correct one for complying the reporting requirement under CARO, 2020 as regards lump-sum deposit of estimated ESI collections and its adjustment against next months' deposit leaving the insignificant difference of ESI amount?*
- A. *the company consistently follows the method of payment in respect of ESI collections and the difference between the total dues and lump sum deposit is not significant, as per materiality concept, it need not be considered that dues have not been regularly deposited and hence not to be reported.*
- B. *depositing of ESI collections and the arrears of ESI dues cannot be considered as statutory dues under CARO, 2020 and hence not to be reported.*
- C. *lumpsum deposit of estimated ESI amount and adjusting excess/deficit against following months' deposit shall be considered as dues payable and hence to be reported under CARO, 2020.*
- D. *even though the difference between the total dues of ESI and lump sum deposit is not significant, as per materiality concept, it shall be considered that dues have not been regularly deposited and hence to be reported under CARO, 2020.* **(2 Marks)**

Integrated Case Scenario - II

XYZ & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Maha Bank Limited, a scheduled commercial bank.

- (i) *During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on "Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)", which provides the guidelines to be followed by banks for capital adequacy.*

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide as table resource to

absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purposes capital is split into two categories: Tier I and Tier II, representing different instruments quality as capital.

You have calculated Eligible total capital funds comprising -

1. Tier I capital of Share capital ₹ 200 Crore, and disclosed Reserves ₹ 20 Crore.
2. Tier II capital of Other Reserves ₹ 30 Crore, and subordinated debt ₹ 20 Crore.

The Risk weighted assets constitute ₹ 25 Crore, while Off-balance sheet items are ₹ 5 Crore.

- (ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Maha Bank.

DTL balance as on 30th September 2024 was ₹ 50,000 Crore which included the following-

	₹ Cr.
(i) Paid up capital	27,000
(ii) Reserves	1,650
(iii) Credit balance in Profit & Loss account	1,210
(iv) Loan taken from RBI	575
(v) Refinance taken from EXIM bank and NHB	480
(vi) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii) Net credit balance in branch adjustment accounts	105
(viii) Interest accrued but not accounted for in books	90
(ix) Margins held and kept in sundry deposits for funded facilities	80
(iii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act, 2013 and got itself registered as non-banking financial company (NBFC) with	

the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity and perceived riskiness.

During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore, while its asset size is ₹ 990 Crore. It has also undertaken following activities -

- (i) Standalone Primary Dealers (SPDs)*
- (ii) Infrastructure Debt Fund*
- (iii) Housing Finance*
- (iv) Infrastructure Finance*

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit checklist.

- (iv) XYZ & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public Sector Undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.*

On the basis of above details, you are required to answer the following questions. (Q. Nos. 8 to 11):

8. *Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -*
- A. Top Layer*
 - B. Upper Layer*
 - C. Middle Layer*

D. Base Layer

(2 Marks)

9. Based on facts given in para (i), you are required to arrive at the correct percentage of Capital Risk Adequacy Ratio for the Maha Bank Limited

A. 9%

B. 10.80%

C. 8.33%

D. 10%

(2 Marks)

10. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September 2024.

A. ₹ 18,000 crore

B. ₹ 19,360 crore

C. ₹ 18,790 crore

D. ₹ 18,880 crore

(2 Marks)

11. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)

A. Audit programme

B. Evidence

C. Audit Questions

D. Data collection and Analysis Method

(2 Marks)

Integrated Case Scenario - III

M/s HVM & Co. is a firm of Chartered Accountants based in Chennai. CA M, CA V and CA H are the partners of the firm. The firm is engaged in various assignments including Audits and its engagement partners who were handling their respective assignments for the financial year 2023-24 dealt with the following issues raised during and after the course of their respective audits.

M/s HVM & Co. are appointed as statutory auditors of AST Ltd. for the financial year 2023-24. CA V, the engagement partner while conducting audit of AST Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised

personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of AST Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA V wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of VED Ltd. for the year ended on 31st March 2024 were signed by CA H, the engagement partner on 15th May 2024. The AGM was decided to be held during the month of August 2024. On 17th May 2024 the company had received a communication from the Central Government that an amount of ₹8500 crore on account of incentives in respect of F.Y. 2021-22 which was kept in abeyance would be released to the company by 15th June 2024. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31st March, 2024 and requested CA H to consider this matter.

During the course of audit of SIM Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain Machineries. The management gave a certificate to prove the existence and value of Machinery as appearing in the books of account. The certificate from the Registered valuer shows a value which is inconsistent with the written representation of management.

HT institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA M of M/s HVM & Co. is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the HT institute of professional studios is highly satisfied with his teaching skills and level of knowledge he possesses. Due to his capabilities, the management offers CA M to take up the assignment of statutory audit of their institute for the financial year 2023-24.

Based on the above facts, answer the following Questions (Q. Nos. 12 to 15):

12. Since there arose a doubt on the management representation and considering the responsibilities of M/s HVM & Co. to obtain written representations from management as per relevant Standard on Auditing,

select the incorrect option from the following:

- A. *Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.*
 - B. *The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.*
 - C. *In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.*
 - D. *The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230. **(2 Marks)***
13. CA V, engagement partner, in the course of audit of AST Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA V in getting identified incorrect circumstance from the below mentioned circumstances.

- A. *when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.*
- B. *when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.*
- C. *when a material uncertainty related to going concern is reported in accordance with SA 570.*

D. when there are no key audit matters to be communicated in accordance with SA 701. (2 Marks)

14. In view of the Board of Directors of the VED Ltd. agreeing to include an amount of ₹ 8500 crore on account of incentives in respect of F.Y. 2021-22 in the financial statements of the company for the Financial Year ended on 31 March, 2024 by amending the accounts, CA H shall consider the following procedures. Identify the incorrect procedure from the following:

- A. Carry out the audit procedures necessary in the circumstances on the amendment.*
- B. Extend those audit procedures to the date of new auditor's report which were 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.*
- C. Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.*
- D. Modify the opinion as required by SA 705 and then provide the auditor's report. (2 Marks)*

15. In response to the management offer, guide CA M, whether to take up the assignment of statutory audit of HT institute of professional studies for the financial year 2023-24.

Select the correct option in terms of professional code of conduct.

- A. CA M can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.*
- B. CA M cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.*
- C. CA M can accept the statutory assignment as he does not have any substantial interest in the HT Institute of professional studies.*
- D. CA M cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949. (2 Marks)*

Answers Key

1. D
2. B
3. C
4. C
5. B
6. C
7. A
8. C
9. No correct option
10. D
11. A
12. B
13. D
14. D
15. B

PART II: Descriptive Question

Question No. **1** is compulsory.

Answer any **four** out of remaining five.

Question 1

- (a) *STA and Associates, Chartered Accountants, is an upcoming firm and its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC. (5 Marks)*
- (b) *TEA Ltd., a public company is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year 2023-24, it had availed credit facilities from Kuber Bank Ltd. The bank had sanctioned a working capital cash credit facility on 21st April, 2023, for a limit of ₹ 4.50 crore and Letter of Credit facility for a limit of ₹ 2.50 crores aggregating to ₹ 7 crore on the basis of the hypothecation of stocks and book debts of the company against which utilisation of the limits by TEA Ltd. during the year in the case of cash credit facility was ₹ 3.90 crore and of Letter of credit was ₹ 1.05 crore aggregating to ₹ 4.95 crore. During the year under review, the company had faced sluggish market conditions for its various brands of teas due to its inability to cater to the requirements of its customers' expectations. It faced severe cash crunch and found it difficult to manage working capital stress. In order that the bank does not reduce its drawing power of working capital limit, the management decided to peg up the values of the stock statements it submitted to bank by a hike of 15% during the quarters ended June 2023, September 2023 and December 2023. When an engagement partner leading the audit team happened to review the stock statements submitted to the bank, it was noticed that the stock figures declared were not in agreement with book figures and had been hiked as above. The matter*

was taken up with CFO of the company who contended that auditors need not examine and compare the quarterly statements with the books of accounts as the utilisation of working capital limits is less than the specified sanctioned limit as on 31st March 2024 and hence this case is beyond the scope of reporting under CARO, 2020. Is the contention of CFO correct? Analyse the issue and discuss the reporting responsibilities of the auditor.

(5 Marks)

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

(4 Marks)

Answer

- (a) Factors considered for Monitoring Quality Control Engagements:** As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," factors to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC:
- Deciding whether the quality control system of the firm has been appropriately designed and effectively implemented.
 - Examining whether new developments in the professional standards, legal, and regulatory requirements have been reflected in the quality control policies.
 - Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm.

- Dealing with complaints and allegations against the firm or any employees of it of noncompliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- Taking appropriate remedial actions against the personnel who did not conform to quality control policies.
- Taking action when deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control are identified.

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

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

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

In the instant situation, management of Tea Ltd. submitted its Stock Statement by a hike of 15% during the quarter ended June 2023, September 2023 and December 2023, to peg up the values of the stock due to fear of reduction in the drawing power of working capital limit. The auditor noticed that the stock figures declared by Tea Ltd. were not in agreement with the book figures and had been hiked as above.

Thus, the contention of CFO is not correct regarding applicability of CARO, 2020 as the working capital is more than specified sanctioned limit as on 31st March, 2024. Hence the auditor is required to report the same in accordance with Clause (ii) (b) of Paragraph 3 of CARO, 2020.

(c) Preconditions for Accepting Review Engagement As per SRE: As per SRE 2400, Engagement to Review Historical Financial Statements, the preconditions for accepting a review engagement are:

- (1) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and;
- (2) Obtain the agreement of management that it acknowledges and understands its responsibilities:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

To provide the practitioner with: -

- (a) Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- (b) Additional information that the practitioner may request from management for the purpose of the review; and
- (c) Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

Question 2

- (a) *PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very*

limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA N has complied with same.

(5 Marks)

- (b) *UV Limited is a large multinational company with a global outreach. Due to the voluminous business, it has an in-house internal audit function to monitor the day-to-day operations of the company. LK and associates, Chartered Accountants have been engaged to conduct the statutory audit for the financial year 2023-24. Since the company has large scale operations and there is a limited time to perform statutory audit, CA L, the engagement partner decides to take direct assistance from the internal auditors for certain areas of audit. CA L assigns the audit documentation part to one of his audit assistants and instructs him to do the requisite documentation of working papers. Further, he tells his audit assistant not to document the working papers prepared by the internal auditors who directly assisted them, as it does not form part of statutory audit.*

Is CA L right in excluding the working papers prepared by internal auditor from the audit documentation? Guide him as to the matters to be included in the Audit Documentation in this scenario.

(5 Marks)

- (c) *TP Limited is a medium-sized company involved in manufacturing and retailing of home appliances to cater to the daily needs of a wide range of consumers. The company has in place proper cyber security policies, procedures and framework. Regular assessment of the same is also carried out by the management. The company faced a cyber attack incident of email phishing scam which resulted in inappropriate disbursements to various individuals posing as vendors and caused a substantial financial loss. This incident highlighted the need for strong and updated internal controls to mitigate the cyber risks. As the statutory auditor of the company, how will you evaluate the controls around the vendor setup and modifications.*

(4 Marks)

Answer

- (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

In the given case, PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. which is a government company as Central Government holds 65% of the paid-up share capital of the company and CA N has given a conditional acceptance of the appointment and commenced the audit. In view of above, it can be concluded that CA N has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

- (b) As per SA 610, Using the Work of an Internal Auditor, if the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

- (i) The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance.
- (ii) The basis for the decision regarding the nature and extent of the work performed by the internal auditors.
- (iii) Who reviewed the work performed and the date and extent of that review in accordance with SA 230 Audit Documentation.
- (iv) The written agreements obtained from an authorized representative of the entity and the internal auditors; and
- (v) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

In the given situation, CA L the engagement partner decided to take direct assistance from the internal auditor for certain areas of audit and he assigned his audit assistant to do the requisite documentation of working papers. However, he instructed them not to document the working papers prepared by the internal auditors who directly assisted them as those documents do not form part of statutory audit.

In view of the above, the auditor is required to document the working papers prepared by the internal auditor in case of direct assistance, thus, contention of CA. L in excluding the working papers prepared by internal auditor from the audit documentation is not correct.

(c) Evaluation of the controls around the vendor setup and modifications:

Certain cyber schemes exist in which changes to bank account or other critical vendor information are requested through email phishing scams by individuals purporting to be authorized vendor personnel.

Entities have inappropriately dispersed funds to these individuals and therefore inappropriately reduced the liability owed to the actual vendor, resulting in an impact to the financial statements (i.e., loss of cash and related expense)

- Who is responsible for making changes to vendor master data? Is the process centralized or decentralized?

- Are other communication channels, such as email, used to request changes to vendor master data? (If yes, consider if multi-factor authentication is enabled for email).
- What systems and technologies are used to initiate, authorize and process requests related to changes to vendor master data?
- Are authentication protocols defined to verify modifications to vendor master data (e.g., call back procedures, multi-factor authentication)?

Question 3

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

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

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

- Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA H.*
 - Before which authority, the matters of CA H would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?*
 - Has CA H filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? **(5 Marks)***
- (b) *MK Electronics Limited is a listed company with eight subsidiaries spread across various states. The financial statements of MK Electronics Ltd. are audited by CA Amar, the principal auditor. CA Amar relies on the work of other auditors for auditing the financial statements of subsidiaries. You are*

required to:

- (i) *Explain the procedures that CA Amar will perform to obtain sufficient appropriate audit evidence to ensure that the work of other auditors is adequate for his purpose.*
- (ii) *Explain how he will document the working papers with respect to the subsidiaries audited by other auditors. What matters need to be documented if the other auditor's report is modified? (5 Marks)*
- (c) *CEP Ltd., a manufacturing company, has a diverse range of suppliers for raw materials and components. Several new suppliers have been added during the past year. It is the responsibility of the Accounts payable department for managing the Suppliers' Ledger, processing invoices and making payments. The management of CEP Ltd. has experienced unexpected financial discrepancies, and they suspect fraudulent activities within the Suppliers' Ledger. The management assigns CA K to conduct a detailed investigation to identify any potential fraud that might have occurred. Discuss the ways in which frauds can be committed through Suppliers' Ledger. Explain the procedures that CA K will adopt to investigate the potential fraud. (4 Marks)*

Answer

- (a) (i) **As per Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949**, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

In the instant case, CA H preferred an appeal with the Appellate Authority on 05th August, 2024 by submitting the statement of appeal along with application form for the same. However, it was discovered that the said statement of appeal contained some facts which were false, and CA H admitted it to be false.

Therefore, CA H would be held guilty of professional misconduct under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(ii) In case where CA H was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule and Clause 11 of Part I of the First Schedule of the Chartered Accountants Act, 1949:

the matter would have been placed before Disciplinary Committee as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee. The maximum punishment that the Disciplinary Committee could have imposed would be:

- (i) Reprimand the member
- (ii) Remove the name of the member from the Register permanently or for such period as it may think fit.
- (iii) Impose such a fine which may extend to rupees five lakhs.

(iii) Timeline for Filing an Appeal: Any member aggrieved by an order of the Board of Discipline or the Disciplinary Committee can prefer an appeal within 90 days. In the given case, CA. H has preferred an appeal with the appellate authority on 5th August, 2024 against the order passed on 15th June 2024. From 15th June to 5th August, 90 days' timeline has not been lapsed. Thus, it can be said that CA H has filed an appeal within the time limit prescribed under the said Act.

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

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

- (2) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.
- (ii) CA Amar should document in his working papers, the components whose financial information audited by other auditors. CA Amar should also document the procedures performed and the conclusions reached. For example, the auditor would document the results of discussions with the other auditor and review of the written summary of the other auditor's procedures.

Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

(c) Ways in which fraud can be committed through suppliers' ledger are-

- (i) Adjusting fictitious or duplicate invoices as purchases in the accounts of suppliers and subsequently misappropriating the amounts when payments are made to the suppliers in respect of these invoices.
- (ii) Suppressing the credit notes issued by suppliers and withdrawing the corresponding amounts not claimed by them.
- (iii) Withdrawing amounts unclaimed by suppliers, for one reason or another by showing that the same has been paid to them.
- (iv) Accepting purchase invoices at prices considerably higher than their market prices and collecting the excess amount paid in cash, from the suppliers.

CA K will ensure that the following procedures are adopted to investigate potential fraud:

- that the Purchase Journal should be vouched by reference to entries in the Goods Inward Book and the suppliers' invoices to confirm that amounts credited to the accounts of suppliers were in respect of goods, which were duly received, and the suppliers' accounts had been credited correctly.

- All the suppliers should be requested to furnish statements of their accounts to see whether or not any balance is outstanding or due so as to confirm that allowances and rebates given by them have been correctly adjusted and were duly authorized by the authorized person/ officer.
- Examine the system of internal control in relation to purchase orders issued and identify possibilities of collusion with suppliers.

Question 4

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

(5 Marks)

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

Comment with reference to the relevant Standard on Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment. **(5 Marks)**

- (c) *ESG disclosure and reporting is mandatory for top 1000 listed companies in form of Business Responsibility and Sustainability Reports (BRSR). As reporting of sustainability information becomes the trend being observed globally, the demand for independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting. In developing the understanding of an entity, the auditor should include the consideration of climate - related risks and how these risks may be relevant to the audits. Many investors and stakeholders are seeking information from auditor's report about how climate-related risks are addressed in the audit.*

In the context of the above, describe the role of auditor in an audit of financial statements of the company. **(4 Marks)**

Answer

(a) Communicating Key Audit Matters in the Independent Auditor's Report:

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

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

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

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

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

(b) Audit Report of Separate Engagement of Audit of PPE: As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

- (i) The auditor is not prohibited by law or regulation from doing so;
- (ii) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
- (iii) The specific element does not constitute a major portion of the entity's complete set of financial statements.

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

statutory audit and unmodified opinion for separate engagement provided the above conditions are satisfied.

(c) Role of Auditor - Consideration of climate-related risks in an audit of financial statements:

- The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- The auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits.
- The auditor's reports must follow the requirements of applicable auditing standards.
- The auditor's report provides information about auditor's responsibilities and an understanding of the matters of most significance in an audit and how they were addressed.
- The auditor in his audit report may include Emphasis of Matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements.
- The auditor should determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable FRF.
- The auditor should read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements as required under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

Question 5

- (a) *PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties*

under terms and conditions that are outside PQR Ltd.'s normal course of business, suggestive of the indications about existence of related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. **(5 Marks)**

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

The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment. **(5 Marks)**

- (c) *CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification and feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner and other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence and due care that a Chartered Accountant needs to possess all the time. Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence and Due Care.* **(4 Marks)**

Answer

- (a) As per SA 550, "Related Parties," M/s ST & Co. should take the following steps upon identifying previously undisclosed related party transactions:
- Verify whether the circumstances substantiate the existence of such transactions.

- Ensure timely communication of the relevant information to all members of the engagement team.
 - Confirm that appropriate substantive audit procedures have been conducted.
 - Inquire why the entity's controls failed to identify or disclose the related party relationships or transactions.
 - Carry out substantive audit procedures specifically for these newly identified related parties or significant related party transactions.
 - Reassess risks associated with other related parties.
 - Request management to identify all transactions involving the newly identified related parties.
 - If it appears that management intentionally did not disclose such transactions, evaluate the implications for the audit.
- (b)** When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether: -
- (i) the presentation of prospective financial information is informative and not misleading
 - (ii) the accounting policies are clearly disclosed in the notes to the prospective financial information
 - (iii) the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed
 - (iv) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time

- (v) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range and
- (vi) if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

(c) Professional Competence and Due Care – Subsection 113

1. A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
 - (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) act diligently in accordance with applicable technical and professional standards.
2. Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.
3. Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.
4. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.
5. Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
6. In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure

that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

Question 6

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

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

CA M is of the opinion that the company has not done the provisioning correctly. Is the opinion of CA M correct? In this context, explain the provisioning requirements applicable to this NBFC and comment on the provision for NPA made by the company. **(5 Marks)**

- (b) ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd. with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd. and submit a detailed report for the same. As the engagement partner,

you are responsible for drafting the engagement letter. Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd? **(5 Marks)**

- (c) *CA F is the Chief Financial Officer of ABC General Insurance Limited. Being in insurance business, the company gets majority of its clients through their agency contracts. CA F has the practice of releasing the commission payments on the condition that he gets 20% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.* **(4 Marks)**

Or

- (c) *The Government of India launched a rural development scheme to undertake projects aimed at improving infrastructure, healthcare and education in the rural areas. To execute the projects the Central Government provided funds to the state government. The Comptroller and Auditor General of India wants to ensure that the funds provided to the State Governments have been utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized by the state government for building hospitals, school buildings and roads and submit a report on the wastefulness in public administration and cases of improper, avoidable and infructuous expenditures, if any, has been done. What functions as an auditor will be performed by you?*

Answer

- (a) **Provisioning Requirements:** The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Categories of Non-Performing Assets:	Provision required (%)
Standard Assets: Every NBFC (covered under Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) shall make	0.40%

provisions for standard assets at 0.40 per cent by the end of March 2018 and thereafter, of the outstanding, which shall not be reckoned for arriving at net NPAs.	
Substandard Assets	10%
Doubtful Assets (upto 1 to 3 Years)	30%
Loss Assets	100%

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

Categories of Non-Performing Assets:	Balance outstanding as on 31 st March, 2024	Provision required (%)	Provision required (in ₹)	Provision made by the Co.
Standard Assets	₹ 200 crores	0.40%	₹ 80 lakhs	NIL
Substandard Assets	₹ 15 crores	10%	₹ 1.5 crores	₹ 1.5 crores
Doubtful Assets (upto 1 to 3 Years)	₹ 8 crores	30%	₹ 2.4 crores	₹ 2 crores
Loss Assets	₹ 2 crores	100%	₹ 2 crores	₹ 2 crores
Total Provision for NPA			₹ 6.7 crores	₹ 5.5 crores

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

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

A. Matters to be agreed include the following:

- (a) Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
- (b) Stated purpose for the engagement.
- (c) Identification of the financial information to which the agreed-upon procedures will be applied.
- (d) Nature, timing and extent of the specific procedures to be applied.
- (e) Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

B. Matters that would be included in the engagement letter include:

- A listing of the procedures to be performed as agreed upon between the parties.
- A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

- (c) According to Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a member is in employment, he must maintain high level of ethics and should not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service.

In the present case, CA F is the Chief Financial Officer of ABC General Insurance Limited. He releases the commission payments on the condition that he gets 20% of the commission amount from agent as majority of the clients are through their agency only.

Therefore, CA F is guilty of professional misconduct by virtue of Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949.

Or

(c) Function of Auditor in case of Propriety Audit: The functions of Auditor in the context of Propriety Audit may be specified as under as to:

- see that all expenditure incurred are properly planned.
- see that the size and channels of expenditure are rightful and expected to give maximum results.
- appraise whether those expenditure are likely to give optimum result.
- see that any substitute plan of action can bring about an improvement on current operation and as well as return from capital expenditure.
- examine the actions and decisions of the management to see that they are conducive to public interests and that they meet the standards of conduct.