AAE (New Course Only)

204.005	Approach to identify risks associated with the IT systems.	(S20M)
	A Company is using ERP for all its business processes including Procurement, Sales, Finance and Reporting. You are required to explain the Statutory Auditor's approach to identify the risks associated with the IT systems.	

- The Auditor should understand and document each of the business processes in form of narratives and / or flowcharts.
- The next process will be to identify areas / events that can lead to risks, viz. manual Invoicing and accounting once goods are dispatched could lead to incorrect Invoicing and accounting and hence is a 'risk'.
- The Auditor should also analyse the risks i.e. the impact it will have if materializes.
- Next will be prioritization in terms of probability of how often the risks will materialize.

204.095	International IT related Standards, Guidelines and Framework.	(S20M)
	Explain some of the International IT related Standards, Guidelines and Framework.	

- **Sarbanes Oxley Act of 2002**,
  Commonly known as SOX, is a requirement in America. Section 404 of this act requires public listed companies to implement, assess and ensure effectiveness of internal controls over financial reporting and auditors independent opinion on the design and operating effectiveness of internal controls over financial reporting (ICFR) – which is similar to the requirements of IFC-FR for Indian companies. Similar legal and statutory requirements over internal controls exist in several other countries including Japan, China, European Countries, etc.

- **ISO 27001:2013**
  It is the Information Security Management System (ISMS) standard issued by the International Organization for Standardization (ISO). This standard provides the framework, guidelines and procedures for implementing information security and related controls in a company. For example, this standard covers password security, application security, physical security, backup and recovery, that are relevant when auditing in an automated environment.

- **ITIL (Information Technology Infrastructure Library) and ISO 20000**
  It provide a set of best practice processes and procedures for IT service management in a company. For example, change management, incident management, problem management, IT operations, IT asset management are some of the areas that could be relevant to audit.

- **The Payment Card Industry – Data Security Standard or PCI-DSS**,
  It is the most widely adopted information security standard for the payment cards industry. Any company that is involved in the storage, retrieval, transmission or handling of credit card/debit card information are required to implement the security controls in accordance with this standard.

- **The American Institute of Certified Public Accountants** has published a framework under the Statements on Standards for Attest Engagements (SSAE) No.16 for reporting on controls at a service organisation that include
  - SOC 1 for reporting on controls at a service organization relevant to user entities' internal control over financial reporting (ICFR).
  - SOC 2 and SOC 3 for reporting on controls at a service organization relevant to security, availability, processing integrity, confidentiality or privacy i.e., controls other than ICFR.

- While SOC 1 and SOC 2 are restricted use reports, SOC 3 is general use report.

➢ **Control Objectives for Information and Related Technologies (CoBIT)** is best practice IT Governance and Management framework published by Information Systems Audit and Control Association. CoBIT provides the required tools, resources and guidelines that are relevant to IT governance, risk, compliance and information security.

➢ **The Cybersecurity Framework (CSF)** published by the National Institute of Standards and Technology is one of the most popular frameworks for improving critical infrastructure cybersecurity. This framework provides a set of standards and best practices for companies to manage cybersecurity risks.

Corporate Governance

426.500	Conducting Meeting	(S20M)

XYZ Limited has conducted 4 meetings in 2019-20. i.e., June 15, 2019, October 18, 2019, February 10, 2020 and June 10, 2020. Does it comply with provisions of conducting meeting?

Part I -- Relevant Standards & Laws

- **LODR, 2015**

Part II Requirements of Relevant Standards & Laws

➢ **As per Listing Obligation and Disclosure Requirements Regulations 2015, depending upon the facts and circumstances,**
  - Some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance.
  - The Audit Committee shall meet at least four times in a year and not more than one hundred and twenty days shall lapse between two meetings.

Part III – Case Discussion

➢ **In the given case,** XYZ Limited has conducted 4 meetings in 2019-20. i.e., June 15, 2019, October 18, 2019, February 10, 2020 and June 10, 2020.

Part IV – Conclusion

➢ It does not comply with provisions because time gap between June 15 and October 18 is more than 120 days i.e., 125 days.

433.020	Affirmation of compliance with the code on an annual basis.	(S20M)

The Board of Directors of PQR Ltd. have laid down the code of conduct for all Board members and senior management. The auditor is provided with the annual compliance affirmations received from the Board members and explained that since there has been no change in the composition of the senior management, the previous year's affirmations may be considered valid. Is the contention of the Company valid?

Part I -- Relevant Standards & Laws

- **LODR, 2015**

Part II Requirements of Relevant Standards & Laws

➢ Under Regulation 26(3) of LODR, all Board members and senior management personnel have to affirm compliance with the code on an annual basis.

Part III – Case Discussion

➢ **In the given case,** the auditor is provided with the annual compliance affirmations received from the Board members and explained that since there has been no change in the composition of the senior management, the previous year's affirmations may be considered valid .

Part IV – Conclusion

➢ The decision to consider the previous year's affirmations from the senior management personnel as valid is not in line with the LODR Regulations.

433.030	POSH Act - Harassment	(S20M)

Genuine Ltd. has established the Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 ('POSH Act'). The details (names, email addresses and contact numbers) of the Committee members are available on the company intranet which is accessible by all employees. However, no disclosure regarding number of complaints pertaining to sexual harassment of women at workplace is being made. Are the measures taken by the Company adequate?

Part I -- Relevant Standards & Laws

- **LODR, 2015**

Part II Requirements of Relevant Standards & Laws

- As per Schedule V Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, amongst other matters, following should be disclosed in the section on Corporate Governance of the Annual Report:
  - number of complaints filed during the financial year.
  - number of complaints disposed of during the financial year
  - number of complaints pending as on end of the financial year.

- The POSH Act offers protection to all women, be it employees or contract staff or any other women who are associated with the Company in any other capacity (including service providers, vendors, professionals, etc.) By only providing the details in the intranet, the Company has failed to meet the requirements under the POSH Act.

Part III – Case Discussion

- In the given case , no disclosure regarding number of complaints pertaining to sexual harassment of women at workplace is being made by the company .

Part IV – Conclusion

- In view of above, Genuine Ltd. is required to make necessary disclosures in accordance with Schedule V of SEBI (LODR) Regulation 2015.

434.300	Vigil Mechanism	(S20M)

RST Ltd. has established a vigil mechanism to enable its directors and employees to report genuine concerns and seek protection against victimization. The details of the mechanism are available on the company intranet which is accessible by the directors and employees. Are the measures taken by the Company in line with the LODR Regulations?

Part I -- Relevant Standards & Laws

- **LODR, 2015**

Part II Requirements of Relevant Standards & Laws

- **Under Regulation 22 of the LODR,**
  The vigil mechanism can be used by directors, employees and any other person.
- **Regulation 46 of the LODR** requires the details of establishment of such mechanism to be disclosed by the Company on its website and in the Board Report.

Part III – Case Discussion

- RST Ltd. has established a vigil mechanism to enable its directors and employees to report genuine concerns and seek protection against victimization. The details of the mechanism are available on the company intranet which is accessible by the directors and employees.

Part IV – Conclusion

- By only providing the details in the intranet, the Company has failed to meet the LODR Regulations.

434.500	SEBI circular on auditor resignation (resignation within 45 days)	(S20M)

Statutory auditor of ABC Limited has resigned on July 10, 2020. Whether he shall be liable for issuing limited review report for quarter ended June 30, 2020.

Part I -- Relevant Standards & Laws

- **LODR, 2015**

Part II Requirements of Relevant Standards & Laws

- All listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with SEBI circular on auditor resignation, which specifies, if the auditor resigns within 45

	days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
	Part III – Case Discussion
	➢ In the given situation, statutory auditor of ABC Limited has resigned on July 10, 2020.
	Part IV – Conclusion
	➢ He would be liable for issuing limited review report for quarter ended June 30, 2020 because time gap between July 13, 2020 and June 30, 2020 is less than 45 days.

434.600	**SEBI circular on auditor resignation (limited review report of last quarter)**	**(S20M)**
	PQR, auditor of XYZ Limited has signed limited review report of 2nd and 3rd quarter. Whether auditor is liable to issue limited review report of 4th quarter before resignation?	
	Part I -- Relevant Standards & Laws ▪ **LODR, 2015** **Part II Requirements of Relevant Standards & Laws** ➢ All listed entities/material subsidiaries while appointing/re-appointing an auditor shall ensure compliance with SEBI circular on auditor resignation, which specifies, in case 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 **Part III – Case Discussion** ➢ PQR, auditor of XYZ Limited has signed limited review report of 2nd and 3rd quarter **Part IV – Conclusion** ➢ In the instant case, PQR, auditor of XYZ Limited has signed limited review report of 2nd and 3rd quarter. Auditor is not liable to issue limited review report of 4th quarter because he has not signed limited review report of first 3 quarters.	

Bank Audit

447.006	**Bank unable to check the work and records being small branch with shortage of manpower**	**S20**
	You are auditing a small bank branch with staff strength of the manager, cashier and three other staff S1 ,S2 and S3. Among allocation of work for other areas, S1 who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. S2 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 you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments.	
	➢ 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: ᐁ In the instant case, S1 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. ᐁ In the given case, S2 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.

449.05	**NPA (credit limit renewal)**	**S20**
	ABC Bank had sanctioned credit limits of Rs.100 lakh to M/s Volkart Ltd on 1st September 2018. The renewal of limits was due on 1st September 2019. While doing the statutory branch audit for the year ended 31st March 2020, you find that the renewal has not been done even though 180 days are over. The bank says that the renewal process has been initiated on time and most of the document are received. The account is operated regularly and is in order; balance is maintained within drawing power. It also shows a letter from Volkart stating that due to a sudden death of their auditor, a new auditor had to be appointed. Procedure for appointment took some time and the new auditor was doing the audit all over again. The limit was not renewed till 31/3/2020. However, the audited financials are received on 10th April 2020 and the renewal letter was issued immediately. Your assistant is insisting that the account must be classified as NPA since the limit was not renewed as on 31/3/2020. What is your opinion?	
	➢ As per Guidelines of Reserve Bank of India the account should be classified as NPA if renewal is not done in 180 days. ➢ However, in the present case, operations in the account are excellent. ➢ The bank has shown a letter from that company that due to certain reasons the audited financial statements are delayed. Further, the limit has been renewed before signing the audit report. ➢ Thus, even if the sanction was issued after the balance sheet date, it relates to the position as on the balance sheet date. ➢ Therefore, it is an adjusting event under AS 4, Contingencies and Events Occurring After the Balance Sheet Date. It is also a matter of substance over form. ➢ The auditor would consider classifying the account as a standard asset.	

NBFC

513.50	**Identification of Company as NBFC**	**SM20**
	Satyam Pvt Ltd is a company engaged in trading activities, it also has made investments in shares of other Companies and advanced loans to group companies amounting to more than 50% of its total assets. However, trading income constitutes majority of its total income. Whether the Company is an NBFC?	
	➢ In order to identify a particular company as Non-Banking Financial Company (NBFC), it will consider both assets and income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. ➢ The company will be treated as NBFC when a company's financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria shall qualify as an NBFC and would require to be registered as NBFC by Reserve Bank of India. ➢ In the given case, though Satyam Pvt Ltd is fulfilling the criteria on the asset side, but however is not fulfilling the criteria on the income side, the company cannot be classified as a deemed NBFC.	

514.50	**Registration and Regulation of NBFCs**	**SM20**
	Shubham & Associates are going to start the audit of NBFCs. They have not performed much work for the NBFCs in the past years. You are required to explain the requirements related to registration and regulation of NBFCs which an auditor needs to keep in his mind while planning the audit of NBFC which would help this firm.	
	➢ **An auditor should know following points regarding registration and regulation of NBFCs:** Under Section 45–IA of the RBI Act, 1934, no NBFC shall commence or carry on the business of a non-banking financial institution without ∀ obtaining a certificate of registration issued by the RBI; and	

	∀ having a net owned fund (NOF) of ` 25 lakhs (₹ Two crore since April 1999) not exceeding two hundred lakhs rupees, as the RBI may, by notification in the Official Gazette, specify. (The RBI (Amendment) Act (1997) provided an entry point norm of ` 25 lakh as the minimum NOF which was revised upwards to ` 2 crore for new NBFCs seeking grant of certificate of registration (CoR) on or after 21 April 1999). A company incorporated under the Companies Act and desirous of commencing business of non-banking financial institution as defined under Section 45–IA of the RBI Act, 1934 can apply to the RBI in prescribed form along with necessary documents for registration. The RBI issues CoR after satisfying itself that the conditions as enumerated in Section 45-IA of the RBI Act, 1934 are satisfied. However, to obviate dual regulation, certain categories of NBFCs which are regulated by other regulators are exempted from the requirement of registration with RBI viz. Venture Capital Fund/Merchant Banking companies/Stock Broking Companies registered with SEBI, Insurance Company holding a valid CoR issued by IRDA, Nidhi Companies as notified under Section 406 of the Companies Act, 2013, Chit Companies as defined in clause (b) of Section 2 of the Chit Funds Act, 1982 or Housing Finance Companies regulated by National Housing Bank. The RBI has issued directions to NBFCs on acceptance of public deposits, prudential norms like capital adequacy, income recognition, asset classification, provision for bad and doubtful debts, risk exposure norms and other measures to monitor the financial solvency and reporting by NBFCs. Directions were also issued to auditors to report non-compliance with the RBI Act and regulations to the Reserve Bank, Board of Directors and shareholders.

TAX AUDIT

563.040	**Eligibility for doing audit under GST law**	**(S20M)**
	M/s. Ramo & Co (P) Ltd. while appointing M/s. Jatin Prasad & Associates, a CA firm, as their GST auditors for the FY 2020-21 claims that only a GST Practitioner CA firm is eligible for doing audit under GST law in terms of section 35(5) of the Act. Comment.	
	➢ The GST Act/ Rules do not vest a GST practitioner with the power to audit under section 35(5). ➢ The power to audit is granted only to a chartered accountant or cost accountant who is in practice. ➢ Therefore, a chartered accountant is not required to be registered as a GST practitioner for the purpose of certifying FORM GSTR-9C. Therefore, the contention of the company that only a GST Practitioner CA is eligible for GST audit is not correct.	

563.070	**Turnover Computation – Branch wise v/s Aggregate- Exempt supplies**	**(S20M)**
	MM & Co., a footwear manufacturer is registered with GST in Delhi and its branches registered in Punjab & Haryana. Its turnover for the FY ended 31st March 2019 is: Delhi: ` 1.8 crore, Punjab: ` 1.2 crore and Haryana: ` 2.7 crore. However, the branch registered in Punjab is making only exempt supplies. The management of the company is of the view that GST audit is not applicable on them. Whether, their contention is correct or not. Substantiate.	
	➢ **As per section 35(5) read with rule 80(3),** ∀ The aggregate turnover calculation for the applicability of GST audit must be done on a PAN India basis, which means that once the turnover under the PAN India level is more than ` 5 crores, all business entities registered under GST for that PAN will be liable for GST audit for the FY. ∀ Further, aggregate turnover includes exempted supplies.	

- Therefore, any person making exempt supplies which is registered under GST will also be liable for GST audit.
- Thus, in the given case, the contention of the management is not correct. The aggregate turnover of the company is ` 5.7 crore. Thus, GST audit will be applicable on MM & Co and each branch is liable for GST audit.

563.080	Value of taxable supply – Interest, late fee, penalty for delayed payment	(S20M)

Mr. John made an outward supply of ` 4.00 lakhs to M/s. Taj Enterprises on 30th April 2020 on a credit period of 15 days. However, M/s. Taj Enterprises made the payment to Mr. John after 45 days along with interest for 30 days delayed payment @ 12%. As such, Mr. John received total payment of ` 4,04,000/- along with interest. However, while filing Form GSTR-3B/ Form GSTR-1, Mr. John declared his outward supplies at ` 4.00 lakhs. Even while filing Form GSTR-9, Mr. John did not discharge his tax liability. As a GST auditor in Form GSTR-9C, what action is recommended by the auditors. Comment.

- In terms of section 15(2)(d) while computing value of taxable supply the transaction value shall include interest or late fee or penalty for delayed payment of any consideration for any supply.
- Since, Mr. John did not pay tax on interest component, he made violation of valuation provisions. John was having option to discharge such liability at the time of filing of Form GSTR-9, which he did not avail.
- Therefore, the GST auditor may recommend him to discharge such liability at the time of making reconciliation statement in Form GSTR-9C.

563.700	Company has availed an excess ITC	(S20M)

Mr. A was appointed as an auditor of M/s. XYZ Co. During the course of audit, he finds that the company has availed an excess ITC of ` 50 lakh. Accordingly, he made recommendations in Part V of GSTR-9C, the management of the company refused to pay the excess ITC and argued that auditors recommendations are not binding. Comment.

- The management contention is correct.
- The auditor has only a recommendatory power, for recommendations given by the auditor may or may not be acceptable to the registered person. The registered person has the option to accept, reject or partially accept the recommended additional tax liability.
- In line with such recommendations, though not explicitly stated anywhere in the relevant Form or GST law –
  - the registered person can choose to make the payment of the additional tax liability in full or in part,
  - the registered person can even choose to reject the complete recommendations of the auditor and not make the payment at all.

563.750	Payment of additional liability - Electronic cash ledger	(S20M)

CA Natraj, proprietor of Satyam & Co., Chartered Accountants, while doing GST audit in Form GSTR-9C, recommended additional liability of Rs 1.5 crore to be paid by PQR Co. Ltd. on account of supplies not declared in regular returns in Form GSTR-3B/ Form GSTR-1 and also in annual return in Form GSTR-9. The company agreed to pay the liability. On the date of payment, it had ITC of ` 1 crore in its electronic credit ledger which the company wants to use for making the payment and balance amount to be paid in cash. Comment.

- The management is not correct in doing so.
- If the registered person chooses to make the payment of any additional liability as recommended by the auditor, the company may make such payment through FORM DRC-03. However, such liability shall be paid through electronic cash ledger only.

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M&O Audit

617.050	**Management Audit or the Operational Audit -penal interest payments and the delays in shipping**	**(S20M)**
	M/s ABC & Co., Chartered Accountants have been approached by PQR Ltd., a company engaged in iron and steel manufacturing industry. The company has been facing following operational issues: **(a) Penal interest for delayed payments to the overseas vendors despite having enough cash flows; and** **(b) Despite having regular production and enough inventory, delays in shipping the final goods to the customers leading to its deteriorating vendor rating.** **As a partner of M/s ABC & Co., through detailed discussion with the Senior Manager of PQR Ltd., you have concluded that all these delays are because of long decision-making cycles in the company. As a consultant to the Company, would you recommend Management Audit or Operational Audit?**	

- A comparison between the Management Audit & the Operational Audit is as follows:
- Management audit is concerned with the "Quality of managing", whereas operational audit focuses on the "Quality of operations".
- Management audit is the "Audit of management" while the operational audit is the "Audit for the management". The focus of Management Audit is on "Quality of Decision Making" rather than the effectiveness or efficiency of operations.
- The basic difference between the two audits, then, is not in method, but in the level of appraisal.
- In a management audit, the auditor is to make his tests to the level of top management, its formulation of objectives, plans and policies and its decision making. It is not that he just verifies the operations of control and procedures and fulfillment of plans in conformity with the prescribed policies.
- Since the delays in payments and consequent penal interest payments and the delays in shipping and the consequent deteriorating vendor ratings are happening because of the delays in decision-making process of the management. Therefore, it appears that this is not just an internal control or operational issue but an issue of management process.
- Therefore, management audit would be recommended in this case.

Due Diligence

621.500		
	"Due diligence is different from audit" – Explain the difference between due diligence and audit.	

- It needs be underlined that due diligence is different from audit.
- **Audit**
  Audit is an independent examination and evaluation of the financial statements on an organization with a view to express an opinion thereon.
- **Due Diligence**
  Whereas due diligence refers to an examination of a potential investment to confirms all material facts of the prospective business opportunity. It involves review of financial and non-financial records as deemed relevant and material. Simply put, due diligence aims to take the care that a reasonable person should take before entering into an agreement or a transaction with another party.

Forensic Audit (New Course Only)

628.500	**Forensic Accountants Service - Areas**	**S20**
	What are the areas where the services of forensic accountants/ auditors are generally required?	

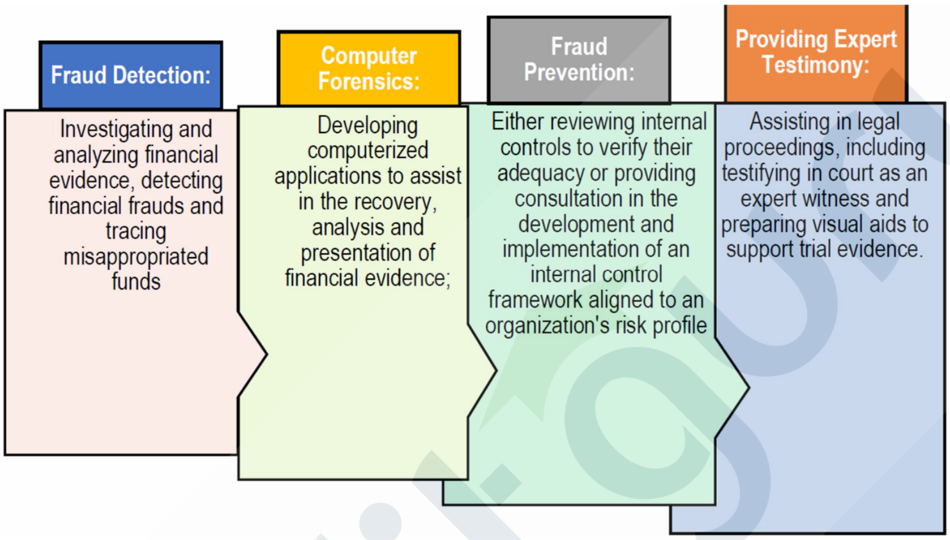
- The services rendered by the forensic accountants are in great demand in the following areas:
  - Identifying **individuals** to be most knowledgeable of facts
  - Crafting **Questions** to be Posed
  - Providing Questions for Deposition and Cross Examination of Fact and Expert Witnesses
  - Identifying **documents** to be requested and/or subpoenaed
  - Evaluating produced documentation and information for completeness
  - Analyzing produced records and other information for facts

- Conducting **research** relevant to facts of the case
- Identifying and preserving key evidence
- Identifying **alternative means** to obtain key facts and information
- Responding to questions posed

629.500	**“Forensic” meaning and its need**	**S20**

What do you understand by the word “Forensic” and why the need for forensic audit arises?

- “Forensic” means “suitable for use in the court of law”.
- Bologna said that it is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence.
- As an emerging discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of legal system.
- Need for forensic audit (A Forensic Auditor is often involved in



Investigation

644.030	**Investigator taking assistance of expert**	**(S20M)**

XYZ Ltd. has bought a land in Nagpur for setting up a manufacturing unit in the year 2018 at a price of Rs. 10 crores. In the year 2019, one of the directors of company raised suspicion on the price and transactions related to purchase of land. Therefore, an investigation was ordered by the management and PV Associates were appointed to investigate the matter and submit their report accordingly. PV Associates were of the view that they need to take an expert’s opinion on the price of land. Whether PV Associates is authorized to take assistance of expert? If yes, what is the process they need to follow?

If PV Associates feels the necessity of obtaining views and opinions of experts in various fields to properly conduct the investigation, they are allowed to do so.
It would be therefore, proper for the investigator to get the written general consent of his client, to refer special matters for views of different experts at the beginning of investigation and he should settle the question of costs for obtaining the views and other related implications.

Author’s Note:
ICAI has drafted big question, but relevant answer given is of 3 to 4 lines which is sufficient for 2 marks question.

Professional Ethics

666.050	First Schedule, Part I,Cl,6 – (Multiple Issues)	(S20M)

Mr. A, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. X gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. A started a website with colorful catchy designs and shared the website address on his all social media posts and stories and tagged 30 traders of his local community with the caption "Easy Online Stock Certification Services". Besides, Mr. A entered in an agreement with a Digital Marketer to give him 5% commission on each service procured through him. Discuss if the actions of Mr. A are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI.

Part I -- Relevant Laws

- Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949

Part II -- Requirements of Relevant Laws

- A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Part III – Case Discussion & Conclusion

- Mr. A is wrong in seeking clients through family and friends. Creating a website is not a non-compliance provided it is in line with the guidelines issued by the Institute in this regard. One of the guidelines is that the website should not be in push mode. Further, mentioning of clients' names is also prohibited as per the guidelines.
- In the given situation, Mr. A shared the website address on his all social media posts and stories and tagged 30 traders of his local community with the caption "Easy Online Stock Certification Services" mentioning his current clients as well. This is in complete contravention of the guidelines on website issued by the ICAI.
- Thus, CA, A would be held guilty of professional misconduct under clause 6 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

747.070	Second Schedule, Part I, Cl 4 -- Resigned as Director and accepted the Statutory Auditor position	(S20M)

Mr. D, a practicing CA, is appointed as a Director Simplicitor in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and accepted the Statutory Auditor position of the company. Is Mr. D right in accepting the auditor position?

Part I -- Relevant Standards & Laws

- Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949
- Section 141 of the Companies Act, 2013
- Clarifications issued by the Council

Part II -- Requirements of Relevant Standards & Laws

- ***Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949***

  A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

- ***Section 141(3)(f) of the Companies Act, 2013***

  Section 141 of the Companies Act, 2013 specifically prohibits a member from auditing the accounts of a company in which he is an officer or employee. Although the provisions of the aforesaid section are not specifically applicable in the context of audits performed under other statutes, e.g. tax audit, yet the underlying principle of independence of mind is equally applicable in those situations also. Therefore, the Council's views are clarified in the following situations.

- ***Clarifications issued by the Council***

As per the clarifications issued by the Council, a member shall not accept the assignment of audit of a Company for a period of two years from the date of completion of his tenure as Director, or resignation as Director of the said Company.

Part III – Case Discussion

- In the instant case, Mr. D, a practicing CA, is appointed as a Director Simplicitor in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and accepted the Statutory Auditor position of the company.

Part IV – Conclusion

- In view of above provisions Mr. D cannot accept the Directorship of the company until the completion of two years after his resignation.Thus, CA, D would be held guilty of professional misconduct under clause 4 of Part 1 of Second Schedule of the Chartered Accountants Act, 1949.

782.005	KYC – Applicability	(S20M)

Mr. F, a Chartered Accountant, gave advisory services to PQR Pvt. Ltd. Further, he gave them GST consultancy and helped in ERP set up. Later, the company turned out to be a part of a group of companies involved in money laundering. Mr. F was asked to provide details of the companies. Mr. F refused on the grounds that he gave only consultancy services to the company and wasn't supposed to keep any information about the company. Is Mr. F right as per the guidelines issued by the ICAI?

Part I -- Relevant Standards & Laws

- **As per KYC Norms of Council of ICAI**

Part II -- Requirements of Relevant Standards & Laws

- The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC norms). Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI issued such norms to be observed by the members of the profession who are in practice.

- In the given case of PQR Pvt. Ltd., a Corporate Entity, Mr. F should have kept following information:
  - **General Information**
    - Name and Address of the Entity
    - Business Description
    - Name of the Parent Company in case of Subsidiary
    - Copy of last Audited Financial Statement
  - **Engagement Information**
    - Type of Engagement
  - **Regulatory Information**
    - Company PAN No.
    - Company Identification No.
    - Directors' Names & Addresses
    - Directors' Identification No.

Author's Notes

Above answer is not appropriate as KYC is applicable only to attest function. We have mailed our concern to ICAI. We are waiting for reply by ICAI

From mail sent to ICAI

Below is a relevant extract of the announcement.

In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.

Explanation: "Attest Functions" for the purpose of this Announcement will include services pertaining to Audit, Review, Agreed upon Procedures and Compilation of Financial Statements.

	From above it is clear that KYC is required only in case of Audit, Review, Agreed Upon Procedures & Compilation. **Question talks about advisory, gst consultancy and ERP implementation which are not covered in definition of attest function, so KYC is not required.** **But the answer points to a broad statement given at the start of announcement and makes KYC applicable for all types of assignments which appear inappropriate.**

724.500	**First Schedule, Part I,Cl,12 – Delegation of works to his articles and staff**	**(S20M)**

Mr. S, the auditor of ABC Pvt. Ltd. has delegated following works to his articles and staff:
i. Issue of audit queries during the course of audit.
ii. Issue of memorandum of cash verification and other physical verification.
iii. Letter forwarding draft observations/financial statements.
iv. Issuing acknowledgements for records produced.
v. Signing financial statements of the company.
Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

Part I -- Relevant Laws

- Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949
- Council Clarification

Part II -- Requirements of Relevant Laws

- **Clause (12) of Part I of the First Schedule to 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.

- **Council Clarification**

  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:
  - Issue of audit queries during the course of audit.
  - Asking for information or issue of questionnaire.
  - Letter forwarding draft observations/financial statements.
  - Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
  - Acknowledging and carrying on routine correspondence with clients.
  - Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
  - Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.
  - Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.
  - Any other matter incidental to the office administration and routine work involved in practice of accountancy.

Part III – Case Discussion

- In the instant case, Mr. S, the auditor of ABC Pvt. Ltd. has delegated certain task to his articles and staff such as issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced and signing financial statements of the company.

Part IV – Conclusion

- Therefore, Mr. S is correct in allowing first four tasks i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding

	draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles. ➢ However, if the person signing the financial statements on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, Mr. S is wrong in delegating signing of financial statements to his staff. ➢ In view of this, S 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.