PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

PART – I ACADEMIC UPDATE

(Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by Regulating Authority)

Students are required to refer updated Chapters applicable for May 2021 Examination on the below mentioned link:

Chapter. No.	Chapter Name	Link
Chapter 5	The Company Audit	**https://resource.cdn.icai.org/63102bos51055-cp5.pdf**
Chapter 11	Audit of Non-Banking Financial Companies	https://resource.cdn.icai.org/63103bos51055-cp11.pdf
Chapter 13	Audit of Public Sector Undertakings	https://resource.cdn.icai.org/63104bos51055-cp13.pdf
Chapter 14	Liabilities of Auditors	https://resource.cdn.icai.org/63105bos51055-cp14.pdf

Note: Students are also advised to refer RTP of Paper 1 Financial Reporting (for AS, Ind AS and other updates) and Paper 4 Part I -Corporate Laws (for academic updates relating to Company Law).

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

PART A: MULTIPLE CHOICE QUESTIONS

Integrated Case Scenario 1.

M/s. Suresh & Co., a partnership firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Alkis Ltd., an unlisted public company, for financial year 2020-21.

Mr. Suresh is the engagement partner for the audit assignment of Alkis Ltd. The engagement team, before starting the assignment, was made to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.

Mr. Suresh, referred the engagement letter, signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of following circumstances in the Company during F.Y. 2020-21:

- Two senior whole time directors of the Company have retired out of total five directors.
- 40% stake in the Company was held by promoters, which was reduced to 5%, by selling shares to general public.
- One more factory unit was set up in Gorakhpur, this year.
- Management has requested to cover 90% of the transactions with respect to each revenue line item, this time, instead of 80% of the transactions, as was set out in the audit plan, considering the materiality and other factors.

The following data is presented from the audited financial statements of Alkis Ltd., for the financial year 2019-2020:

(I) Paid up share capital - ₹ 8 crore;

(II) Turnover - ₹ 55 crore;

(III) Outstanding Borrowings - ₹ 14 crore;

(IV) Outstanding Public Deposits - ₹ 28 crore.

Mr. Suresh while preparing a report under section 143 of the Companies Act, 2013, made a statement with respect to the remuneration paid by the Alkis Ltd. to one of its directors, Mr. Mahesh, was in excess of the limit laid down under section 197 and also gave such other details as prescribed.

Mr. Suresh, for additional reporting purpose, while auditing with respect to compliance with CARO, 2016, observed the following, relevant to Para 3(vii) of CARO, 2016:

Statutory Dues	Undisputed Amount (₹ in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2018-19	2	25th September, 2020	28th March, 2021
GST	1.5	3rd October, 2020	4th April, 2021
Customs Duty	0.80	20th September, 2020	10th April, 2021
Provident Fund	0.45	12th October, 2020	Not Paid till date

Also, a representation was made to GST Department for waiving a penalty of ₹ 1 lakh for late payment of GST demand.

The board of Alkis Ltd. declared interim dividend of ₹ 20 lakh on 20th May, 2021, to its 180 shareholders, out of surplus in the profit and loss account and such dividend amount was deposited in a separate bank with a branch of SBI.

Dividend amounting to ₹ 1 lakh was not claimed by a shareholder, Mr. Rohit, till 19th June, 2021, and so the said amount of ₹ 1 lakh was transferred to Unpaid Dividend Account on 31st July, 2020.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Question No.: (1-5)

1. Which of the following option is correct with respect to Alkis Ltd.?

   (a) Alkis Ltd. needs to form an Audit Committee. Further, provisions relating to internal audit as well as rotation of auditors are applicable to Alkis Ltd.

   (b) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to internal audit is not applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are applicable to it.

   (c) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to rotation of auditors is not applicable to Alkis Ltd. However, the provisions with respect to internal audit are applicable to it.

   (d) Alkis Ltd. needs to form an Audit Committee. Provisions relating to internal audit is applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are not applicable to it.

2. Under which section of the auditor's report, Mr. Suresh needs to report with respect to the excess remuneration being paid to Mr. Mahesh?

   (a) Other Matters Paragraph.

   (b) Report on Other Legal and Regulatory Requirements.

   (c) Basis for Qualified Opinion.

   (d) Auditor's Responsibilities for the Audit of the Financial Statements.

3. What total amount of statutory dues needs to be reported by Mr. Suresh as per Para 3 of CARO?

   (a) ₹ 2.75 lakh.

   (b) ₹ 0.80 lakh.

   (c) ₹ 2.80 lakh.

   (d) ₹ 2.30 lakh.

4. How much amount of interest Alkis Ltd. would be liable to pay with respect to unpaid dividend amount?

   (a) ₹ 575.

   (b) ₹ 1,216.

   (c) ₹ 1,726.

(d) ₹ 1,151.

5. By what date, the amount of interim dividend should have been deposited in the scheduled bank after being declared and also by what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account?

(a) 25th May, 2021 and 24th June, 2021, respectively.

(b) 25th May, 2021 and 26th June, 2021, respectively.

(c) 30th May, 2021 and 19th July, 2021, respectively.

(d) 27th May, 2021 and 26th June, 2021, respectively.

Integrated Case Scenario 2.

Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as "Why to worry about a vehicle, when you have steel man". The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of 'Copper Man' and thus, the managerial decision making is left to each version manager. You have assigned the 'Fixed Assets area' to Mr. Mamma Mia and he came out to you with the following points.

You need to answer the questions raised by him and go through the notes prepared to reach a reasonable conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):

- The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person's name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company's 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn't be halted as the restart of operations will cost huge amounts and a month's time to get the Company back to current position.

- The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed.

- The Company follows the depreciation policy as per the Schedule II across all the factories even when the factory at Andaman & Nicobar is the only factory that runs 24*7. The useful life has been taken as it is mentioned in the Schedule II without modifications and the Company's future prospects are good, there are no impairment indications.

  On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Question No.: (6-10)

6. The audit team has asked you about the Benami Transaction:

   (a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.

   (b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.

   (c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO.

   (d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.

7. The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:

   (a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.

   (b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.

   (c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.

   (d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.

8. The audit team has asked you about the impairment of assets of the Company.

   (a) The Company has no impairment condition as the Company expects positive future cash flows from the assets and thus no need to assess the impairment.

   (b) The Company need to assess the impairment condition for the assets and need to assess the fair value of the assets used to generate income from the older versions. The auditee needs to take a decision based on the cash inflows of a Company as a whole for assessing the existence of the impairment condition.

   (c) There exists an impairment condition as the Company does not expect much business from the older versions due to anticipation of the huge demand of the new product. The Company need to assess the cash inflows at each version level.

   (d) The Company need not assess impairment of assets as this is very common in dynamic industries where the older versions become obsolete when the new one is introduced by the Company.

9. The audit team is sceptical about the Depreciation policy followed by the Company for the Andaman and Nicobar plant:

   (a) As the Company is following the Schedule II, the depreciation policy and the useful life is in line with the Companies Act, 2013. Hence the Company's depreciation policy is good to go.

   (b) As the Company is operating the plant 24*7, it will be eligible for extra shift depreciation as per Schedule II. For the assets where the condition of extra shift depreciation does not exist, the Company will be eligible to claim 50% extra depreciation as per schedule II.

   (c) As the Schedule III is applicable for the whole Company, the policy including useful life for the assets need to be same. There cannot be different useful lives for different assets across different locations. Thus, the depreciation policy of the Company is good to go.

   (d) As the Company is operating the plant 24*7, it will be referred to as continuous process plant. For the assets where the condition of extra shift depreciation does not exist, the Company will not be eligible to claim 100% extra depreciation as per Schedule II.

10. The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:

   (a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.

(b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador.

(c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.

(d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.

Independent MCQs

11. Anant & Co. is the auditor of ST Insurance Company. The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the re-insurance policy. Each transaction is negotiated individually, and each party has a free choice i.e. for the insurance company to offer and the re-insurer to accept. What kind of a re-insurance business is the insurance company into?

(a) Facultative Re-insurance.

(b) Stop loss treaty re-insurance.

(c) Auto-fac re-insurance.

(d) Proportional treaty re-insurance.

12. Below is an extract from the list of supplier statements as at 31st March 2020 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

Supplier	***Statement balance*** **₹'000**	***Payables ledger balance*** **₹'000**
Cete Company	80	60
Lice Company	185	115

The difference in the balance of **Cete Company** is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2020. **Which of the following audit procedures should be carried out to confirm the balance owing to Cete Company?**

(I) Review post year-end credit notes for evidence of acceptance of return.

(II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier.

(III) Inspect post year-end cash book for evidence that the amount has been settled.

(a) 1, 2 and 3.

(b) 1 and 3 only.

(c) 1 and 2 only.

(d) 2 and 3 only.

PART B : DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

13. (a) Coccyx Ltd. supplies navy uniforms across the country. The Company has 3 warehouses at different locations throughout the India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. Coccyx Ltd. appointed M/s OPAQE & Co. to conduct its audit for the financial year 2020-21. Mr. P, partner of M/s OPAQE & Co., attended all the physical inventory counting conducted throughout the India but could not attend the same at borders due to some unavoidable reason.

You are required to advise M/s OPAQE & Co.,

(I) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?

(II) How is an auditor supposed to deal when attendance at physical inventory counting is impracticable?

(b) CA. Dev, a recently qualified practicing Chartered Accountant got his first internal audit assignment of a large manufacturing concern Growth Limited. As an internal auditor for Growth Limited, CA. Dev is required to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.

(c) (I) In an initial audit engagement, the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow in cases (i) when the financial statements are audited for the preceding period by another auditor; and (ii) when financial statements are audited for the first time.

(II) If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances'; what approach you will adopt in drafting your audit report in two situations mentioned in (I) above?

The Company Audit & Audit Report

14. Star Ltd. is a power generating company which uses coal as raw material for its power generating plant. The Company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2020-21, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Star Ltd. This happened in the month of December 2020 and as such entire power generation process of Star Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the Company. There were delays in the of payment of wages and salaries and the banks from whom the Company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the Company.

    Further, when discussed with the management, the statutory auditor understood that the Company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the financial statements of Star Ltd. What course of action should the statutory auditor of the Company consider in such situation?

Audit Committee and Corporate Governance

15. Mr. Ibrahim was appointed as statutory auditor of New Limited and Old Limited. Both the Companies were having their base in Chennai they had recently listed their shares on the Stock Exchange. For the financial year 2020-21, Mr. Ibrahim had signed limited review reports for each quarter, till the quarter ended 31st December 2020 for both the companies. Owing to his personal commitments and increased workload, he tendered his resignation to M/s New Limited on 30th January 2021 and asked the Company to appoint another auditor to issue audit report for the remaining quarter and the FY 2020-21 as a whole. But the management of the Company did not accept the same.

    Mr. Ibrahim continued to as act as auditor for M/s Old limited. During the 1st week of March 2021, Mrs. W (wife of Mr. Ibrahim) had borrowed a sum of ₹ 6 lakh from the Company for her personal use. Having come to know about this, Mr. Ibrahim immediately informed the management that he had been disqualified to act as auditor and told them that he won 't issue audit report for last quarter. But management of the Company argued that it's the legal responsibility of Mr. Ibrahim to do the same.

    Whether contention of management of New Limited and Old Limited is justified in asking Mr. Ibrahim to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? Discuss.

Audit of Banks & Insurance Company

16. (a) You are auditing a small bank branch with staff strength of the manager, cashier and three other staff Peter, Prem and Pran. Among allocation of work for other areas, Peter 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. Prem 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.

(b) As at 31st March 2020 while auditing Universe Insurance Ltd, you observed that a policy has been issued on 27th March 2020 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The Company maintained that it is a usual practice in respect of big customers and the money was collected on 7th April, 2020. You further noticed that there was a fire accident in the premises of the insured on 31st March 2020 and a claim was lodged for the same. The insurance company also made a provision for claim. Please respond.

Audit under Fiscal Laws

17. (a) Arihant Pvt Ltd is engaged in the business of providing corporate/professional training programs. It has an annual turnover of INR 74 crore. The Company is subject to tax audit for which the work has been started by the tax auditor. For the financial year ending 31 March 2021, the Company applied for GST registration for 5 new locations for which registration certificates have not yet been received by the Company. However, the registration number is available on the portal of relevant authority which can be verified by checking the details of the Company. In this case what should be the audit procedures to verify this registration number?

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

Internal Audit, Management Audit and Operational Audit

18. M/s Raka & Co., Chartered Accountants have been approached by Abhinandan 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 Raka & Co., through detailed discussion with the Senior Manager of Abhinandan 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?

Professional Ethics

19. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

    (a) C.A. Ajitnath is Special Executive Magistrate. He also took over as the Executive Chairman of Software Company on 1.4.2020. He is also a leading income tax practitioner and consultant for derivative products. He resides in Chennai near to the ION commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 40% of his time to settle the commodity transactions. He has not taken any permission for becoming Special Executive Magistrate. However, he has got special permission of Council of ICAI for becoming Executive Chairman. Is C.A. Ajitnath liable for professional misconduct?

    (b) CA. Sambhav, the auditor of Mahvir Pvt. Ltd. has delegated following works to his articles and staff:

    - ❖ Raising of bills and issuing acknowledgements for money receipts.
    - ❖ Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
    - ❖ Issuing acknowledgements for records produced.
    - ❖ Signing financial statements of the company.

    Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

20. Write a short note on the following:

    (a) Technical, Ethical and Professional Standards as per Statement on Peer Review.

    (b) Important issues to be kept in mind by the investigator while preparing his report.

    (c) Direction by Tribunal in case auditor acted in a fraudulent manner.

    (d) Differences between Division II (Ind- AS- Other than NBFCs) and Division III (Ind-AS- NBFCs) of Schedule III.

    (e) Technology based /Digital Forensics Techniques.

SUGGESTED ANSWERS

PART A : ANSWERS TO MULTIPLE QUESTIONS

1. (c)

2. (b)

3. (b)

4. (d)

5. (b)

6. (c)

7. (d)

8. (c)

9. (d)

10. (a)

11. (a)

12. (c)

PART B

13. (a) (I) Special Consideration with Regard to Inventory: As per SA 501 "Audit Evidence- Specific Considerations for Selected Items", when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

(1) Attendance at physical inventory counting, unless impracticable, to:

(i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;

(ii) Observe the performance of management's count procedures;

(iii) Inspect the inventory; and

(iv) Perform test counts; and

(2) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

(II) Attendance at Physical Inventory Counting Not Practicable: In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

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

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

(b) The Internal Audit Programme in connection with Plant and Machinery and Tools and dies may be on the following lines:

(i) **Internal Control Aspects:** The following may be incorporated in the audit programme to check the internal control aspects-

(a) Maintaining separate register for hired assets, leased asset and jointly owned assets.

(b) Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.

(c) All movements of assets are accurately recorded.

(d) Authorisation be obtained for –

(1) a declaring a fixed asset scrapped.

(2) selling a fixed asset.

(e) Check whether additions to fixed asset register are verified and checked by authorised person.

(f) Proper recording of all additions and disposal.

(g) Examining procedure for the purchase of new fixed assets, including written authority, work order, voucher and other relevant evidence.

(h) Regular review of adequate security arrangements.

(i) Periodic inspection of assets is done or not.

(j) Regular review of insurance cover requirements over fixed assets.

(ii) **Assets Register:** To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.

(iii) **Cost Report and Journal Register:** To review the cost relating to each plant and machinery and to verify items which have been capitalised.

(iv) **Code Register:** To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.

(v) **Physical Verification:** To see physical verification has been conducted at frequent intervals.

(vi) **Movement Register:** To verify (a) whether Movement Register for movable equipments and (b) log books in case of vehicles, etc. are being maintained properly.

(vii) **Assets Disposal Register:** To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorisation, sales memos or other appropriate documents.

(viii) **Spare Parts Register:** To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.

(ix) **Review of Maintenance:** To scrutinise the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.

(x) **Review of Obsolescence:** To scrutinise whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.

(xi) **Review of R&D:** To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.

(c) (I) (i) Financial Statements Audited by another Auditor – Audit Procedure: If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

(ii) **Audit of Financial Statements for the First Time – Audit Procedure:** When the audit of financial statements is being conducted for the first time, the auditor has to perform auditing procedures to obtain sufficient appropriate audit evidence. Since opening balances represent effect of transaction and events of the preceding period and accounting policies applied in the preceding period, the auditor need to obtain evidence having regard to nature of opening balances, materiality of the opening balances and accounting policies. Since it will not be possible for auditor to perform certain procedures, e.g., observing physical verification of inventories, etc. the auditor may obtain confirmation, etc. and perform suitable procedures in respect of fixed assets, investments, etc. The auditor can also obtain management representation with regards to the opening balances.

(II) **Drafting Audit Report:** If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate. Further, If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion.

14. SA 570- "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

In the present case, the following circumstances indicate the inability of Star Ltd. to continue as a going concern:

- Ban on the allotment of coal blocks
- Halt in power generation
- Key Managerial Personnel leaving the Company.
- Banks decided not to extend further finance and not to fund the working capital requirements of the Company.
- Non availability of sound action plan to mitigate such circumstances.

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company. As such, the statutory auditor of Star Ltd. should:

(1) Express an adverse opinion in accordance with SA 705 (Revised) and

(2) In the Basis of Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

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

Further, Mr. Ibrahim immediately informed the management of Old Limited that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter as Mrs. W (wife of Mr. Ibrahim) had borrowed a sum of ₹ 6 lakh from the Company for her personal use.

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

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

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

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

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

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

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

The auditor should report the same in his report accordingly.

(b) No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until the premium payable is received or is guaranteed to be paid by such person in such manner and within such time, as may be prescribed, or unless and until deposit of such amount, as may be prescribed, is made in advance in the prescribed manner. The premium receipt of insurance companies carrying on general insurance business normally arise out of three sources, viz., premium received from direct business, premium received from reinsurance business and the share of co-insurance premium.

In view of the above, the insurance company is not liable to pay the claim and hence no provision for claim is required.

17. (a) Clause (4) (Details as to Indirect Tax Registration) of Part A of Form No. 3CD generally requires the auditor to ensure whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and service tax, custom duty, etc. If yes, please furnish the registration number or GST number or any other identification number allotted for the same. Thus, the auditor is primarily required to furnish the details of registration numbers as provided to him by the assessee. The reporting is required to be done in the manner or format specified by the e-filing utility in this context.

In the given situation, Arihant Pvt Ltd is engaged in the business of providing corporate/professional training programs. The Company is subject to tax audit. For the financial year ending 31 March 2021, the Company applied for GST registration for 5 new locations for which registration certificates have not yet been received by the Company. However, the registration number is available on the portal of relevant authority.

In the instant case, the tax auditor of Arihant Private Limited should verify the registration number for the locations for which registration certificates have not been received from online portal of the relevant authority.

The auditor should also ensure that the details furnished while checking the registration number pertains to the company only. If the company has filed any returns for these locations, the auditor should enquire for the same from the management and should check those returns to verify the correctness of the registration numbers. In addition, the auditor should also obtain specific representation in respect of this point from the management.

(b) 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. Rohan did not pay tax on interest component, he made violation of valuation provisions. Mr. 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.

18. 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 fulfilment 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 of Abhinandan Ltd. 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.

19. (a) Engaging into a Business: As per Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In this case, C.A. Ajitnath is Special Executive Magistrate, engaged in the occupation of trading in commodity derivatives and also took over as the Executive Chairman on 01.04.2020.

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

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

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

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

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

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

(i) Issue of audit queries during the course of audit.

(ii) Asking for information or issue of questionnaire.

(iii) Letter forwarding draft observations/financial statements.

(iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

(v) Acknowledging and carrying on routine correspondence with clients.

(vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

(vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.

(ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.

(x) Any other matter incidental to the office administration and routine work involved in practice of accountancy.

In the instant case, CA. Sambhav, the auditor of Mahvir Pvt. Ltd. has delegated certain task to his articles and staff such as raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit and issuing acknowledgements for records produced and signing financial statements of the company.

Therefore, CA. Sambhav is correct in allowing first three tasks i.e., raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

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

Conclusion: In view of this, CA. Sambhav 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.

20. (a) As per the Statement on Peer Review, Technical, Professional and Ethical Standards means:

(i) Accounting Standards issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013;

(ii) Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from to time;

(iii) Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time;

(iv) Standards :

Standards issued by the Institute of Chartered Accountants of India including-
(a) Engagement standards (b) Statements (c) Guidance notes (d) Standards on Internal Audit. (e) Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees.

(v) Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;

(vi) Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.

(b) The important issues to be kept in mind by the investigator while preparing his report are as follows:

(i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.

(ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimized.

(iii) Relevant facts and conclusions should be properly linked with evidence.

(iv) Bases and assumptions made should be explicitly stated. Reasonableness of the bases and assumptions made should be well examined and care should be taken to see that none of the bases and assumptions can be considered to be in conflict with the objective of the investigation. For example, in an investigation into over-stocking of raw materials, inventories and spares etc. it should not be assumed that the ordering levels indicated on bin cards provide fair guidance about acquisition of further materials. Also, since investigation is a fact-finding assignment, assumptions should be made only when it is unavoidably necessary.

(v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.

(vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.

(vii) The report should also state restrictions or limitations, if any, imposed on the instructions given by the client. Preferably the reasons for placing such restrictions and their impact on the final result should also be stated.

(viii) The opinion of the investigator should appear in the final paragraph of the report.

(c) Direction by Tribunal in case auditor acted in a fraudulent manner: As per sub-section (5) of the section 140, the Tribunal either *suo motu* or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors.

However, if the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place.

It may be noted that an auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447.

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

(d) Differences between Division II (Ind- AS- Other than NBFCs) and Division III (Ind- AS- NBFCs) of Schedule III: The presentation requirements under Division III for NBFCs are similar to Division II (Non NBFC) to a large extent except for the following:

(i) NBFCs have been allowed to present the items of the balance sheet in order of their liquidity which is not allowed to companies required to follow Division II. Additionally, NBFCs are required to classify items of the balance sheet into financial and non-financial whereas other companies are required to classify the items into current and non-current.

(ii) An NBFC is required to separately disclose by way of a note any item of 'other income' or 'other expenditure' which exceeds 1 per cent of the total income. Division II, on the other hand, requires disclosure for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or ₹ 10 lakh, whichever is higher.

(iii) NBFCs are required to separately disclose under 'receivables', the debts due from any Limited Liability Partnership (LLP) in which its director is a partner or member.

(iv) NBFCs are also required to disclose items comprising 'revenue from operations' and 'other comprehensive income' on the face of the Statement of profit and loss instead of showing those only as part of the notes.

(v) Separate disclosure of trade receivable which have significant increase in credit risk & credit impaired.

(vi) The conditions or restrictions for distribution attached to statutory reserves have to be separately disclose in the notes as stipulated by the relevant statute.

(e) Technology based/Digital Forensics Techniques: Every transaction leaves a digital footprint in today's computer-driven society. Close scrutiny of relevant emails, accounting records, phone logs and target company hard drives is a requisite facet of any modern forensic audit. Before taking steps such as obtaining data from email etc. the forensic auditor should take appropriate legal advice so that it doesn't amount to invasion of privacy. Digital investigations can become quite complex and require support from trained digital investigators. However, many open-source digital forensics tools are now available to assist in this phase of the investigation.

Cross Drive Analysis	EnCase
Live Analysis	MD5
Deleted Files	Tracking Log Files
Stochastic Forensics	PC System Log
Steganography	Free Log Tools