PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

QUESTIONS

PART A: Multiple Choice Questions

Integrated Case Scenario 1.

Mr. Ayush, the proprietor of BCD & Co Chartered Accountants, was appointed to audit the financial statements of Amrita Industries Private Limited for the Financial Year 2022-23. These financial statements were prepared in accordance with the Dutch GAAP and the terms & conditions specified in the contract between Amrita Industries Private Limited and Dutch Industries b.v. (Pvt. Ltd is known as b.v. in Dutch). One of the terms and conditions of the contract was to get the financial statements audited from an independent auditor. The contract also stipulated auditors to take into account misstatements of € 5000 or more while framing their report. Any misstatements identified below this threshold did not require correction or adjustment in terms of stipulation in contract. While planning audit, the audit team had also determined performance materiality at € 10000 and overall materiality at € 200000.

The following information extracted from general purpose financial statements of Amrita Industries Pvt. Ltd. prepared in accordance with provisions of the Companies Act, 2013 is given as under: -

(Figures in ₹ crores)

Particulars	FY 22-23	FY 21-22
Turnover	300	250
Borrowings from bank	100	75
Paid up capital	25	25

The borrowings from bank consisted of working capital credit facilities only. The company had been enjoying such credit facilities with a sanctioned amount of ₹75 crore in Financial Year 21-22. The credit facilities were enhanced to ₹ 100 crore at beginning of Financial Year 22-23. Outstanding balance in above credit facilities has never crossed sanctioned limits at any time during each of the above years.

Mr. Shubham, partner at BB & Associates, Chartered Accountants firm, was appointed as engagement partner for audit of general-purpose financial statements of Amrita Industries Private Limited for FY 2022-23. Before finalising audit plan, BB & Associates asked for internal audit reports. However, management informed him that there was no internal audit team or function in the organization.

During the course of audit of general-purpose financial statements, Mr. Anand, an audit executive performed risk assessment procedures, test of controls and substantive procedures. He performed a trend analysis to compare the purchases of raw materials in various months. He also performed purchase–production–sale cycle analysis to understand inventory holding. Besides going through the company's internal control manuals and visiting company's plant, inquiries were also made with company's information system personnel to provide information about control failures. Diligent inquiries were also made from company's marketing personnel regarding contractual arrangements with customers. Inquiries were also made from company's in-house legal counsel and communications were also made with company's external legal counsel by sending a letter of inquiry.

While issuing the report, BCD & Co inserted an Other Matter Paragraph in the Audit Report specifying the use of a special purpose financial reporting framework for preparing and presenting the financial statements. On the other hand, BB & Associates decided to issue an adverse opinion on all financial statement except for cash flow statement and an unmodified opinion on cash flow statement. As per BB & Associates, the cash flow statement was prepared as per the required method, and hence, it did reflect the appropriate figures.

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

1. The audit team of BCD & Co were not sure which materiality to choose to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements in order to form an opinion and to conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. You are required to guide the audit team by selecting the appropriate option from below:

    (a) In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

    (b) In the case of special purpose financial statements, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold is sufficient to comply with the requirement of determining materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.

    (c) In the case of special purpose financial statements, misstatements based on consideration of the financial information needs of the intended users are considered material and pervasive. However, the auditor needs to follow the threshold limit provided in terms of the contract, and such thresholds should be considered as the performance materiality for planning and performing the audit.

    (d) The auditor is required to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional and the condition does not exist. In the case of an audit of special purpose financial statements, the requirements of SA 320 are not applicable in entirety.

2. Mr. Manish, the audit manager of BCD & Co., objected to the insertion of the Other Matter Paragraph in the audit report. According to him, there is no such requirement to insert Other Matter Paragraph to disclose the use of a Special Purpose Framework. Whether contention of Mr. Manish is in order?

   (a) The auditor's report on special purpose financial statements shall include an Other Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

   (b) To avoid misunderstandings, the auditor shall mention that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose in Management's Responsibility section. Adding an Other Matter Paragraph for this will result in duplication of the matter, and the same should be avoided.

   (c) The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users and may not be suitable for another purpose by adding a Key Audit Matter in the Key Audit Matter Paragraph.

   (d) The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

3. Mr. Chitrang, the audit manager at BB & Associates Chartered Accountant, is seeking your guidance in drafting separate opinions on the cash flow statement and Other Financial Statements. Guide the audit manager by selecting the appropriate option from below:

   (a) When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement.

(b) The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position is allowed. In this case, the auditor has expressed a disclaimer of opinion on the financial statements as a whole and separate opinion on cash flows.

(c) The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under the same financial reporting framework is permissible.

(d) An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not limit the auditor's responsibility to issue an unmodified opinion on identified matters that would not require a modification of the auditor's opinion.

4. The company has violated provisions of the Companies Act, 2013 by not appointing an internal auditor. Which of following statement is likely to be correct reason necessitating appointment of internal auditor and for matters relating to appointment of internal auditor for the financial year 2022-23 in described situation in accordance with provisions of law?

(a) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual or a partnership firm only.

(b) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled all necessary conditions relating to turnover, borrowings from banks and paid up capital during financial year 2022-23. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.

(c) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary condition relating to turnover during financial year 2021-22. Such an internal auditor may have been either an individual, a partnership firm or a body corporate.

(d) The company was required to appoint internal auditor during financial year 2022-23 as it fulfilled necessary conditions relating to turnover and borrowings from banks during financial year 2022-23. Such an internal auditor may have been either an individual or a partnership firm.

5. Mr. Anand, an audit executive, has performed various procedures during the course of audit. Which of the following procedure/combinations of procedures is/are not likely to be considered as risk assessment procedures?

(a) Performing trend analysis, going through company's internal control manuals and visiting company's plant

(b) Inquiries from company's marketing personnel and with in-house legal counsel

(c) Communication with company's external legal counsel by sending a letter of inquiry

(d) Inquiries made with company's information system personnel to provide information about control failures and going through company's internal control manuals

Independent MCQs

6. Safe Health Insurance Limited is a company working in the field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such system has allowed faster processing of claims, error-free data validation and increased customer satisfaction.

In respect of situation regarding working of insurance company in health insurance sector, which of following technologies has likely been used?

(a) Internet of things

(b) Data analytics

(c) Robotic process automation

(d) Power BI

7. Bansal Arora & Co., a Chartered Accountants firm, is currently performing an audit for Wool Ltd., a sizable manufacturing company. Mr. Bhavesh Bansal, an experienced audit engagement partner, holds the responsibility of ensuring that the audit engagement aligns with the professional standards, adheres to regulatory requirements, and complies with the legal obligations. His duties encompass the overall supervision, direction, and the final issuance of the audit report.

While conducting the audit, the engagement team encounters a complex issue pertaining to the valuation of the company's inventory. Within the team, there are difference of opinions on how to address this matter, resulting in a contentious situation.

What is Mr. Bhavesh's responsibility in this situation?

(a) Mr. Bhavesh shall adhere to the firm's policies only for addressing and resolving differences of opinion.

(b) Mr. Bhavesh should secure management's representation concerning the valuation and proceed with further audit procedures.

(c) Mr. Bhavesh should ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm.

(d) Mr. Bhavesh should communicate the issue to the client's management for resolution.

8. ALEXA Private Limited has been operating in India for the past 15 years with three group companies – one subsidiary in India and the other two in Singapore and Germany. The acquisitions of these subsidiaries were gradual, with control obtained after initial investments. The statutory auditors have determined that all group companies are significant for the audit of consolidated financial statements. For the year ending

March 31, 2023, the audited financial statements of all components are available, except for the German company, whose audit has been delayed and won't be completed before the release date of the consolidated financial statements (CFS) of the parent company.

The financial statements of the German company for the consolidation audit of CFS, what could be the possible situation?

(a) Since the audit of the German company is in progress, its financial statements subject to audit can be considered by the auditor of the parent company. Audited and signed financials can be provided to auditors even after the release of audited CFS, as this is a matter of documentation only.

(b) If the auditor does not receive audited financial statements of the German company, he should modify his audit report.

(c) The management should provide management accounts to the auditors of CFS, and the auditor can mention this point in the "other matters" paragraph in his audit report, which is an acceptable approach.

(d) The auditor should exclude the financial statements of the German company from the CFS.

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

General Auditing Principles and Reporting

9. While conducting the audit of Quantum Mechanics Limited, Mr. Manoj, the audit manager, identified significant payments made by the company for legal and retainership fees related to litigation. The litigation pertained to the Thirunelly manufacturing plant, situated on forest land reserved for the Elephant Corridor, which was declared illegally constructed. The company had received a notice to decommission the plant by 31-05-2022, but it had challenged decommissioning order in the High Court and matter was still pending there. The company had not disclosed any information related to the litigation in its financial statements for Financial Year 2022-23. The Thirunelly plant accounted for over 75% of the company's annual

production, and the audit team expressed concerns that decommissioning could significantly disrupt operations and potentially lead to bankruptcy.

The audit was near to completion. When Mr. Manoj sought advice from audit partner Mr. Shalabh on this matter, he suggested that no immediate action was necessary from the auditors, as the matter was still pending in Kerala High Court.

However, Mr. Manoj feels that situation requires action from auditors and to be indicated in the report. Whose view seems to be appropriate? Comment with reference to applicable Standards on Auditing.

10. You are appointed as Statutory Auditor of Supreme Ltd. and are in the midst of conducting Annual Audit for the financial year ending on 31st March, 2023. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.50 crores from a company incorporated on 18th March, 2023. Upon further inquiry, you discover that purchases have been booked at the instance of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation?

Materiality, Risk assessment and Internal Control

11. While assessing the impact of uncorrected misstatements in the audit of Manhattan Constructions Private Limited, Mr. Sushil encountered a significant issue related to the calculation of materiality on Sales. The initial materiality calculation was based on estimated figures provided by the management. Notably, during the estimation of full-year sales, the management extrapolated from the actual amount of 11 months to derive the 12 months of sales. However, given the nature of Manhattan Constructions as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged.

    The actual sales for the last month deviated significantly from the estimated sales due to an unforeseen increase in stamp duty rates imposed by the government in that region. As a result, the last month's actual sales represented only 25% of the estimated sales. Now, Mr. Sushil is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Sushil in the light of relevant Standards on Auditing.

Related Services

12. Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ₹ 100 crores as on 31st December, 2023. The management of the company wants to evaluate validity of the trade receivables to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA. Karuna to take up this assignment and prepare a report for management in accordance with professional standards. Despite not being statutory auditor of the company, she decides to accept above engagement.

    (a) By explaining nature of engagement described above, discuss whether it was proper for her to accept such engagement.

    (b) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope?

Prospective Financial Information and Other Assurance Services

13. STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

    The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.

(a) Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which engagement and quality control standard casts such kind of responsibility upon the auditor?

(b) Which type of report should be provided by the auditors of Little Solutions? Justify with reasons.

(c) State matters on which opinion is to be provided by the auditors of Little Solutions.

Digital Auditing and Assurance

14. Certain studies have suggested that increase in cyber-attacks and rise in global payment processing cost have hit global banking and finance industries enormously. Therefore, such industries are going to place reliance on new technologies such as Blockchain. Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. However, such technology comes with its weaknesses and associated risks.

    What are common risks for Blockchain technology? Also discuss probable audit implications where such technology can be used.

Special Features of Audit of Banks and Non-Banking Financial Companies

15. PDSJ & Associates are Statutory Auditors of a scheduled Commercial Bank for the year 2023-24. While evaluating internal control over advances, it came to their notice that classification of term loan borrower accounts into SMA as well as NPA is done in the system on the following lines:

    - In case full dues are not received on a particular due date, a borrower account is immediately considered as overdue on the very next day. For example, if due date of loan account is 31st March, 2023 and dues are not received on 31st March, 2023, it shall be considered as overdue on 1st April, 2023.

    - If it continues to remain overdue, then account is tagged as SMA-1 on 1st May, 2023.

- If it continues to remain overdue further, then account is tagged as SMA-2 on 31st May, 2023.
- If it continues to remain overdue even after being tagged as SMA-2, it is classified as NPA on 30th June, 2023.

Evaluate above control designed by bank in the system for the purpose of exercising control over such advances in compliance to regulatory guidelines.

Audit of Public Sector Undertakings

16. Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG.

Internal Audit

17. CA. Sanjana has recently joined as Chief Internal Auditor of Up Scale Limited, a listed company. Her subordinate staff in internal audit department brings to her knowledge many prior audit issues highlighted in the previous internal audit reports which are still open. Does she have any responsibilities in this regard? How should she proceed in this situation?

Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

18. SEBI has made Business Responsibility and Sustainability Report (BRSR) mandatory for certain listed companies. It is an evolutionary step in Environment, Social and Governance (ESG) reporting. Discuss the nature of ESG reporting. How can corporates contribute to Sustainable Development Goals (SDGs)?

Professional Ethics & Liabilities of Auditors

19. (a) Comment on the following with reference to the provisions of the Chartered Accountant Act 1949:

    (1) CA. Pankaj accepted professional work of acting as valuer under direct taxes. He charges fees on a percentage of the property valued.

    (2) CA. Anita joined as an audit executive in a CA firm on April 1, 2023. Despite receiving multiple reminders from ICAI, she has failed to respond with her appointment date and submit her membership certificate.

    (b) Mr. Johny, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics?

20. CA. Tanya, the auditor of KBC 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?

SUGGESTED ANSWERS/HINTS

PART A: Answers to Multiple Choice Questions

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

PART B: Answers to Descriptive Questions

9. In accordance with SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", if the auditor concludes that the non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", express a qualified or adverse opinion on the financial statements.

In the specific case of Quantum Mechanics Limited, where significant legal and retainership fees have been paid related to a lawsuit concerning the Thirunelly manufacturing plant, the auditor needs to assess the impact of non-compliance on the financial statements. Given that the Thirunelly plant constitutes over 75% of the company's annual production and the audit team believes that decommissioning the plant could potentially lead to bankruptcy, the non-disclosure of such a significant matter would have a material and pervasive impact on the financial statements.

Contrary to the audit partner's suggestion that no action is necessary as the matter is pending in the Kerala High Court, the requirements of SA 250 and SA 705 necessitate a different approach. The auditor should express either a qualified or an adverse opinion on the financial statements based on the level of impact of non-disclosure. Further, above situation involves pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity may not be able to satisfy. It is an example of events or conditions that may cast a significant doubt on entity's ability to continue as a going concern. However, no disclosure is made in financial statements about the material uncertainty. SA 570, "Going Concern" also mandates auditor to express a qualified or an adverse opinion in accordance with SA 705, if adequate disclosure is not made about material uncertainty in financial statements. As a non-disclosure of such a significant matter would have material and pervasive impact of financial statements, adverse opinion in this situation appears appropriate. Therefore, Mr. Manoj's view seems to be proper.

10. SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," emphasize that fraud can be perpetrated by management override of controls, such as the creation of fictitious journal entries, particularly towards the end of an accounting period, to manipulate operating results or achieve specific objectives.

In the case of Supreme Ltd., where purchases of ₹ 1.50 crore were recorded at year-end without supporting evidence, it became apparent during the investigation that the company had entered fictitious journal entries to manipulate the operating results.

Given this situation, the auditor would align their approach based on the impact of the misstatement resulting from such fictitious journal entries. If, due to fraud or suspected fraud, the auditor encounters exceptional circumstances that cast doubt on their ability to continue the audit, they must assess the professional and legal responsibilities applicable. This includes considering reporting obligations to those who appointed the auditor or, in some cases, to regulatory authorities. The appropriateness of withdrawal from the engagement is also a consideration, where legally permitted.

Furthermore, the auditor is mandated to report in accordance with Section 143(12) of the Companies Act, 2013. According to Section 143(12) read with Rule 13 of Companies (Audit & Auditor's) Rules, 2014, if the auditor, during the performance of their duties, has reason to believe that an offence of fraud involving an amount of ₹1 crore or more has been committed by the company's officers or employees, reporting to the Central Government is required in the prescribed manner.

Additionally, reporting obligations extend to Clause (xi) of Paragraph 3 of Companies (Auditor’s Report) Order, 2020. The auditor is obligated to disclose whether any fraud by the company or against the company by its officers or employees has been observed or reported during the year. If affirmative, the nature and amount involved are to be indicated. This comprehensive reporting framework ensures transparency, adherence to legal requirements, and protection of stakeholders' interests in the face of potential fraudulent activities.

11. As per SA 450 “Evaluation of Misstatements Identified during the Audit”, the auditor is required to reassess materiality, in accordance with SA 320 “Materiality in Planning and Performing an Audit”, before evaluating the impact of uncorrected misstatements. This reassessment is crucial to confirm the ongoing appropriateness of materiality in light of the entity's actual financial results.

The determination of materiality under SA 320 often relies on estimates of the entity's financial results, given that the actual results may not be known during the early stages of the audit. Therefore, before the auditor proceeds to assess the effect of uncorrected misstatements, it becomes necessary to adjust the materiality calculated under SA 320 based on the now available actual financial results.

SA 320 outlines that, as the audit progresses, materiality may be revised for the financial statements as a whole or for specific classes of transactions, account balances, or disclosures. This revision is prompted by the auditor's awareness of information that would have led to a different initial determination. Typically, significant revisions occur before the evaluation of uncorrected misstatements. However, if the reassessment of materiality under SA 320 results in a lower amount, the auditor must reconsider performance materiality and the appropriateness of the audit procedures' nature, timing, and extent. This is crucial for obtaining sufficient and appropriate audit evidence on which to base the audit opinion.

In the present case involving Manhattan Constructions Private Limited, it has been identified that the materiality calculated at the beginning of the audit for Sales was based on estimates provided by the management. The management extrapolated sales for the full year using the actual amount of 11 months, but since the company experiences significant monthly variations in sales, the actual sales for the last month were only 25% of the estimated figure. This discrepancy arose due to an unexpected increase in stamp duty rates by the government in that region.

In this audit scenario, Mr. Sushil, the auditor, must review and re-assess the materiality initially determined under SA 320 to ensure its continued validity in light of the actual financial results. If the re-assessed materiality is lower than the previously calculated amount, Mr. Sushil must reconsider performance materiality and the appropriateness of the nature, timing, and extent of further audit procedures. This meticulous approach is essential to gather sufficient and appropriate audit evidence, enabling Mr. Sushil to form an independent and objective opinion on the financial statements of Manhattan Constructions Private Limited.

12. **(a)** The above situation involves an engagement to perform agreed-upon procedures. In such an engagement, the auditor is engaged by the client to issue a report of factual findings based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

The management has requested CA. Karuna to take up the assignment and prepare report for management in accordance with professional standards. Such type of engagement and its reporting falls in purview of SRS 4400. The reference to auditor in SRS 4400 does not imply that a person performing related services need necessarily be the auditor of entity's financial statements. Hence, a person performing related services need not necessarily be auditor of entity's financial statements. Therefore, it was proper for CA. Karuna to accept above engagement.

(b) While reporting, she should take following precautions so that readers of report do not misunderstand its scope: -

- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- A statement that, had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole.

13. When the user entity uses the services of a service organisation, objectives of auditor of user entity are:

(a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and

(b) To design and perform audit procedures responsive to those risks.

Therefore, it is in line with above requirements, that auditors of STAR Limited require an assurance report from auditors of Little Solutions Private Limited. SA 402 casts such responsibility on user auditors.

In accordance with requirements of SAE 3402, auditors of Little Solutions Private Limited should provide a type 2 report to auditors of STAR Limited. As auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions Pvt. Ltd. throughout the year and type 2 report deals with such matters, type 2 report should be provided by the auditors of the Little Solutions Pvt. Ltd. Type 2 report is a report on the description, design and operating effectiveness of controls at a service organization whereas type 1 report is a report on the description and design of controls at a service organization.

(c) The opinion of auditors of Little Solutions Pvt. Ltd. would state whether, in all material respects, based on suitable criteria: -

- The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
- The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.

14. The strengths of blockchain can also be its weaknesses. The inability to reverse transactions and to access data without the required keys make the system secure but also means that organisations need specific protocols and management processes to ensure that they are not locked out and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important.

Auditors should consider the appropriate governance and security around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain interacts with legacy systems and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored. Weak blockchain application development protocols are something auditors cannot overlook. Similarly, data privacy laws and regulations may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on blockchain will expose the enterprise for non-compliance with applicable laws and regulations.

Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The regulatory landscape is still evolving for blockchain so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

15. The design of above control instituted by bank in its system is not in accordance with the regulatory guidelines. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date which is fixed by the bank, the borrower accounts are flagged as overdue by the banks as part of their day-end processes for the due date.

Classification of borrower accounts as SMA as well as NPA is done as part of day-end process for the relevant date. SMA or NPA classification date is the calendar date for which the day end process is run. In other words, the date of SMA/NPA reflects the asset classification status of an account at the day-end of that calendar date.

In the given situation, due date of a loan account is March 31, 2023, and full dues are not received by the bank before it runs the day-end process for this date, the date of overdue shall be March 31, 2023 and not 1st April, 2023.

If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2023 [i.e. upon completion of 30 days of being continuously overdue]. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2023.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2023 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2023.

16. In the provided scenario, Saha & Associates, a Chartered Accountant firm, was appointed by the Comptroller and Auditor General (C&AG) to conduct a Performance Audit of Herbal Ltd., a Public Sector Undertaking (PSU) of the Government of India. The audit, however, primarily focused on verifying that all expenses of the unit were in conformity with public interest and publicly accepted customs, which does not align with the essence of a Performance Audit.

A Performance Audit is characterized as an impartial and systematic examination of evidence aimed at providing an independent assessment of the performance of a government organization, program, activity, or function. The ultimate goal is to furnish information that enhances public accountability and aids decision-making by entities responsible for oversight or corrective action.

In the context of PSUs, Performance Audits are conducted by the C&AG, specifically through various subordinate offices of the Indian Audit and Accounts Department (IAAD). The auditing process adheres to manuals and standards set by the C&AG, guiding subordinate offices in evaluating the economy, efficiency, and effectiveness of policies, programs, organizations, and management.

The objectives of Performance Auditing encompass promoting accountability by aiding governance and oversight bodies in enhancing performance and fostering transparency by providing insights into the management and outcomes of diverse government activities. The focus is on areas where adding value holds the greatest potential for development, thereby encouraging responsible parties to take appropriate actions.

The Regulations on Audit and Accounts issued by C&AG outline that the responsibility for developing measurable objectives, performance indicators, and measurement systems rests with Government departments or Heads of entities. They are further required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardize unit delivery costs, and benchmark the quality of outputs and outcomes.

Therefore, the rejection of the audit report submitted by Saha & Associates by the C&AG is warranted. This is because the audit conducted by the firm, which primarily aimed at checking the conformity of expenses to public interest and accepted customs, does not align with the comprehensive nature of Performance Audits, which evaluate various aspects of economy, efficiency, and effectiveness.

17. In the given situation, CA. Sanjana has recently joined as Chief Internal Auditor in Up Scale Limited, a listed company. As a Chief Internal Auditor, CA. Sanjana is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. The responsibility to implement the action plans remains with the management. In monitoring and reporting of prior audit issues, the responsibility of the CA. Sanjana as internal auditor is usually in the form of an "Action Taken Report (ATR) of previous audits". The term "Monitoring and Reporting" refers to the periodic tracking of issues raised during prior audits and evaluation of the corrective actions undertaken by the auditee to resolve them and to report any open and pending matters to the management and those charged with governance.

CA. Sanjana should review whether follow-up action is taken by the management on the basis of his report. If no action is taken within a reasonable time, she should draw the management's attention to it. Where the management has not acted upon the suggestions or not implemented the prescribed recommendations, she should ascertain the reasons thereof.

Where the management has accepted recommendations of the CA. Sanjana and initiated the necessary action, she should periodically review the manner and the extent of implementation of the recommendations and report to the management highlighting the recommendations which have not been implemented fully or partly.

18. Environment, Social and Governance (ESG) reporting is all about disclosure of information, data, metrics that explain the added value in following three areas:

Environment

Environmental stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation, and treatment of animals. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on. Thus, one is dependent on the environment for carrying out its operations.

Social

It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business and the value chain involved. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

Governance

It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders. Every entity, which is itself a legal creation, requires governance.

ESG reporting can be both quantitative and qualitative in nature. Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to each area in order to measure progress against goals and report on achievements. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

United Nations members states adopted Sustainable Development to provide a blueprint which mentioned the Sustainable Development Goals (SDGs). They recognized that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Corporates can contribute to SDGs due to their capacity to provide solutions necessary for meeting SDGs. Companies can lead in innovation and contribute to achievement of Sustainable Development Goals.

19. (a) (1) **Restriction on fees based on a Percentage**: According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

However, Regulation 192 exempts Chartered Accountants in practice to charge fees based on a percentage of profits or contingent upon findings or results for professional work for certain professional services.

Regulation 192 specifically states that in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.

Conclusion: Consequently, CA. Pankaj shall not be deemed to be guilty of professional misconduct, as he is within the permissible scope of charging fees based on a percentage of the property valued.

(2) **Failed to Supply Information Called For:** In accordance with Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949, a member, whether in practice or not, is considered to be engaged in professional misconduct if he fails to provide the information requested or does not comply with the requirements set forth by the Institute, Council, or any of its Committees, including the Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board, or the Appellate Authority.

Conclusion: Therefore, in the given scenario, CA. Anita has neglected to respond to the Institute's letters seeking confirmation of her appointment date and has not submitted her membership certificate. Consequently, she is deemed to be guilty of professional misconduct as given in Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949.

(b) **Disclosure of Client's Information:** Confidentiality is one of fundamental principles governing professional ethics. Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, addresses professional misconduct related to the disclosure of information by a chartered accountant in practice concerning the business of their clients. Such disclosure to any person other than the client, without the client's consent or unless mandated by prevailing law, is considered a breach of conduct. The Code of Ethics emphasizes that this duty continues even after the completion of the assignment, except when disclosure is necessary for the performance of professional duties.

In the provided case, CA. Johny disclosed significant information about his client's business without obtaining the client's consent, believing that it would enhance the audience's understanding of the topic.

Conclusion: Therefore, this action of CA. Johny constitutes professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

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

Therefore, CA. Tanya 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, CA. Tanya is wrong in delegating signing of financial statements to his staff.

Conclusion: In view of this, CA. Tanya would be held 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.