

Mock Test Paper - Series I: September, 2024

Date of Paper: 13th September, 2024

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Mr. Rajan, the CEO of a mid-sized company, has received an email requesting him to urgently update his account details due to a supposed security breach. The said email, appears to be received from the Company's bank accounts, looks official due to use of bank's logo and branding. Such email also includes a link to a website that resembles the bank's login page. Concerned about the security of the company's finances, Mr. Rajan clicks on the link and enters his login credentials.

Later, the company's IT department detects unauthorized access to the company's financial accounts and identifies that the CEO's credentials were compromised. Identify the type of cyberattack that Mr. Rajan fell victim to:
 - (a) Smishing
 - (b) Whaling
 - (c) Spear Phishing
 - (d) Vishing
2. DFL Ltd. has invited tenders for the appointment of statutory auditors, as M/s Cross Ltd., the previous auditor has retired due to completion of terms of engagement. The tender is exclusively for Chartered Accountants. M/s SDS & Co. has submitted its tender quoting the fees for audit engagement considering the size and nature of business. The contract was awarded to M/s SDS & Co., and they were appointed as statutory auditors for 3 years from the financial year 2023-24. Whether M/s SDS & Co. will be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.

- (a) Yes, SDS & Co. will be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
 - (b) No, SDS & Co. will not be held guilty of professional misconduct under clause (6) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
 - (c) Yes, SDS & Co. will be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
 - (d) No, SDS & Co. will not be held guilty of professional misconduct under clause (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.
3. M/s Pihu & Associates are the statutory auditors of Brick Ltd. for FY 2023-24. During the audit, CA Arpit, the engagement partner noticed the following:
- Notices received from various regulatory authorities.
 - Payments of various fines and penalties.
 - Unusual cash payments.
 - Payments to various government employees not supported by any document.
 - Heavy payments to legal counsels.
- CA Arpit should consider the above as indicative of:
- (a) Doubt on Internal Controls of Brick Ltd.
 - (b) Doubt of non-compliance with laws by Brick Ltd.
 - (c) Doubt on the accounting system of Brick Ltd.
 - (d) Doubt on the going concern assumption of Brick Ltd.

Case Scenario I [MCQ 4-8]

MNO Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, MNO Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, MNO Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditor in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor

of MNO Ltd. in the FY 2023-24. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of preceding period.

During the audit, the auditor observed that the company is unable to pay its creditors on time. The company is also not able to properly comply with the terms of the loan agreement with the banks. Moreover, several key ratios are also adverse. In view of the above, the auditor asked management to provide assessment of going concern, however the management did not provide the same. Despite following up, the management did not provide the requested assessment. As a result, the auditor documented the request and follow-up regarding the going concern assessment in the working papers.

Apart from the above, the company has one accounting software for maintaining its books of accounts, which does not have any feature of edit log (Audit Trail). Accordingly, the auditor reported the said fact of not having the facility of edit log under the heading Other Legal & Regulatory Requirements-Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 in the main audit report.

Apart from above facts, the several important financial information of MNO Limited during the year ended 31st March 2024 are tabulated as below: (₹ In Crore)

Sr. No	Particular	Amount (₹)
1.	Paid Up Share Capital	10
2.	Deficit balance in Profit & Loss Account	11.47
3.	Turnover	85
4.	Inventory*	15
5.	Cash Loss	2.95
6.	Operating Loss	1.97

*Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.

Based on above facts, answer the following MCQs

4. As per the requirement of SA 570, how auditor should deal in the matter of unwillingness of management to provide for the assessment relating to going concern?
- (a) Auditor should report such matters in the section of Key Audit Matter.
 - (b) The auditor should properly document evidence relating to asking management and its subsequent follow up with the management for assessment on going concern and accordingly should express unmodified opinion.
 - (c) Auditor should report such matters in Emphasis of Matter Paragraph Section.
 - (d) Auditor should express modified opinion in his audit report.

5. As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?
- (a) The auditor should rely on the management explanation regarding the inventory lying with the third party.
 - (b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.
 - (c) The auditor should verify the inventory lying with the company.
 - (d) The auditor should take written representation only from the management regarding the inventory lying with the third party.
6. State the amount required to be reported by the auditor of MNL Ltd., under clause 3(xvii) of Para 3 of CARO, 2020 on account of losses during the year under consideration.
- (a) ₹ 4.92 Crore
 - (b) ₹ 1.97 Crore
 - (c) ₹ 2.95 Crore
 - (d) ₹ 11.47 Crore
7. According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year?
- (i) Closing balances of the preceding period have been correctly brought forward to the current period.
 - (ii) Performing specific audit procedures to obtain evidence regarding its opening balances.
 - (iii) Determining whether the opening balances reflects the application of appropriate accounting policies.
- (a) Only (i)
 - (b) Only (iii)
 - (c) Only (i) and (iii)
 - (d) (i), (ii) and (iii)

Case Scenario II [MCQ 8-10]

EFG Ltd., incorporated in 1984-85, has distinguished itself as one of the most rapidly growing non-banking financial companies (NBFCs) having principal business of granting loans. Its head office is situated in Pune, a city renowned for its dynamic financial and industrial sectors. Remarkably, EFG Ltd. holds the notable achievement of being among the first NBFCs to be listed on the stock exchange, which underscores its longstanding and influential presence in the financial market. Over the years, the company has demonstrated an unwavering

commitment to regulatory compliance by consistently adhering to the Securities and Exchange Board of India's (SEBI) Listing Obligations and Disclosure Requirements Regulations of 2015. This steadfast adherence ensures that all its operations align with the rigorous standards set by regulatory authorities, thereby reinforcing its credibility and trustworthiness among investors and stakeholders.

M/s SDS & Co. thoroughly obtained the knowledge and background of the company, including an understanding of the legal and regulatory requirements applicable to the company.

During the audit of the financial statements, auditor observed that, the company has violated one of the prudential guidelines of RBI as applicable to the company relating to the acceptance of public deposit. Since the company was non deposit taking, and in one case during the year under consideration, the company had accepted the public deposit. In this regard, the management has also provided a detailed note in the financial statements and subsequently also repaid the said deposit in the next financial year. Considering the said note, the auditor feels that the matter is important and required attention of the users of the financial statements.

The auditor of EFG Ltd. sent confirmation requests to 14 debtors (to whom loan has been granted) to confirm the year-end balances as per SA 505. The said requests were designed in such a way that debtors will directly respond to the auditor only when they disagree with the same.

Based on above facts, answer the following MCQs

8. Considering the nature of the business, which Reporting clauses of CARO, 2020 would be applicable from below: -
- (i) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934
 - (ii) In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
 - (iii) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.
 - (iv) Whether the company has provided any loans, guarantee or provided security to any other entity.
- (a) Only (i) and (iii)
 - (b) Only (i), (ii) and (iii)
 - (c) Only (i) and (ii)
 - (d) Only (i), (ii) and (iv)

9. What is the auditor's responsibility when the audit of EFG Ltd. for the previous year has not been conducted by the current auditor i.e. M/s SDS & Co.?
- (i) The auditor needs to report such matters in the other matter paragraph in the main audit report.
 - (ii) The auditor needs to report such matter in the emphasis of matter paragraph.
 - (iii) The auditor shall be responsible for obtaining sufficient and appropriate audit evidence that the opening balances does not contain any material misstatement.
- (a) Both (i) & (iii)
 - (b) Both (ii) & (iii)
 - (c) Only (ii)
 - (d) Only (i)
10. In the given case, what is the reporting requirement in relation to SA 250, on the part of auditor, with reference to violating guidelines by the company relating to the acceptance of public deposit?
- (a) The auditor is required to report such matters in the main audit report under the head other matter paragraph section only.
 - (b) The auditor is required to report such matters in the main audit report under the head Emphasis of Matter paragraph section only.
 - (c) Apart from reporting under the Emphasis of Matter paragraph, the auditor is also required to report to RBI.
 - (d) Apart from reporting under the Other Matter paragraph, the auditor is also required to report to RBI.

Case Scenario III [MCQ 11-15]

CA Ram and CA Lakshman are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative, however, the person declined the same informing that this act was against professional ethics and will lead to disciplinary action from ICAI.

The partner of M/s AK & Associates is a close friend of CA Ram. The firm was involved in an audit of a listed company which was required to submit Business Responsibility and Sustainability Report (BRSR). The company being audited was into thermal energy production business in India. They had submitted details about the total emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years. Since CA Ram had undergone a course on Sustainability Reporting, he was approached for getting advice on what needs to be reported in the BRSR of the company. As a gesture for helping the firm, the partner of the firm suggested CA Ram's name to

the post of becoming a member in the Board of Management of KYC Co-operative Bank, a Primary (Urban) Co-operative Bank and a client of AK & Associates. Upon hearing the same, CA Lakshman requested Ram not to take up the post as it would lead to professional misconduct.

CA Ram was acting as an internal auditor of PL Technologies Private Limited. The company decided to raise more funds for expanding its business across the country by including new age technological services such as AI. Ram was observing the business model and the way in which the company was operating for quite some time, and he was keen on investing in the company. As a result, he decided to invest in the company's shares and ended up acquiring 9.75% of the shares (total face value of the shares acquired was ₹ 4.75 lakhs) of the company during the financial year. CA Lakshman got to know about this information, and he immediately urged Ram to resign from the being the internal auditor of PL Technologies Private Limited, for the reason that an internal auditor cannot hold any shares in the company, and it will lead to professional misconduct and also failure to comply with the provisions of the Companies Act, 1949. However, Ram did not accept the argument of Lakshman, and he said that nothing will happen because of him acquiring 9.75% shares in the company and continuing to act as its internal auditor.

CA Lakshman was the statutory auditor for GH Finance Private Limited, a NBFC head quartered in India. The company's treasury department had undergone changes in the recent past and the current set of team members did not have much experience in handling the treasury functions. Due to this situation, the company reached out to their auditor CA Lakshman who was also into equity research advisory apart from CA practice, to support the company and the members of its treasury department for a brief period by giving Investment Advisory Services, to ensure efficient utilization and management of the funds of the company. Before committing anything on the offer, CA Lakshman wanted to consult with CA Ram as to whether the service requested by the NBFC can be performed by him.

11. Whether the act of conducting joint training session on GST by CA Ram & Lakshman and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?
 - (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Lakshman are guilty of professional misconduct.
 - (b) Yes, CA Ram & Lakshman will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.
 - (c) Yes, this is a case of solicitation of client whereby, CA Ram can influence clients of CA Lakshman and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule.

- (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for 2 or more CA in practice collectively to have joint training session for their clients on GST, and share the fee collected from the clients thereof.
12. With regards to the BRSR reporting on the data of total emissions & the future energy consumption plans of the company, how do you treat them?
- (a) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
- (b) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and needs to be mandatorily disclosed in the BRSR.
- (c) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
- (d) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.
13. The futuristic plan which the company has for its energy consumption can be categorized under which principle of National Guidelines on responsible business conduct?
- (a) Principle 1 – Ethics, Transparency and Accountability
- (b) Principle 6 – Protection and Restoration of Environment
- (c) Principle 4 – Respect for Stakeholder’s Interests and Responsiveness
- (d) Principle 7 – Influence on Public and Regulatory Policy
14. By accepting the offer to become a member of the Board of Management of KYC Co-operative Bank, do you think that CA Ram would be held guilty of professional misconduct?
- (a) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
- (b) It is permissible for a CA in practice to become a member of the board of management in primary (Rural) co-operative banks. Hence, CA Ram would be held guilty of professional misconduct if he accepts the offer.
- (c) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Ram would not be held guilty of professional misconduct if he accepts the offer.

- (d) Yes. CA Ram would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Ram is getting this offer as a reciprocation for helping AK & Associates.
15. In the given case, it is mentioned that CA Lakshman is a practicing CA and is also engaged as an Equity Research Advisor. Do you think that CA Lakshman will be held guilty of professional misconduct as per the provisions of the Chartered Accountant Act, 1949?
- (a) No. A CA in practice may be an equity research advisor, but he cannot publish retail reports as it would amount to other business or occupation. Thus, if CA Lakshman doesn't publish any reports, he will not be held guilty of professional misconduct.
- (b) Yes. As per clause 11 of Part I of First Schedule CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.
- (c) A CA in practice cannot be an Equity Research Advisor, for his existing clients or for any other person. Hence, CA Lakshman will be held guilty of professional misconduct.
- (d) Yes. As per clause 11 of Part I of First Schedule read with Part III of Second Schedule, CA Ram would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

*Attempt any **four** questions from the rest.*

1. (a) Spice Ltd., FMCG company, having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in South Africa and Vietnam. M/s Dharam & Associates are the statutory auditors of the company for the financial year 2023-24. During the audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statements being Joint venture investment in Croptop Ltd. representing over 89% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Croptop Ltd. is carried at ₹ 120 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report. **(5 Marks)**

- (b) As auditor of Growth Limited, you have sent positive confirmation requests to 45 creditors of the company in March 2024. All of the creditors in the informal sector are small concerns. You choose to send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with the CFO of the company. The CFO is cooperative and does not raise any hassles in the matter.

Responses to confirmation requests are received within a week's time. Your articled clerk informs you that out of above 45 creditors, GST registrations of 38 concerns have been cancelled during financial year 2023-24 itself by collating information from GST portal. He further informs you that there are no fresh registrations pertaining to PANs of these parties.

How would you proceed to deal with the situation as auditor of the company? **(5 Marks)**

- (c) CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2024. However, it becomes known to CA Shobit that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss, how, CA Shobit should proceed to deal with above issue. **(4 Marks)**

2. (a) CA J is the statutory auditor of branch of a nationalized bank. During the audit, he is also focusing upon verification of Current Accounts & Savings Accounts (CASA) maintained at the branch. Suggest a few audit procedures he should follow. **(5 Marks)**
- (b) Mr. Aditya, a Chartered Accountant was the auditor of 'DRAW Limited'. During the financial year 2023-24, the investment appeared in the Balance Sheet of the company of ₹ 23 lakh and was the same amount as in the last year. Later on, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**
- (c) CA Kabir, an auditor assigned to conduct a remote audit of Beetal Limited. The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Kabir address to ensure the effectiveness and security of the remote audit? **(4 Marks)**

3. (a) Deepti & Co., Chartered Accountants, during the audit of a Magma Ltd. found that certain machinery had been imported for production of new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? **(4 Marks)**
- (b) Singh Ltd. is a company registered under the Companies Act, 2013. The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures/securities issued by government or local authorities. For the year ended 31st March 2024 following are some extracts from the financial statements:
- | | |
|--|--------------|
| (i) Paid-up share capital | ₹ 50 Cr. |
| (ii) Non-Current Assets - Loans & Advances | ₹ 61.75 Cr. |
| (iii) Current Assets - Loans and advances | ₹ 312.25 Cr. |
| (iv) Total assets of the company | ₹ 620 Cr. |
| (v) Intangible assets | ₹ 12 Cr. |
| (vi) Profit for the Year | ₹ 7.25 Cr. |
| (vii) Income from interest and dividends | ₹ 68 Cr. |
| (viii) Gross income | ₹ 118.75 Cr. |
- Directors intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise **(5 Marks)**
- (c) CA Shubh, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Shubh accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Varun informed him that now he cannot retain full time certificate of practice, thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**
- 4 (a) Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:
- (i) In the financial year 2023-2024, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd. Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company in exchange for a larger plot owned by

Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land.

Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.

- (ii) On 15th May, 2023, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as "assessee in default". The company has not deposited demand raised and filed appeal against impugned order on 1st March, 2024 under e-appeals scheme with JCIT (Appeals). **(5 Marks)**

- (b) One of the independent directors sought information regarding the appointment of internal auditors for the following Group Companies in accordance with the Companies Act, 2013 of which certain financial information are given below:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
XYX Limited	Listed	100	230	20	48
MNM Limited	Unlisted Public	60	100	50	24
GFG Limited	Unlisted Private	70	180	80	-

You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss.

(5 Marks)

- (c) Pitch Private Limited requested CA Angad, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Ravi, one of the Director of Pitch Private Limited, along with the copy of resignation letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Ravi was simply copied and pasted by another Director of Pitch Private Limited. CA Angad, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

5. (a) SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw.

(5 Marks)

- (b) CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA H regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors?

(5 Marks)

- (c) During the audit of Indo limited, CA Harish observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk.

Discuss with reference to the relevant Standards on Auditing. **(4 Marks)**

6. (a) You are engaged by M/s Viva Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state.

The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same?

(5 Marks)

- (b) Shri Limited, a listed Company, having its registered office at Mumbai is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside

the factory, the level of pollution is kept at a level below the prescribed standard. The company managed to get the pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. The amount of ₹ 18.75 Lacs had been incurred for arranging clearance certificate and the amount incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached those in governance, and the Director-Finance, who is a Chartered Accountant, came to know of these matters on review of major expenditure incurred during the period. Comment the action/responses expected of Director - Finance (CA Gopal) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics. **(5 Marks)**

- (c) Vicky is a financial analyst working for a large corporation that is considering the acquisition of a mid-sized manufacturing company. The initial financial statements provided by the target company appear to be in order, showing profits and a solid asset base. However, his team is concerned about potential risks that may not be immediately visible in the financial documents provided.

Guide Vicky on what specific aspects should be focused during due diligence to ensure that there are no hidden liabilities in this deal?

(4 Marks)

OR

CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited financial statements for the financial year 2023-24. Now, the management of the company has prepared summary financial statements derived from the audited financial statements and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary financial statements? **(4 Marks)**

Mock Test Paper - Series I: September, 2024

Date of Paper: 13th September, 2024

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

1. (c)
2. (a)
3. (b)
4. (d)
5. (b)
6. (c)
7. (d)
8. (b)
9. (a)
10. (c)
11. (d)
12. (a)
13. (b)
14. (c)
15. (a)

Part II - DESCRIPTIVE QUESTION

1. (a) M/s Dharam & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 89% of the group's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements. Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion paragraph and basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We were engaged to audit the accompanying consolidated financial statements of Spice Ltd., (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the

consolidated balance sheet as at March 31, 2024, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the “Consolidated Financial Statements”).

We do not express an opinion on the accompanying consolidated financial statements of the group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

The Group’s investment in its joint venture Croptop Ltd. company is carried at ₹ 120 crore on the Group’s consolidated balance sheet, which represents over 89% of the Group’s net assets as at March 31, 2024. We were not allowed access to the management and the auditors of Croptop Ltd., including audit documentation of auditors of Croptop Ltd. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group’s proportional share of Croptop Ltd.’s assets that it controls jointly, its proportional share of Croptop Ltd.’s liabilities for which it is jointly responsible, its proportional share of Croptop Ltd.’s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

- (b) SA 505, “External Confirmations”, states that if the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

In the instant case, GST registrations of 38 concerns have been cancelled in the year 2023-24. It indicates that businesses at those addresses were closed. Further, there are no fresh registrations pertaining to the PANs of these parties. However, the auditor sent external confirmation requests in March 2024, which were duly responded. It raises questions on the reliability of responses received.

SA 500, “Audit Evidence” indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include:

- Was received by the auditor indirectly or
- Appeared not to come from the originally intended confirming party.

Keeping in view the circumstances described in the given situation, there is a risk that the response has not come from the originally intended confirming party. Unreliable responses may indicate a fraud risk factor that requires evaluation.

- (c) In the given case, the auditor has come to know the legal claim against the company before the issuance of the audit report. It has also come to his knowledge that the management of the company has agreed to an out of court settlement of ₹ 4 crore.

This is an example of a subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements.

Further as per SA 560, "Subsequent Events", the auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all the events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

CA Shobit should ensure that appropriate adjustments and disclosures are made by the management. In the absence of the same, he should consider the impact of the said event and report accordingly.

2. (a) Audit procedure to verify Current Accounts and Saving Accounts are:

- Verify on a sample basis current account and saving accounts opened during the year for adherence to KYC norms. Verify that saving accounts are opened in name of individuals, HUF, some approved institutions like trusts, educational institutes etc. Remember that saving accounts are not opened for business or professional concern. The business transactions are carried in current accounts which can be opened for all kind of customers like companies, individuals, partnership firms etc.
- Verify the balances in individual accounts on a sample basis.
- Check the calculations of interest on a test check basis. Remember that no interest is paid generally on current accounts by banks.
- Examine whether the procedure for obtaining balance confirmation periodically has been followed consistently. Examine, on a sampling basis, the confirmations received.
- Ensure that debit balances in current accounts are not netted out on the liabilities side but are appropriately included under the head 'advances'.
- Inoperative accounts (both current and saving) are a high-risk area of frauds in banks. As per RBI guidelines, a savings/ current

account should be treated as inoperative/dormant if there are no transactions in the account for over a period of two years. Verify on a sample basis some of inoperative accounts revived/closed during the year. Ensure that inoperative accounts are revived only with proper authority. In this regard, cases where there is a significant reduction in balances of such accounts as compared to previous year, examine authorisation for withdrawals.

- (b) As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he, certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice, under Clause (2); does not exercise due diligence, or is grossly negligent in the conduct of his professional duties, under Clause (7); or fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under Clause (8).

The primary duty of physical verification and valuation of investments is of the management. However, the auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day of the accounting year. The auditor should verify the documentary evidence for the cost/value and physical existence of the investments at the end of the year. He should not blindly rely upon the management's representation.

In the instant case, the investment of ₹ 23 lakh appeared in the Balance Sheet of the company and was the same amount as in the last year. Later, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of bank loan. Such non-verification happened for two years. It also appears that auditors failed to confirm the value of investments from any proper source. In case auditor has simply relied on the management's representation, the auditor has failed to perform his duty.

Thus, in view of above, CA Aditya will be held liable for professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

- (c) **Key considerations that CA Kabir should address for effectiveness and security of the remote audits are:**

Feasibility and Planning

- Planning should involve agreeing on audit timelines, meeting platform (Zoom calls/ Microsoft Teams/Google Meet) to be used for audit sessions, data exchange mechanisms, any access authorization requests. Ensure feasibility is determining what

technology may be used, if auditors and auditees have competencies and that resources are available.

- The execution phases of a remote audit involve video/tele conferencing with auditees. The documentation for audit evidence should be transferred through a document sharing platform.

Confidentiality, Security and Data Protection

- To ensure data security and confidentiality, access to document sharing platform should be sufficiently restricted and secured by encrypting the data that is sent across the network. The information, once reviewed and documented by auditor, is removed from the platform, and stored according to applicable archiving standards and data protection requirements.

Auditors should take into consideration legislation and regulations, which may require additional agreements from both sides (e.g., there will be no recording of sound and images, or authorizations to using people's images). Auditors should not take screenshots of auditees as audit evidence. Any screenshots of documents or records or other kind of evidence should be previously authorized by the audited organization. In case of accessing the auditee's IT system auditor should use VPN (Virtual private network). VPN is a service which creates safe and encrypted online connections. It prevents unauthorized users to enter into the network and allows the users to perform work remotely.

Risk assessment

- The communication from auditor as well as auditees need to clear and consistent, and this becomes crucial during remote audit. The risks for achieving the audit objectives are identified, assessed and managed. The assessment if remote audit would be sufficient to achieve the audit objectives should be done and documented for each audit involving all members of the audit team and the audited organization representative.

3. (a) As per SA 320, "Materiality in Planning and Performing an Audit", when establishing the overall audit strategy, the auditor shall determine materiality for the financial statement as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused

the auditor to have determined a different amount (or amounts) initially. If the auditor concludes a lower materiality for the same, he shall determine whether it is necessary to revise performance materiality and whether the nature, timing and extent of the further audit procedures remain appropriate.

In the given case, Deepti & Co., as an auditor has applied the concept of materiality for the financial statements as a whole. But they want to re-evaluate the materiality concept on the basis of additional information of import of machinery for production of new product which draws attention to a particular aspect of the company's business.

Thus, Deepti & Co. can re-evaluate the materiality concepts after considering the necessity of such revision.

- (b)** In order to identify a particular company as Non-Banking Financial Company (NBFC), it will consider both assets and income pattern as evidenced from the audited balance sheet of the previous year to decide its principal business. The company will be treated as NBFC when
- (i) Financial assets of the company constitute more than 50 percent of the total assets (netted off by intangible assets) and
 - (ii) Income from financial assets of the company constitutes more than 50 percent of the gross income.

A company which fulfils both these criteria shall qualify as an NBFC and would require to be registered as NBFC by RBI.

In the given case of Singh Ltd, its financial assets are ₹ 374 Crore i.e., (₹ 61.75 + ₹ 312.25)

Total Assets (netted off by intangible assets) = ₹ 608 Crore

Income from financial assets = ₹ 68 Crore

Gross Income = ₹ 118.75 Crore

From the above, it can be concluded that financial assets of Singh Ltd. constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets of Singh Ltd. constitutes more than 50 per cent of the gross income. Hence, Singh Ltd. fulfills both the criteria to qualify as an NBFC.

Thus Singh Ltd. can apply for registration under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997 in prescribed form along with the necessary documents.

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

As per the Guidelines for Corporate Form of Practice, the Council has allowed the members in practice to hold the office of Managing Director,

Whole-time Director or Manager of a body corporate within the meaning of the Companies Act, 2013 provided that the body corporate is engaged exclusively in rendering Management Consultancy and Other Services permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the conditions(s) as specified by the Council from time to time in this regard. The name of the Management Consultancy Company is required to be approved by the Institute and such a Company has to be registered with the Institute.

The members can retain a full-time Certificate of Practice besides being the Managing Director, Whole-time Director or Manager of such management consultancy company. There will be no restriction on the quantum of the equity holding of the members, either individually and/ or along with the relatives, in such a company. Such members shall be regarded as being in full- time practice and therefore can continue to do attest function either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

In the given case, CA Shubh, a Chartered Accountant specializing in Information Systems Audit and considered an expert in the field, was offered the position of Managing Director by ZX Limited, a management consultancy firm. He accepted the role without obtaining prior permission from the Institute of Chartered Accountants of India

From the above provisions, it can be concluded that the action of CA Shubh is valid.

4. (a) (i) The auditor is required to report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020 which states that whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.

Further, as per Clause (xiii) of Paragraph 3 of the CARO, 2020, auditor should report whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards.

In the given situation, Candy Ltd. has entered into non-cash transactions with one of the directors, Mr. Sidhant during the year, by transferring the property (by Mr. Sidhant) in favour of the Company in a deed of exchange of a site owned by the company.

Thus, the auditor is required to report the same as per Clause (xv) and Clause (xiii) of Paragraph 3 of the CARO, 2020.

- (ii) As per clause (vii) (b) of Paragraph 3 of CARO,2020, the auditor is required to report where statutory dues have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

In the given situation, the survey team pointed out certain lapses regarding non-deduction of TDS and demand raised by DCIT(TDS). TDS dues are in the nature of statutory dues and the company has filed appeal against order of DCIT (TDS) raising a demand of ₹ 25 lacs with JCIT (Appeals). Therefore, these are in the nature of disputed statutory dues. Thus, it should be reported in accordance with Clause (vii) (b) of Paragraph 3 of CARO, 2020.

(b) As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of the Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

(A) every listed company;

(B) every unlisted public company having-

- (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or
- (2) turnover of two hundred crore rupees or more during the preceding financial year; or
- (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
- (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

- (1) turnover of two hundred crore rupees or more during the preceding financial year; or
- (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, XYX Limited is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of the above, XYX Limited is required to appoint an internal auditor.

Further, MNM Limited is unlisted public company. The company is having ₹ 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, MNM Limited is required to appoint an internal auditor as per section 138 of the Companies Act, 2013.

GFG Limited is unlisted private company and having ₹ 70 crore as equity share capital, ₹ 180 crore as turnover and ₹ 80 crore loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below the prescribed limit for a private company. Therefore, GFG Limited is not required to appoint an internal auditor.

It can be concluded that XYX Limited and MNM Limited are required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas GFG Limited is not required to do the same.

- (c) As per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

In the given case, Pitch Private Limited requested CA Angad, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Ravi, one of the Directors of Pitch Private Limited, along with the copy of Resignation Letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Ravi was simply copied and pasted by another Director of Pitch Private Limited.

CA Angad, without verifying the genuineness of the Resignation Letter, digitally signed the Form and the said form was uploaded on the website of Registrar of Companies.

Due to forged resignation letter, the resignation of Mr. Ravi from directorship of the Pitch Private Limited had been occurred. It was noted that CA Angad had not taken any step to verify forged signature on resignation letter which anyone would have taken in normal circumstances.

Hence, CA Angad would be held liable for professional misconduct as per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

5. (a) As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, SPS & Associates, Chartered Accountants, statutory auditors of Grec Limited for the last two years, came to know that the company has expanded its operations into a new segment as well as in new country. SPS & Associates does not possess the necessary expertise for the same, therefore, SPS & Associates wish to withdraw from the engagement and client relationship. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.

If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with

governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.

Considering whether there is a professional, regulatory, or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.

Documenting significant issues, consultations, conclusions, and the basis for the conclusions.

SPS & Associates should address the above issues before deciding to withdraw.

- (b)** CA H should consider the requirement of SA 600, “Using the Work of Another Auditor”, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements and he should comply with the requirements of SA 600.

In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis.

However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- (i) The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- (ii) The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.
- (iii) The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.
- (iv) The principal auditor also obtains certain confirmations from component auditors like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements,

the principles of SA 600 need to be considered i.e. CA H (the parent auditor) should comply with the requirements of SA 600, "Using the Work of Another Auditor".

- (c) As per SA 402 "Audit Considerations relating to an Entity using a Service Organization", when obtaining an understanding of the user entity in accordance with SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment", the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:
- (i) The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;
 - (ii) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
 - (iii) The degree of interaction between the activities of the service organisation and those of the user entity; and
 - (iv) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organization.

Based on above, while conducting the audit, CA Harish will assess the effect on the audit risk and take necessary steps.

6. (a) As per SAE 3400, "The Examination of Prospective Financial Information", when determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:
- (i) the knowledge obtained during any previous engagements;
 - (ii) management's competence regarding the preparation of prospective financial information;
 - (iii) the likelihood of material misstatement;
 - (iv) the extent to which the prospective financial information is affected by the management's judgment;
 - (v) the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;
 - (vi) the stability of entity's business; and
 - (vii) the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.
- (b) In the given situation, Shri Limited, a listed company, has installed pollution control equipment for processing the pollutants to keep the level

of pollution below the prescribed standard. The company managed to get pollution certificate by unfair means whereas breach of pollution control laws still continues. For arranging clearance certificate amount of ₹ 18.75 lacs had been incurred unlawfully. CA Gopal, Director Finance, came to know about these matters on review of the same during the period.

NOCLAR, under Code of Ethics, is applicable on professional accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than Audit.

It is applicable to Senior Professional Accountants in service, being employees of listed entities. Senior professional accountants in service ("senior professional accountants") includes directors.

NOCLAR takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

As per NOCLAR, in exceptional circumstances, the professional accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted.

CA Gopal, Director-Finance is expected of taking the following action/responses:

- Obtaining an understanding of the Matter.
- Addressing the matter.
- Seeking advice.
- Determining whether further action is needed.
- Determining whether to disclose the matter to an Appropriate Authority.
- Imminent breach.
- Documentation.

- (c) The objective of the Due Diligence exercise will be to look specifically for any hidden liabilities or over-valued assets.

Example of Hidden Liabilities:

- The company may not show any show cause notices which have not matured into demands, as contingent liabilities. These may be material and important.

- The company may have given “Letters of Comfort” to banks and Financial Institutions. Since these are not “guarantees”, these may not be disclosed in the Balance sheet of the target company.
- The Company may have sold some subsidiaries/businesses and may have agreed to take over and indemnify all liabilities and contingent liabilities of the same prior to the date of transfer. These may not be reflected in the books of accounts of the company.
- Product and other liability claims; warranty liabilities; product returns/discounts; liquidated damages for late deliveries etc. and all litigation.
- Tax liabilities under direct and indirect taxes.
- Long pending sales tax assessments.
- Pending final assessments of customs duty where provisional assessment only has been completed.
- Agreement to buy back shares sold at a stated price.
- Future lease liabilities.
- Environmental problems/claims/third party claims.
- Unfunded gratuity/superannuation/leave salary liabilities; incorrect gratuity valuations.
- Huge labour claims under negotiation when the labour wage agreement has already expired.
- Unresolved labour litigations.

OR

As per SA 810, “Engagements to Report on Summary Financial Statements”, when the auditor’s report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor’s report on the summary financial statements shall, additionally:

- (a) State that the auditor’s report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- (b) Describe the basis for that adverse opinion or disclaimer of opinion; and
- (c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.