PAPER – 5:

AUDITING AND ETHICS

QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

Integrated Case Scenario (MCQs 1–5)

CA Arjun, the statutory auditor of XYZ Ltd., was engaged to conduct the audit of the financial statements for the financial year 2025-26. During the year, the company undertook a complex cross-border restructuring involving overseas subsidiaries, extensive import-export transactions and compliance with applicable foreign exchange regulations. Before accepting and continuing the engagement, CA Arjun ensured that the engagement team possessed the necessary professional competence, industry expertise and updated technical knowledge required for auditing such specialised transactions and regulatory matters.

During the course of the audit, CA Arjun identified instances of delayed realisation of export proceeds and related non-compliances with applicable foreign exchange regulations.

Management represented that the delays were temporary and expected to be resolved through ongoing negotiations with overseas customers. Management further requested that these matters should not be specifically highlighted in the audit documentation or communications with those charged with governance. Considering the company's long-standing relationship with his firm and the possibility of losing future assignments, CA Arjun intentionally avoided adequately documenting and communicating these identified non-compliances, although he continued to perform other audit procedures in accordance with the Standards on Auditing.

While auditing trade receivables arising largely from overseas operations affected by restructuring, CA Arjun obtained an ageing analysis which showed that more than 60% of receivable balances were outstanding for more than 180 days. Management explained that the delays were industry-wide and assured the auditor that the amounts were fully recoverable based on ongoing restructuring negotiations and expected settlement arrangements. The auditor, however, neither obtained external confirmations from major debtors nor examined subsequent receipts after the reporting date and instead relied primarily upon management representations and past recovery trends while concluding that the provision for bad and doubtful debts was adequate.

During the audit, CA Arjun also noted an ongoing income-tax litigation relating to disallowance of certain cross-border transaction expenses. Although the first appellate authority had ruled in favour of the company, the Income Tax Department had filed a further appeal before the High Court. While the amount involved (₹ 10 lakhs) was individually below materiality level, the auditor remained concerned about the appropriateness of management's assessment and disclosure of the contingent liability. Management relied upon a legal opinion obtained from its external legal counsel to support its conclusion that the matter would likely be decided in the company's favour. Accordingly, CA Arjun considered the procedures required under SA 501 regarding litigation and claims.

In the audit of purchases and imported raw materials, CA Arjun observed a substantial increase of nearly 40% compared to the previous year, along with concentration of procurement from a limited number of overseas vendors following the restructuring exercise. To understand these fluctuations, he performed analytical procedures including trend analysis and category-wise comparison of purchases. He also verified inward gate entry records with corresponding purchase invoices; however, such testing was restricted to selected months during the year and excluded transactions recorded close to the year-end. No additional substantive procedures were designed to specifically address the identified risk of incorrect cut-off assertion or improper recording of purchases around the reporting date.

Further, during the year XYZ Ltd. underwent several significant changes including replacement of senior management personnel, transition from the previous financial reporting framework to Ind AS, and introduction of new regulatory compliance requirements affecting financial reporting and disclosures. Despite these developments materially affecting the scope and reporting considerations of the audit engagement, CA Arjun decided to continue the engagement under the original terms agreed at the commencement of the audit without formally revising or documenting changes in the engagement letter.

On the basis of above, answer the following MCQs (1-5)

1. Which of the following best describes CA Arjun's conduct regarding the identified foreign exchange non-compliances?

   (a) He has complied with ethical requirements since substantive audit procedures were otherwise performed properly

   (b) Only professional competence is affected since the issue relates to technical interpretation of regulations

   (c) His conduct results in violation of professional behaviour and ethical responsibilities despite performing audit procedures

   (d) There is no ethical violation since management assumed responsibility for the non-compliances

2. Based on audit procedures performed for trade receivables, which of the following represents the most significant audit concern?

   (a) Risk that receivables may not exist due to fictitious sales entries

   (b) Risk that receivables are understated due to incomplete recording

   (c) Risk that receivables are overstated due to inadequate provision for bad and doubtful debts

   (d) Risk that receivables are incorrectly classified between current and non-current assets

3. In relation to the pending tax litigation and legal opinion obtained by management, which of the following procedures would be most appropriate under SA 501?

   (a) Meet the external legal counsel directly without involving management

(b) Send a direct inquiry letter independently to the external legal counsel

(c) Meet the external legal counsel only after obtaining management representation letter

(d) Send a letter of inquiry to the external legal counsel with management's permission

4. Which of the following is the most significant deficiency in the audit procedures performed for purchases and imported raw materials?

(a) Inadequate audit procedures around year-end transactions resulting in cut-off risk

(b) Excessive reliance on tests of details instead of analytical procedures

(c) Failure to perform analytical procedures for purchases

(d) Failure to verify legal existence of overseas vendors

5. Considering the significant changes during the year, which of the following best evaluates CA Arjun's decision regarding the engagement terms?

(a) No revision was necessary since audit procedures could be modified internally by the auditor

(b) Revision of engagement terms was necessary due to significant changes affecting scope of audit and reporting requirements

(c) Revision of engagement terms becomes necessary only if management formally requests such revision

(d) No revision was required since the auditor had audited the company in earlier years as well

General MCQs

6. LR & Co., Chartered Accountants, are conducting the statutory audit of Beta Exports Ltd. for the financial year ended 31st March 2026. During the audit, the engagement team is verifying the borrowings of the company.

It is observed that the company has obtained a loan denominated in foreign currency. While checking the year-end balances, the auditor verifies the closing exchange rate and recalculates the loan amount to ensure that it has been properly restated in the financial statements in accordance with applicable accounting standards.

Based on above scenario, identify the assertion that the auditor is trying to verify:

(a) Completeness

(b) Rights and obligations

(c) Valuation

(d) Existence

7. An auditor wants to ensure that he has complete knowledge of all locations where a company's inventories are stored. Since all such storage locations are stated to be taken on rent, the auditor seeks an independent source of audit evidence to verify whether all inventory storage locations have been disclosed by management:

Which of the following is the most relevant audit procedure in this regard?

(a) Inspecting GST registration certificate downloaded from GST portal

(b) Visiting locations stated in rent agreements

(c) Verifying copies of rent agreements provided

(d) Inspecting certificate of incorporation of company

8. While evaluating the reliability of audit evidence, the audit team identifies the following documents:

1. Delivery challans prepared by the company evidencing dispatch of goods to a job worker

2. Shipping bill details downloaded from the customs portal and stored in the company's system

3. Bank statements downloaded from the bank's official portal and maintained in the company's records

4. Supplier quotations received and stored in the company's official email inbox

A discussion arises among the audit team regarding classification of these documents as internal or external audit evidence, particularly considering that some documents, although generated externally, are accessed through the company's system. The engagement partner emphasizes the importance of source and reliability of evidence in accordance with Standards on Auditing.

Which of the following statements is most appropriate regarding the nature of audit evidence in the above case?

(a) 1, 2, 3 and 4 are in nature of external evidence.

(b) Only 2 and 3 are in nature of external evidence.

(c) Only 1, 2, and 3 are in nature of external evidence.

(d) Only 2, 3, 4 are in nature of external evidence.

PART II – Descriptive Questions

Chapter 1 - Nature, Objective and Scope of Audit

9. ABC Ltd., a listed company, has engaged CST & Co., Chartered Accountants, as statutory auditors to audit its financial statements for the financial year ending on 31st March, 2026. The financial statements have been prepared by the management in accordance with the applicable financial reporting framework and the requirements of the Companies Act, 2013.

During the audit engagement, the auditor evaluates the financial statements using prescribed accounting principles and auditing standards, gathers sufficient appropriate audit evidence and expresses an opinion to enhance the confidence of shareholders, investors, lenders and other stakeholders in the financial statements.

In the above context:

(a) Explain the meaning of an assurance engagement.

(b) Considering the meaning of an assurance engagement, identify the practitioner, responsible party and intended users?

(c) Discuss the elements of an assurance engagement.

Chapter 2 - Audit Strategy, Audit Planning and Audit Programme

10. KLM & Co., Chartered Accountants, were appointed as the statutory auditors of XYZ Ltd. for the financial year ended 31st March, 2026. During the planning phase, the engagement partner developed the overall audit strategy and a detailed audit plan.

While conducting the audit, certain unexpected risks relating to inventory valuation and internal control weaknesses were identified. Accordingly, the audit team modified the audit procedures, including changes in the nature, timing, and extent of testing. The engagement partner ensured that all such changes and the reasons for them were properly recorded.

Before completion of the audit, a junior auditor raised a query regarding the auditor's responsibility to document the overall audit strategy, audit plan, and significant changes made during the course of the audit together with the reasons for such changes.

With reference to SA 300 "Planning an Audit of Financial Statements", explain the auditor's documentation requirements relating to the overall audit strategy, audit plan, and significant changes made during the course of the audit together with the reasons for such changes.

Chapter 3 - Risk Assessment and Internal Control

11. PQR & Co., Chartered Accountants, are the statutory auditors of LMN Ltd. During the audit for the financial year ended 31st March, 2026, the auditor considers relying on audit evidence obtained in the previous audits regarding the operating effectiveness of certain internal controls over revenue recognition.

However, during discussions with management, it is observed that there have been some changes in personnel in the accounts department and certain IT systems have been upgraded. The auditor is evaluating whether it is appropriate to rely on audit evidence obtained in previous audits or whether fresh testing of controls is required.

In view of above, discuss the factors the auditor should consider while using audit evidence obtained in previous audits and the requirement regarding establishing its continuing relevance.

Chapter 4 - Audit Evidence

12. TUV & Co., Chartered Accountants, are appointed as statutory auditors of DEF Ltd. for the year ending on 31st March, 2026. During the audit of trade receivables, the auditors assess a high risk of material misstatement due to weak internal controls and absence of effective testing of controls.

    As a result, the audit team decides to rely more on substantive procedures, particularly tests of details, to obtain sufficient appropriate audit evidence. While planning the audit sampling, a junior auditor raises a query regarding how the assessment of risk of material misstatement impacts the sample size.

    In the above context, explain how the assessment of risk of material misstatement influences the sample size for tests of details.

13. VW & Co., Chartered Accountants, are auditing GHI Ltd., a company engaged in infrastructure development. The company has recognized significant amount of provisions relating to environmental restoration costs based on a report prepared by an external environmental expert engaged by the management.

    During the audit, the auditor considers using this report as audit evidence. However, the auditor is concerned about the reliability of the expert's work and the extent to which it can be relied upon without performing additional procedures.

    Considering above facts, explain the factors that affect the nature, timing and extent of audit procedures when audit evidence is based on the work of a management's expert.

Chapter 5 - Audit of Items of Financial Statements

14. XYZ & Co., Chartered Accountants, are statutory auditors of JKL Ltd., a manufacturing company, for the financial year ended 31st March 2026. During the audit, the engagement partner emphasises the importance of

verifying the completeness of inventories, as inventory constitutes a significant portion of total assets.

The audit team observes that inventory is stored at multiple locations, including third-party warehouses and that the company deals in consignment goods as well. Further, there are concerns regarding cut-off errors and discrepancies between physical stock and accounting records.

Having regard to above, explain the audit procedures to establish the completeness of inventories.

Chapter 6 - Audit Documentation

15. ABC & Co., Chartered Accountants, have completed the audit of PQR Ltd., a large and complex entity, for the financial year ended 31st March, 2026. During the audit, several significant matters were identified, including revenue recognition issues and valuation of financial instruments.

    Before finalising the audit file, the engagement partner suggests preparing a structured summary highlighting all key issues identified during the audit and how they were resolved. Mr. D, audit assistant queries the purpose and usefulness of such a document in audit documentation.

    With reference to the above situation, explain the concept of Completion Memorandum (Audit Documentation Summary) and its significance in audit.

Chapter 7 - Completion and Review

16. EF & Co., Chartered Accountants, are the appointed statutory auditors of UVW Ltd. for the financial year ended 31st March, 2026. During the audit, the auditor reviews management's assessment of the company's ability to continue as a going concern. The company has a consistent history of profitability and easy access to bank finance. However, management has not prepared a detailed analysis to support its assessment.

In a separate case, EF & Co. are auditing XYZ Ltd. The auditor notices that management's assessment of the entity's ability to continue as a going concern covers only 9 months from the date of the financial statements.

Explain how the auditor should evaluate management's assessment of the entity's ability to continue as a going concern in the above cases.

Chapter 8 - Audit Report

17. "Using the Work of Another Auditor" is a critical area in the audit of entities having branches or components audited by auditors other than the principal auditor.

    With reference to SA 600 – Using the Work of Another Auditor, explain:

    1. The need for coordination and proper understanding between the principal auditor and the other auditor; and

    2. The procedures to be performed by the principal auditor to evaluate and use the work of the other auditor, including circumstances where the principal auditor may need to visit the component or examine its records.

Chapter 9 - Special Features of Audit of Different Type of Entities

18. You have been appointed as the statutory auditor of a society "Bright Future Welfare Society", registered for promoting educational and social welfare activities in rural areas. The society receives donations from public, grants from government agencies and contributions from foreign donors for conducting awareness programs and skill development camps.

    During audit for the financial year 2025-26, you observe that society has incurred substantial expenditure on welfare activities, administrative expenses and purchase of educational materials. Certain expenditures were later reimbursed by specific donors based on utilisation certificates submitted by society. Further, a few complaints alleging improper utilisation of funds were filed before the Registrar of Societies and an inquiry was initiated regarding the financial condition and functioning of the governing body.

The management has also claimed exemption under the Income Tax Act and informed that the society is registered under the Foreign Contribution (Regulation) Act, 2010 for receiving overseas donations. As an auditor, explain the various audit considerations and procedures relevant in the audit of a society.

Chapter 10 - Audit of Banks

19. During the statutory audit of Pragati Bank Ltd. for the financial year ended 31st March, 2026, CA Nikhil examined the advances portfolio and noticed several irregular loan accounts. A cash credit facility granted to M/s Aarav Traders amounting to ₹ 80 lakhs had remained non-performing for 8 months.

    Another loan granted to M/s Bright Metals amounting to ₹ 120 lakhs, secured by assets valued at ₹ 90 lakhs, had remained in the doubtful category for 6 months.

    A term loan of ₹ 200 lakhs granted to M/s Crest Infrastructure, secured to the extent of ₹ 120 lakhs, continued as doubtful for 30 months.

    Further, a loan of ₹ 150 lakhs granted to M/s Delta Exports, having security value of only ₹ 40 lakhs, had remained doubtful for more than 5 years.

    In another case, an advance of ₹ 50 lakhs granted to M/s Eagle Industries was identified by the internal auditor as irrecoverable, though the same had not yet been written off by the bank.

    The management, however, made provisions that were substantially lower than the prudential requirements prescribed by the RBI. Comment on the classification of these assets and the adequacy of provisions required to be made by the bank.

Chapter 11 - Ethics and Terms of Audit Engagements

20. During the statutory audit of Cee Manufacturing Ltd. for the financial year ended 31st March 2026, CA Karan, the engagement partner of Karan & Co., observed several circumstances affecting independence of auditors. One of the partners of the audit firm held shares in the company. The audit firm had also granted a loan to one of the directors of the company. Further, fees received from Cee Manufacturing Ltd.

constituted a major portion of the firm's annual revenue and the firm was concerned that adverse reporting might result in loss of the engagement.

It was also noticed that the audit firm undertook internal audit and management consultancy services for the company during the year and these areas were now subject to statutory audit. In addition, one of the audit team members recently served as Finance Manager of the company before joining the audit firm. Identify the threats to independence arising in the above case and explain their implications.

SUGGESTED ANSWERS

PART – I: Answers to Multiple Choice Questions

MCQ No.	Answer
1.	**(c)**
2.	**(c)**
3.	**(d)**
4.	**(a)**
5.	**(b)**
6.	**(c)**
7.	**(a)**
8.	**(d)**

PART – II: Answers to Descriptive Questions

9. Meaning of Assurance Engagement

"Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished.

Identification in the given case:

(I) Practitioner: CST & Co., Chartered Accountants

(II) Responsible Party: Management of ABC Ltd.

(III) Intended Users: Shareholders, Investors, lenders and other stakeholders

Elements of an Assurance Engagement

Following elements comprise an assurance engagement: -

(i) A three party relationship involving a practitioner, a responsible party and intended users: An assurance engagement involves abovesaid three parties. A practitioner is a person who provides the assurance. The term practitioner is broader than auditor. Audit is related to historical information whereas practitioner may provide assurance not necessarily related to historical financial information.

A responsible party is the party responsible for preparation of subject matter.

Intended users are the persons for whom an assurance report is prepared. These persons may use the report in making decisions.

(ii) An appropriate subject matter: It refers to the information to be examined by the practitioner. For example, financial information contained in financial statements while conducting audit of financial statements.

(iii) Suitable criteria: These refer to benchmarks used to evaluate the subject matter like standards, guidance, laws, rules and regulations.

(iv) Sufficient appropriate evidence: The practitioner performs an assurance engagement to obtain sufficient appropriate evidence. It is on the basis of evidence that conclusions are arrived and an opinion is formed by auditor.

(v) A written assurance report in appropriate form

A written report is provided containing conclusion that conveys the assurance about the subject matter. A written assurance report is the outcome of an assurance engagement.

10. The auditor shall document:

(a) the overall audit strategy

(b) the audit plan and

(c) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

In the given facts, M/s KLM & Co. have complied with the documentation requirements by recording the audit strategy, audit plan, and all significant changes along with reasons, thereby ensuring proper audit planning and compliance with auditing standards.

11. Using Audit Evidence Obtained in Previous Audits: In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

(a) The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process

(b) The risks arising from the characteristics of the control, including whether it is manual or automated

(c) The effectiveness of general IT-controls

(d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control

(e) Whether the lack of a change in a particular control poses a risk due to changing circumstances and

(f) The risks of material misstatement and the extent of reliance on the control

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

Considering the given facts, the auditor should carefully evaluate the above factors, especially personnel changes and IT system upgrades, and establish whether the previous audit evidence remains relevant before deciding to rely on it or perform fresh testing.

12. The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be. The auditor's assessment of the risk of material misstatement is affected by inherent risk and control risk.

For example, if the auditor does not perform tests of controls, the auditor's risk assessment cannot be reduced for the effective operation of internal controls with respect to the particular assertion. Therefore, in order to reduce audit risk to an acceptably low level, the auditor needs a low detection risk and will rely more on substantive procedures. The more audit evidence that is obtained from tests of details (that is, the lower the detection risk), the larger the sample size will need to be. Thus, we can say that there will be an increase in sample size in case of an increase in the auditor's assessment of the risk of material misstatement.

As per given facts, since the risk of material misstatement is high, the auditor should increase the sample size for tests of details to obtain sufficient appropriate audit evidence and reduce audit risk to an acceptably low level.

13. When information to be used as audit evidence has been prepared using the work of a management's expert, the nature, timing and extent of audit procedures may be affected by such matters:

- The nature and complexity of the matter to which the management's expert relates.
- The risks of material misstatement in the matter.
- The availability of alternative sources of audit evidence.
- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- The nature and extent of any controls within the entity over the management's expert's work.

- The auditor's knowledge and experience of the management's expert's field of expertise.
- The auditor's previous experience of the work of that expert.

In view of above, the auditor should evaluate the above factors before relying on the environmental expert's report and determine the appropriate nature, timing and extent of further audit procedures to ensure the reliability of audit evidence.

14. Audit procedure to establish the Completeness of Inventories:

1. Perform analytical procedures (comparison tests with industry averages, budgets, prior years, trend analysis, etc.).

   — Compute inventory turnover ratio (COGS/ average inventory)

   — Perform vertical analysis (inventory/ total assets)

   — Compare budgetary expectations vis-vis actuals
2. Examine non-financial information related to inventory, such as weights and other measurements.
3. Perform purchase and sales cut-off tests. Trace shipping documents (bills of lading and receiving reports, warehouse records, and inventory records) to accounting records immediately before and after year-end.
4. With respect to tagged inventory, perform tests for omitted transactions and tests for invalid transactions.
5. Verify the clerical and arithmetical accuracy of inventory listings.
6. Reconcile physical inventory amounts with perpetual records.
7. Reconcile physical counts with general ledger control totals.
8. Reconcile inventories which belong to client but are held with third parties like transporters, warehouses, port authorities etc.
9. Goods received on consignment basis have been properly segregated from other items of inventory.

In the given situation, by performing the above procedures, the auditor can ensure that all inventory items have been completely recorded in the books and no material items have been omitted.

15. Completion Memorandum or Audit Documentation Summary: The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-

- the significant matters identified during the audit and
- how they were addressed.

Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

In light of the above, a completion memorandum will help systematically document significant audit issues and their resolution, thereby facilitating efficient review of the audit file and providing a clear summary of important audit conclusions reached during the audit.

16. Evaluating management's assessment: The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.

In the case of UVW Ltd., it is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.

For example, when there is a history of profitable operations and a ready access to financial resources, as in the case of UVW Ltd., management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

However, in circumstances where the entity does not have strong financial indicators or where uncertainty exists, evaluating management's assessment of the entity's ability to continue as a going concern, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

In the separate case of XYZ Ltd., while evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date.

Accordingly, in the case of UVW Ltd., the auditor may conclude that management's use of the going concern basis of accounting is appropriate even without detailed analysis, provided sufficient appropriate audit evidence is available from other audit procedures and the company continues to demonstrate profitable operations and access to financial resources. However, in the case of XYZ Ltd., management's assessment is inadequate as it covers only 9 months from the date of the financial statements. Therefore, the auditor should request management to extend the assessment period to at least twelve months and thereafter evaluate the appropriateness of the going concern assumption in accordance with SA 570 (Revised).

17. Using the Work of another Auditor: When the accounts of the branch are audited by a person other than the company's auditor (or principal auditor), there is need for a clear understanding of the role of such other auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another Auditor". It makes clear that in certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component. Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

(a) advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as are as requiring special consideration, procedures for the identification of inter-component transactions that may require disclosure and the time-table for completion of audit; and

(b) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

18. The auditor's considerations and procedures relevant in the audit of a society:

(a) The auditor should ascertain governing legislation of society i.e. Societies Registration Act, 1860 or any applicable state law under which it has been registered.

(b) Object of society needs to be ascertained from its memorandum of association/bye laws. Its activities may include charitable, social, cultural or educational activities.

(c) Ascertain whether society has obtained registration under Foreign Contribution (Regulation) Act, 2010 in case foreign contributions are received.

(d) Ascertain whether it is also registered under relevant provisions of Income Tax Act which may make it eligible for tax exemption on its income.

(e) Obtain an understanding of internal control to design audit procedures with special reference to donations and various expenditures incurred in relation to achievements of objects of society.

(f) Evaluate appropriateness of accounting policies with special reference to donations and grants. Also evaluate accounting policies in relation to specific grants.

(g) In case some expenses incurred by society are reimbursed by donors, ascertain how these are recognised in financial statements.

(h) Ascertain, if any inquiry has been held by Registrar under applicable law in the working or financial condition of society and its implications for auditor's opinion.

(i) Ascertain all cases of irregular, illegal or improper expenditure or failure or omission to recover monies or other property belonging to society or of loss or waste of money or other property thereof.

(j) Ascertain whether such expenditure or waste was caused in consequence of breach of trust or misapplication or any other misconduct on the part of governing body.

Thus, in the audit of *Bright Future Welfare Society*, the auditor should ensure that the financial affairs and activities of the society are carried out in accordance with its stated objectives and the applicable legal and regulatory framework. Considering the receipt of grants, public donations, foreign contributions, reimbursement-based funding arrangements and the inquiry initiated by the Registrar of Societies, the auditor should exercise professional skepticism while evaluating the utilization of funds and governance practices of the society.

The auditor should also evaluate the effect of any adverse findings, non-compliance, or irregularities in the financial statements and determine the consequential impact on the audit report, including the need for suitable reporting or modification, wherever necessary.

19. As per prudential norms applicable to banks in India, an asset which remains non-performing for a period less than or equal to 12 months is classified as a Substandard Asset and requires provision at 15% of the outstanding amount. Accordingly, the advance granted to M/s Aarav Traders, which remained NPA for 8 months, should be classified as a Substandard Asset and provision should be made at 15% of ₹ 80 lakhs, i.e., ₹ 12 lakhs.

The advance granted to M/s Bright Metals amounting to ₹ 120 lakhs, secured to the extent of ₹ 90 lakhs, had remained doubtful for 6 months. Since the doubtful period is less than 1 year, it should be classified as

Doubtful Asset – up to 1 year (D1). Provision is required at 25% on the secured portion and 100% on the unsecured portion. Therefore, provision on secured portion of ₹ 90 lakhs would amount to ₹ 22.5 lakhs, while unsecured portion of ₹ 30 lakhs would require full provision of ₹ 30 lakhs, resulting in total provision requirement of ₹ 52.5 lakhs.

The advance granted to M/s Crest Infrastructure amounting to ₹ 200 lakhs, secured by assets valued at ₹ 120 lakhs, had remained doubtful for 30 months. Since the doubtful period is more than 1 year but less than 3 years, the asset should be classified as Doubtful Asset – 1 to 3 years (D2). Provision is required at 40% on the secured portion and 100% on the unsecured portion. Therefore, provision on secured portion of ₹ 120 lakhs would amount to ₹ 48 lakhs, while unsecured portion of ₹ 80 lakhs would require full provision of ₹ 80 lakhs. Hence, the total provision required would be ₹ 128 lakhs.

The advance granted to M/s Delta Exports remained doubtful for more than 5 years and therefore falls under Doubtful Asset – more than 3 years (D3). In such cases, provision is required at 100% on both secured and unsecured portions. Hence, the entire outstanding amount of ₹ 150 lakhs requires provision.

Further, where loss has been identified by the bank, internal auditor, external auditor, or regulator but the amount has not yet been written off, the asset is treated as a Loss Asset requiring 100% provision. Therefore, the advance of ₹ 50 lakhs granted to M/s Eagle Industries should be classified as a Loss Asset and fully provided for.

Thus, the bank is required to make adequate provisions in accordance with prudential norms relating to income recognition, asset classification and provisioning, failing which profits and advances would be overstated in the financial statements.

20. In the given case, both self-interest threats and self-review threats to auditor's independence are present.

Self-interest threats occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. In the present case, holding shares in Cee Manufacturing Ltd. by a partner of the audit firm creates a direct financial interest in the client and therefore constitutes a self-interest threat. Similarly, granting a loan to a director of the company also creates a financial relationship affecting auditor independence. Further, undue dependence on the fees received from the client gives rise to a self-interest threat because the auditor may become reluctant to issue adverse findings due to fear of losing the engagement.

Self-review threats occur when during a review of any judgement or conclusion reached in a previous audit or non-audit engagement, or when a member of the audit team was previously a director or senior employee of the client. In the given case, the audit firm had undertaken internal audit and management consultancy services for the company, which are now subject matters of statutory audit. Thus, the auditor would be reviewing work performed by the firm itself, resulting in a self-review threat. Further, one of the audit team members had recently served as Finance Manager of the company. Since such person may be required to examine accounting records and decisions made during his own tenure, a self-review threat also arises in this situation.

Accordingly, these circumstances impair the independence and objectivity of the auditor and appropriate safeguards should be implemented to reduce the threats to an acceptable level.