

# CA FINAL AUDIT MAGIC CHARTS VOLUME 1

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(All Non-Standard Chapters & Professional Ethics)

## HELLO CHAMPIONS!!!!

### Important Points to Keep in Mind before Referring Magic Charts

- Magic Charts are to be referred for **1<sup>st</sup> Reading as well as subsequent Revisions**
- These Charts contain **ICAI Keywords**
- Covers **100% Syllabus**
- **No need** to refer ICAI Module

Yes, you can & you will definitely clear your CA Exams in  
May 2025

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**DIGITAL AUDITING & ASSURANCE****Q1) Meaning of Digital Audit**

- Placing **assurance** on effectiveness of **IT** system of organization.

**Q2) Features of Digital Audit**

<b>Standardized process</b>	<b>Informed decisions</b>	<b>More reliable audit report</b>
<b>Savings in time, cost &amp; human effort</b>	<b>End to end understanding</b>	<b>Technology Advancement</b>

**Q3) Advantages of Digital Audit**

<b>Better Analytics</b>	<b>Improved Risk Assessment</b>	<b>Lower Costs</b>	<b>Better Audit Quality</b>	<b>Enhanced effectiveness &amp; efficiency</b>
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**Q4) Challenges of Digital Audit**

<ul style="list-style-type: none"> <li>Choosing right tool &amp; <b>automating</b> right process</li> </ul>
<ul style="list-style-type: none"> <li>Evaluating business <b>benefits</b> organization wants to achieve with automation</li> </ul>
<ul style="list-style-type: none"> <li>Reluctance to <b>change</b></li> </ul>
<ul style="list-style-type: none"> <li>Challenges with <b>data</b> security &amp; governance</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring standardization and correct configurations to avoid <b>error</b> &amp; bias</li> </ul>

**Q5) Auditors will perform procedures to understand changes to company's business, including changes to IT Environment when they will understand management's implementation of new technology. What should be areas of focus for auditor?**

Understanding-

<ul style="list-style-type: none"> <li>Changes in way entity's systems developed &amp; whether it results in <b>new risks</b> &amp; controls.</li> </ul>
<ul style="list-style-type: none"> <li><b>New activities</b>/changes in existing process due to new technology (eg, new revenue streams).</li> </ul>
<ul style="list-style-type: none"> <li>Impact of <b>new technology</b> on how organization obtain &amp; use information to support internal control functions.</li> </ul>

**Q6) Understanding IT Environment (IT Evt.)****(1) Stages**

<b>Understand</b>	Ways in which entity <b>relies on IT</b> & how IT Evt. supports business
<b>Identify</b>	<b>Controls</b> on entity's IT process
<b>Assess</b>	<b>Complexity</b> of IT Environment to know whether to use IT experts for audit

**(2) Auditor's understanding of automated environment includes-**

<ul style="list-style-type: none"> <li><b>Policies</b>, procedures, processes followed</li> </ul>
<ul style="list-style-type: none"> <li><b>Organization</b> structure &amp; governance</li> </ul>
<ul style="list-style-type: none"> <li><b>Details</b> of IT infrastructure components for each application</li> </ul>
<ul style="list-style-type: none"> <li><b>Extent</b> of IT integration, use of service organizations</li> </ul>
<ul style="list-style-type: none"> <li>IT <b>Risks</b> &amp; controls</li> </ul>
<ul style="list-style-type: none"> <li><b>Applications</b> used by company</li> </ul>

**(3) Key Areas/Considerations for Auditor to understand IT Env't. -**

- **Identification of significant systems-**

- Identify **IT applications** & infrastructure
- How **CAD** (class of transactions, A/c Balance & disclosures) flows into info system.

- **Understand flow of transaction-**

- Understand **nature & no. of IT** applications & other aspects of IT Env't.
- **Processing** of information in information system.

- **Identification of manual & automated controls-**

- Entity's **mix of manual & automated elements** varies with nature of use of IT.
- It helps in identification & assessment of **ROMM** by auditor.

- **Identification of technologies used-**

- Understand **technologies**, their role, risks. Eg, AI, IOT, Robotics

- **Assessing complexity of IT Env't.**-Complexity is based on following factors-

<b>Automation used</b>	<b>Business model of entity</b>	<b>Customization in IT Applications</b>	<b>Significant changes during year</b>
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**Q7) Risks arising from use of IT**

- Unauthorized **changes** to IT applications/other aspects of IT Env't.
- **Inappropriate** manual intervention
- **Failure** to make necessary update to IT Applications/other aspects of IT Env't.
- Risk of system **downtime** due to hardware failure/cyberattacks
- **Possibility** of IT Personnel gaining access privileges beyond necessary, breaking down segregation of duties
- **Data** loss or data corruption

**Q8) Scaling**

**Resources**/hardware added to existing **nodes** to overcome performance issues of IT Systems.

**Q9) IT Dependencies**

Created when **IT** is used to initiate, authorize, record, process, report **transactions**.

**(1) Importance of identifying & documenting IT Dependencies**

Helps to-

- Identify entity's **reliance** upon **IT**
- Identify **IT risks**
- Identify **IT General controls**
- Understand how **IT** is **integrated** into entity's business model
- Develop effective & efficient **audit** approach

**(2) Types of IT Dependencies**

- **Automated Controls**-Designed into IT Evt. to enforce **business rules**.

- Format checks (date), existence checks (Duplicate customer no.), reasonableness checks (max payment amt)

- **Interfaces**-Programmed logic to **transfer data** from one IT System to another.

- From payroll sub ledger to general ledger

- **Calculations-Accounting procedures** performed by **IT** system instead of person.

- System will calculate depreciation by SLM

- **Security**- Includes **segregation of duties**. Helps to-

- Restrict access to information

- Determine **separation of roles** & responsibilities

- **Reports-System generated reports** by IT systems. Eg, Vendor master report. Uses are-

- Useful in entity's execution of **manual** control

- **Source** of entity's information when selecting items for testing

- Performing substantive Test of details (ToD) / **Analytical** procedures

**(3) ITGCs**

- Mgt implement ITGCs (Information Technology General Controls) to **address risks of IT Dependencies**.

**(4) Control objectives & controls for General IT Controls-**

- **DATA CENTRE & NETWORK OPERATIONS**

- Objective - Ensure production systems are **backed** up to meet FR objectives

- Controls-

- Data is **backed** up & recoverable

- **Policies & procedures** for above maintained

- **ACCESS SECURITY**

- Objective-Ensure that **access** to programs is **authenticated** to meet FR objectives

- Controls-

- Access of **terminated user** is **removed**

- Security **policies & procedures** maintained

- **PROGRAM CHANGE**

- Objective-Ensure **modified systems** continue to meet FR objectives

- Controls-

- **Changes are tracked** & recorded

- Change management **policies & procedures** maintained

(Shortform-FR-Financial Reporting)

**Q10) Meaning & types of Cyber Risk/Cyber Attack****Meaning & Types of cyber risk**

- Unauthorized access to network with intent to damage/steal/destroy data.
- Types/Examples- malware, phishing, spoofing, DoS attack, Identity Based Attack, Insider Threats, DNS Tunneling, IoT- Based attack

### 1) Malware

- Program with intent to do **harm** to computer/network/server.
- Also called malicious software. Most common type of cyber attack.
- Types-
  - **Mobile Malware**
    - To target **mobile** devices
    - Malicious downloads, phishing, unsecured Wi-Fi
  - **Ransomware**
    - Adversary **encrypts** victim's **data** & provides **decryption key for payment**.
    - Malicious links by phishing emails
  - **Fileless Malware**
    - Uses native, legitimate tools **built into system** for cyber attack.
    - Doesn't require attacker to install code on system. Thus difficult to detect.
  - **Trojan**
    - Appears legitimate software **disguised as** native **OS program**/free downloads.
    - Installed by social engineering techniques like phishing/bait websites

### 2) Phishing

- Uses email, SMS, phone, social media, social engineering techniques to **entice victim-**
  - To **share** sensitive **information** like password/account no.
  - To download malicious file that will install viruses on system
- Types-
  - **Spear Phishing**
    - Targets specific individuals/organizations by **malicious emails**.
    - To steal sensitive information like login details/infect device with malware.
  - **Smishing**
    - Sending **text message** pretending to be from reputable org.
    - To induce people to reveal personal info-Password/credit card no.
  - **Vishing**
    - Voice phishing attack
    - Fraudulent use of **calls/voice msg.** pretending to be from reputable org.
    - To induce people to reveal personal info-Password/credit card no.
  - **Whaling**
    - Targets senior/**C-level** executive employees
    - To steal money/info/access to computer to execute further cyberattacks.

### 3) Spoofing

- Cybercriminal **disguised as** known/trusted **source**
- To access system to steal info/extorting money/install malware
- Types-
  - **Domain spoofing**
    - Attacker impersonates known business with **fake website/email** to fool people.
    - Domain appears legitimate at first, but closer look will reveal differences
  - **Email spoofing**
    - Targets business by emails with **forged sender addresses**.
    - Recipient trusts sender & opens email-malicious link

### 4) Denial-of-Service (DoS) Attacks

- Floods network with **false requests to disrupt business operations**.
- Users unable to perform routine tasks like accessing emails, websites.

- Generally, no data loss, no ransom but costs org. time & money to restore operations.

### 5) Identity Based Attacks

- User's credentials compromised & **adversary pretends to be that user**.
- Eg, same user ID & password for multiple a/cs
- Possessing credentials of one will result in access of others.

### 6) Insider Threats

- **Employees** (current/past) have direct **access** to company network, sensitive data, policies

### 7) DNS Tunneling-

- Leverages domain name system (**DNS queries**) & responses to **bypass security** measures
- Hacker extract sensitive data by encoding it bit by bit in series of DNS responses.

### 8) IoT Based Attacks-

- Targets IoT (Internet of Things) device/network
- Hacker takes **control of device** & steal data.

## Q11) Stages of Cyber Risk

### Stage 1 -Assessing Cyber Risk

- Every organization should consider common threats-
  - **Ransomware** disabling their organization (including plants, mfg. facilities)
  - **Insiders** committing malicious activities. Thus, unintended disclosure of info & fraud
  - **Common criminals** using email phishing & hacks for fraud & theft

### Stage 2-Impact of Cyber Risk

- Varies from organization to organization & attack to attack. Some indicative areas-
  - **Ransomware**
  - **Business** interruptions causing operational challenge for organization
  - Regulatory **costs**
  - **Data** loss, reputational loss & litigation
  - **Fines** & penalties
  - **Breach** of privacy

### Stage 3- Managing Cyber Risk

- Benefits-
  - **Understand** accepted risks & documented compensating controls.
  - **Understand** cyber risks, threats to org. & other financial institutions.
  - **Assess** existing IT program & capabilities against regulatory requirements
  - **Align** cybersecurity & IT transformation initiatives with strategic objectives & risks.

## Q12) Cyber Security Framework

### 1) Identify Risk-

- Entity-
  - Conduct periodic **risk assessment** & develop strategy to identify cybersecurity risks.
  - Maintain & periodically **reviews information assets**- Asset Management (eg, patents)

2) **Protect risk-**

- Entity monitors whether **unauthorized access** to electronic assets & impact on FR
- Formal **training** to make teams aware of risks of cyber attacks
- Entity implements controls for **data security**.

3) **Detect risk-**

- Entity should identify **cybersecurity risks**, its impact on business & significance
- Review entity's process to monitor & detect **security breaches**.
- Mgt. implemented anti virus/firewall logs are monitored to detect **repetitive tasks**

4) **Respond to risk**

- In case of material cybersecurity, entity should have **response planning** to capture incident.
- Security incident response plan helps to analyse **impact & severity** of attack & take appropriate actions.

5) **Recover from risk**

- Entity takes appropriate action to **recover** from attack & make sure business is running.
- Necessary improvements-patch **upgrades**, better **controls**, **anti virus** is implemented.

## Q13) Control considerations for cyber risks/Internal controls-

1) **Controls around vendor setup & modifications-**

- Changes to vendor info** by email phishing **pretending** to be from **authorized** vendor.
- Entity inappropriately dispersed funds & reduce liability owed to actual vendor.
- Thus, impacting financial statements.
- Check- (Shortcut-VMD-Vendor Master Data)
  - Who is responsible** to make change to VMD? Is process centralized/decentralized?
  - What systems** are used to initiate, authorize & process changes to VMD?
  - Are authentication **protocols** defined to verify modifications to VMD?

2) **Controls around electronic transfer of funds-**

- Fraudulent request for wire t/f **pretending** from **financial institutions**.
  - requesting disbursement from customer asset a/c
- Check-
  - Are personnel responsible** for wire t/f educated on threats/phishing scams/frauds?
  - What systems** are used to facilitate request, authorization & release of O wire t/f?
  - Are authentication **protocols** defined to verify wire t/f requests?

3) **Controls around patch management-**

- Known **security vulnerabilities** caused by unapplied patches/upgrades
- Check-
  - Does entity have **patch mgt. program**?
  - Does entity runs periodic vulnerability **scans** to identify unapplied patches?
  - How is entity **notified** of patches by external vendors? (Eg.- MS for Windows patch)

## Q14) Meaning &amp; Considerations for Remote Audit/Virtual Audit

- Auditor uses online/**electronic** means for audit. It can be partially/completely virtual.

**Considerations for Remote Audit****1) Feasibility & Planning-**

- **Agree** on audit timeline, meeting platform(Zoom),data exchange mechanism,technology
- **Execution** phase involve video/tele conferencing with auditees
- **Documentation** for audit evidence t/f through document sharing platform(DSP)

**2) Confidentiality, Security & Data Protection-**

- Access to DSP restricted by **encrypting** data
- Info-reviewed by auditor is removed from platform & **stored** as per archiving standards
- Auditors consider agreements from both sides(eg, no recording, **no screenshots** by auditor for audit evidence, unless authorized)
- In case of accessing auditee's IT system,auditor should use **VPN**

**3) Risk assessment**

- **Communication** from auditor & auditee-**clear** & consistent
- **Risks** for achieving audit objectives-**identified**, assessed, managed
- **Assessment** if remote audit sufficient is done & documented for each audit

**Q15) Advantages of Remote Audit**

- Cost & time effective, **no travel** time & cost
- **Comfort** & flexibility to audit team since WFH( work from home)
- Auditor gets first **hand** evidence directly from IT system as direct access given
- Widens **selection** of auditors from global network of experts
- Time to gather evidence **spread** over weeks, instead of small period that takes personnel from daily activities

**Q16) Disadvantages of Remote Audit**

- Interviews & meetings interrupted due to network **issues**
- Limited/no ability to visualize facility culture of org./body language of auditees
- Time zone issues can affect efficiency
- Opportunity of doctored docs/omitting info increases,thus additional audit procedure
- Security & confidentiality **violation**
- Remote access to **sensitive** IT Systems may not be allowed
- **Cultural** challenges for auditor. Lack of knowledge of local laws
- Audit procedures like physical ver. of assets/**stock taking** can't be performed

**Q17) Data Analytics**

- Generating & preparing **meaningful info from raw** system **data** using processes, tools & techniques is called Data Analytics.
- Audit Analytics/Audit data analytics involves-
  - Analyzing large data for insights,trends,draw conclusions,informed decision making
- Audit analytics helps-
  - To **discover** & analyze patterns
  - **Identifying** anomalies
  - **Extract** other useful information in data

- Data analytics methods used in audit are called **CAATs**(Computer Assisted Auditing Techniques)
- Popular tools used as part of CAATs/Examples of data analytics techniques-
  - **ACL (Audit Command Language)-**
    - Data extraction & analysis software for **fraud detection, prevention** & risk mgt.
    - Samples large data for **pattern** in transactions indicating fraud.
    - Eg, Analyse data to perform **trial balance reconciliation** during audit.
  - **Alteryx-**
    - **Consolidates** financial/operational data to assess controls
    - Audit trail is performed. **No prior knowledge of coding/scripting** needed
    - **Automates** periodical **procedures** like reconciliations, consolidations.etc.
  - **Power BI-**
    - Business Intelligence (BI) platform providing **nontechnical** business users-
      - tools for **aggregating, analyzing, visualizing & sharing** data
    - Uses-
      - To find **outliers** in population
      - For **reporting** purpose (Audit report) in interactive dashboard to higher mgt.
  - **CaseWare-**
    - Provide tools conducting **audit** & assurance **quickly, accurately, consistently**
    - Better informed **decisions**
    - Streamlines processes & **eliminates routine tasks**

## Q18) Automated Tools in Audit

### 1) Internet of Things(IoT)

- **Connecting** any device (phone, washing machine) to **internet**
- Key components-**data collection, analytics, connectivity, people & process**
- Audit Implications-
  - Auditors **not** able to rely on **manual controls**
  - Audit firms train auditor to evaluate operating effectiveness of **automated controls**.
  - **Impact on flow of transaction** & new risks for mgt. & auditors
- Risks-**Device hijacking, data siphoning, denial of service attack, data breach, device theft**

### 2) Artificial intelligence (AI)

- System that can **think & learn**
- Utilize data analysis/**algorithm** to make decision by predictive method/**pattern** learned
- Audit implications-
  - Audits must focus on **logical flow of processes**
  - Auditor assess effectiveness of **algorithm** & if output is properly reviewed/approved
  - **Impact on flow of transaction**
  - How **risks** (existing & new) addressed
- Risks-Security, inappropriate configuration, data privacy

### 3) Blockchain

- Based on **decentralized** & distributed **ledger** secured by **encryption**
- Each transaction validated by **blockchain participants**.
- All **blocks sequenced** so that modification of a block disqualifies information

- Audit implications-
  - Auditor consider governance, security since insecure APIs, data **confidentiality** issue
  - Auditor consider issue of weak blockchain application development **protocol**
  - Auditor consider data privacy **law** issues
- Risks-
  - Need protocol, mgt. process, contingency plan as **data can't be accessed without key.**
  - Security-Cyberattack, data hacks
  - Auditor ensure that org. has data mgt. process & complies with **regulations**

### 3.1) NFT (Non-Fungible Token)

- **Token** to represent **ownership** of unique items. Eg, digital assets (photo, video, artwork)
- Contains **digital signature**
- **One** official **owner** at a time. No one can change record of ownership or copy/paste it
- Key features-
  - **Digital** asset with certificate created by blockchain, underlying cryptocurrency
  - **Unique**-Can't be forged/manipulated
  - **NFT Exchange** takes place with cryptocurrencies like bitcoin on specialist sites
- Challenges-Ownership & copyright concern, security risk, **market is not that wide**, online fraud, data privacy, cyber threat

### 4) Robotic Process Automation (RPA)

- Automation of repetitive process of user by **emulating human action.**
- RPA software **bots** interact with system same way people do
- Work round the clock, **nonstop**, much faster, 100% reliability
- Audit implications-
  - Auditor to **understand process** (data extraction, aggregation, sanitization, cleansing)
  - To perform substantive testing, auditor to **understand tools** used in RPA
- Risks-
  - **Operational & execution risks-**
    - Buying **wrong tool**, making **wrong assumption**, compromising security
    - How to reduce risk- Assigning proper responsibility, training
  - **Change management risks-**
    - **Not following change mgt.** implementation lifecycle, improper testing
  - **RPA Strategy risk-**
    - Wrong expectation, improper KPIs, **unrealistic business goals**

### Q19) Control considerations/Objectives of Auditing Digitally

#### 1) Control considerations to consider while assessing technology risk-

- Auditors should-
  - Gain holistic **understanding** of changes in industry, IT Env't. to evaluate mgt. process for initiating, processing, recording transactions & design audit procedures
  - Consider **risk** from new technology & how it differs from those of traditional system
  - Consider if digital upskilling/**specialists** needed to determine impact of new technology, assist in risk assessment, understanding controls. Eg, IT Specialists.

#### 2) Technology Risks of Digital system - Same as risks arising from use of IT

#### 3) Key steps for Auditors in Changing Technology Environment

As auditors obtain understanding of impact of technology on business, internal control, financial reporting, these are some reminders- (Shortcut-RA-Risk assessment)

- Maintain **professional skepticism** when reviewing mgt's RA for new system
- Understand direct/indirect **effect** of new technology, how its use impact auditor's RA
- Assess **appropriateness** of mgt.'s process to select, develop, maintain controls
- Understand how technology **impact** flow of transaction

## Q20) Next Generation Audit

- Human-led, tech-powered, data-driven. Based on combining emerging technologies to redefine how audits are performed.

### Examples-

#### 1) **Drone Technology** [Unmanned Aerial Vehicle (UAV)]

- For **stock count** in remote locations
- Great **payload capacity** to carry sensor/camera. Thus can photograph FA/inventory
- Combined with alternative source-QR code reader, manual count, consolidate audit info

#### 2) **Augmented Reality(AR)**-

- Users view **real world envt. with augmented elements**, generated by digital devices
- Eg, Pokemon Go

#### 3) **Virtual Reality(VR)**-

- **Replace realworld with simulated envt** by digitally generated image, sound, touch, smell
- Eg, custom headset -simulated experience like flying/skydiving

#### 4) **Metaverse**-

- Emerging **3D Digital space** that uses VR, AR, other advanced internet technology
- Allows people to have lifelike personal & business **experiences online**
- Represent convergence of digital technology to combine use of **AI, AR, VR, crypto.**
- Potential application of metaverse in financial domain-
  - Virtual **Banking** & transactions
  - Virtual **financial education** & training
  - Virtual **meetings** & conferences
  - Digital **asset** mgt.
  - **Data** visualization & analytics

### Risks of Next Generation Audit Technologies-

- Public safety, cybersecurity, **data privacy**, data protection, lack of std, technical challenge
- **Taxation**, jurisdiction, customer protection
- **Governance**

GROUP AUDIT

## Q1) Mandatory as per Companies Act, 2013

- Co. — **subsidiaries**, AC, JV  
    — Own FS + **CFS**
- CFS — Approved by **BoD**  
    — Laid before **AGM**
- Co. attach with FS - statement of salient features of FS of **subsidiary** in Form **AOC 1**.
- CFS as per **Schedule III of COA & AS**.
- Co. **not** required to prepare CFS as per **AS** - sufficient - **comply** with CFS provisions in **Schedule III**.

## Q2) No CFS

- **WOS/POS** of another company & all **members** (vote ✓ / ✗) - written intimation + proof of delivery - **do not object**.
- Co. - securities **not listed** / not in process of listing on stock exchange in India or outside India.
- **Ultimate / intermediate holding company** files CFS with ROC.

Q3) Investment Entity- **No CFS** if it is required to measure all subsidiaries at FVTPL (Ind AS

## 110) Definition of Investment Entity -

- IE ← **funds** — Investors  
    — **Inv** →
- Commits to investors - business purpose - invest funds - returns from capital appreciation or investment income or both.
- Measures performance of substantially all investments on **FV** basis.

**Parent of IE - Consolidate** all entity it controls, including those controlled through IE subsidiary, **unless parent is IE**.

## Q4) Responsibility of parent - Responsibility of PPCFS is of parent. This includes-

- 1) identifying **components** and including financial information of components to be included in CFS.
- 2) identifying **reportable** segments for segmental reporting.
- 3) identifying **RP & RPT** for reporting.
- 4) Obtaining **accurate** and complete FI from components.
- 5) Making **appropriate** consolidation adjustments.
- 6) **Harmonisation** of accounting policies and accounting framework.
- 7) **GAAP** Conversion, where applicable.

## Q5) Responsibility of auditor of CFS / Auditor's objective

- 1) To satisfy himself - CFS as per **AFRF**.
- 2) To enable himself to express opinion on **T&F** view of CFS.
- 3) To enquire into matters - 143 (1) of **COA 2013**.
- 4) To report on matters - 143 (3) of **COA 2013**.
- 5) To validate requirement of preparation of CFS as per **AFRF**

**Q6) Auditor's Considerations for Materiality**

SA 600 - Using the work of another auditor - Audit of SFS - materiality computation - component wise on standalone basis.

Audit of CFS - consider following for materiality -

- |   |
|---|
| 1) Auditor compute materiality for <b>group as a whole</b> to assess appropriateness of consolidation adjustments made by management.                                 |
| 2) Parent auditor can also use materiality - group level - to determine whether <b>compo's FS</b> are <b>material</b> to group.                                       |
| 3) Principal auditor - compute materiality for each <b>component &amp; communicate</b> to component auditor <b>if</b> he believes - <b>reqd.</b> for T&F view on CFS. |
| 4) Principal auditor obtain <b>confirmation from component auditors</b> like independence, code of ethics, etc.   |

While considering observations (modification/EOM para) of compo auditor in his report on SFS - consider **SA 600**.

**Q7) Plan Before CFS Audit / Auditing Consolidation**

- |  |
|--|
| 1) Understanding group <b>structure</b> & group wide control including IT system.  |
| 2) <b>Understanding</b> a/cing policies of parent, components, consolidation process, including translation of FS of foreign components. |
| 3) Determining & programming NTE of AP based on ROMM.  |
| 4) Determining extent of <b>use</b> of other auditor's work.   |
| 5) Coordinating <b>work</b> to be performed.   |

**Q8) For Completeness of Info of Components, what Audit Procedures To Follow?**

- |  |
|--|
| 1) Review of <b>WP</b> of prior yrs for known components   |
| 2) Review <b>parent's</b> procedures for identification of various components                    |
| 3) Review <b>joint</b> ventures & joint arrangements.  |
| 4) Review <b>investments</b> of parent & components to determine shareholding in other entities. |
| 5) Review other <b>arrangements</b> entered by parent, not included in CFS.                      |
| 6) Review stat. <b>records</b> of parent <u>eg</u> , registers under COA.                        |

**Q9) Consolidation Adjustments - PCA & CPCA****1) Permanent Consolidation Adjustments (PCA)**

- Made only on **1<sup>st</sup> occasion/subsequent occasions** in which **change in shareholding** of particular entity consolidated.
- Types-
  - Determination of **G/w** or **capital reserve** as per AS.
  - Determination of **equity** attributable to **MI/NCI**.
- Auditor verify above **calculation** - appropriately made.

- |  |
|--|
| a. Auditor - attention - <b>Preacquisition reserves</b> of compo & <b>date of investment</b> in compo                |
| b. Auditor-preacq. <b>reserves allocated</b> appropriately b/w parent and MI/NCI.                                    |
| c. Auditor - <b>changes in PCA</b> on a/c of subsequent acq of shares in compo, disposal of compo in subsequent yrs. |

- One subsidiary - G/w, another - CR. Parent - **net off** if permitted by **AFRF**. Auditor verify - Gross G/w & CR on acq of various subsidiaries disclosed in notes to CFS.

## 2) Current Period Consolidation Adjustments (CPCA)

- Made in **a/cing period** for which **consolidation** done.
- Examples-

- |   |
|---|
| a. <b>Intra-group</b> interest paid, recd/mgt fees.   |
| b. <b>Intra-group</b> indebtedness.   |
| c. Unrealised <b>intragroup</b> profit on assets acquired from/tfd to other subsidiaries.   |
| d. Adjustments of <b>harmonising</b> diff a/cing policies of parent and compo.  |
| e. <b>GAAP</b> conversion, in case of foreign compo.  |
| f. Record <b>deferred tax</b> on unrealised inter co. profit elimination as per Ind AS 12.  |
| g. Adjustments to FS for <b>subsequent events</b> /trans. b/w B/S date & AR date.   |
| h. Adjustments for <b>trans. b/w compo B/S date &amp; date of AR</b> on group's CFS when FS of compo not upto B/S date of parent.                               |
| i. Determination of <b>movement in equity attributable to MI/NCI</b> since date of acquisition of subsidiary (Ind AS : NCI -ve balance if NW of subsidiary -ve) |
| j. Adj. of <b>deferred tax</b> on a/c of temporary diff due to elimination of intragroup P/L.   |
- FS of compo drawn upto same reporting date of parent.
  - If not done - adj (h)
  - Diff b/w reporting dates: **max 6 mth - AS, max 3 mth - Ind AS.**
  - **Verification**- Review memorandum records +

- |   |
|---|
| a. Verify that <b>intragroup</b> transactions & a/c balances <b>eliminated</b> .                    |
| b. Verify - CFS prepared - <b>uniform</b> accounting <b>policies</b> .                              |
| c. Verify adj to <b>harmonise</b> diff a/cing policies incl. <b>GAAP</b> conversion.                |
| d. Verify adj of <b>deferred tax</b> on a/c of temporary diff due to elimination of intergroup P&L. |
| e. Verify calculation of <b>MI/NCI</b> .  |

### Q10) Info Disclosed in CFS Separately for Parent & Compo, including Foreign Compo

- |   |
|---|
| 1) Amt of net assets & net assets as % of conso net assets. |
| 2) Amt of share in P/L & % share in P/L as % of conso P/L.  |
| 3) Amt of OCI & % of OCI as % of conso OCI.                 |

### Q11) Info Given In Notes To SFS of Parent, Subsidiary, need not be included in CFS

- |  |
|--|
| 1) <b>Source</b> from which <b>bonus shares</b> issued eg, capitalisation of profit/ reserve/SP A/c.   |
| 2) Disclosure of <b>unutilised money</b> from issue indicating form in which unutilised funds invested.  |
| 3) Disclosure - <b>MSMED Act, 2006</b> .   |
| 4) <b>Exp in forex</b> - royalty, knowhow, professional & consultation fee, interest.  |
| 5) <b>Earning in forex-</b> <ul style="list-style-type: none"> <li>• Export of goods calculated on FOB basis</li> <li>• Royalty, knowhow, professional &amp; consultation fee</li> <li>• Interest and dividend</li> <li>• Other income, indicating nature</li> </ul> |
| 6) <b>Value of imports</b> on CIF basis- <ul style="list-style-type: none"> <li>• Raw materials</li> <li>• Components &amp; spare parts</li> <li>• Capital goods</li> </ul>  |

### Q12) Mgt Representation / SA 580 -WR

- 1) **Completeness** of compo in CFS.
- 2) **Identification** of reportable segment for segmental reporting.
- 3) **Identification** of RP & RPT for reporting.
- 4) **Appropriateness** & completeness of PCA & CPCA, incl. elimination of intragroup trans.

**Q13) Reporting****1) When PA = Auditor of all components**

Auditor report -

- a) Procedures of PPCFS as per AS. Deviation - **SA 705**.
- b) Auditor - audit report - opinion whether CFS - **T&F** view of **SOA** as on B/S date, **T&F** view of conso **P/L** - conso P&L statement.
- c) If cash flow statement, opinion - **T&F view of cash flow statement** in CFS.

**2) When PA is not auditor of all components**

- a) Consider **SA 600**.
- b) **SA 706** - Auditor consider necessary to make **reference** to audit of **other auditors** - AR on CFS - disclose magnitude of portion of FS audited by other auditor by stating **₹/% of total asset/revenue/cash flow** of compo not audited by PA.
- c) Total asset/revenue/CF - **before PCA & CPCA**.
- d) Reference that part audit by other auditor is **not qualification** of opinion but indication of divided responsibility.

**3) When component AR - A/cing framework different than parent (eg, foreign compo)**

- a) Parent's **mgt converts compo FS** to parent's framework. Conversion **adj. audited by PA** for suitability & appropriateness.
- b) Alternatively - Compo **prepare FS on basis of parent's a/cing policy**, outlined in group accounting manual (GAM). Local compo auditor - audit & issue AR on compo FS.

**4) When compo AR - Auditing framework diff. than parent**

- a) Audit - **Indian GAAS** (Normally)
- b) Compo FS audited under framework corresponding to Indian GAAS.

**5) Components not audited**

- a) PA evaluate possible **modification in AR** on CFS.
- b) Evaluation necessary because auditor not able to obtain SAAE for consolidated balances.
- c) Auditor evaluate both qualitative and quantitative factors.

**Q14) Conso of Subsidiaries as per Companies (Ind AS) Rules, 2015 - Accounting Treatment**

- 1) FS of parent & subsidiaries combined on line by line basis by adding assets, liabilities, income, expense, cash flows - **Ind AS 110**.
- 2) Goodwill/CR & NCI determined - **Ind AS 103**.
- 3) Business under common control - Pooling of interest method - **Ind AS 103**.
- 4) Elimination of intragroup transactions - **Ind AS 110**.
- 5) Investment in associates & JVs - equity method - **Ind AS 28**. Interest in assets, liabilities, revenue, expense in joint operation accounted as part of separate FS - **Ind AS 111**.

**BANK & NBFC AUDIT****UNIT 1 - BANK AUDIT**

**Q1) Special audit considerations/peculiarities.**

<b>Nature of risk of trans.</b>	<b>Development of new products &amp; services &amp; banking practices</b>	<b>Effect of stat. &amp; regulatory requirements</b>
<b>Dependence on IT</b>	<b>Scale of banking operations &amp; significant exposure in short time period</b>	

**Q2) Important points for preparation and audit of FS**

1. Banking Regulation Act, 1949 - Third Schedule

Form A - Balance Sheet

Form B - P/L A/c

2. Private bank - **no** mandatory **branch audit**.

3. Public sector/Private banks - Listed on RSE & SEBI LODR.

4. Nationalised/PSU banks - **4 or more firms of CA** jointly act as Statutory Central Auditors SCAs.

- Contents of appointment letter

<b>Period of appointment</b>	<b>Particulars of other SCAs</b>	<b>Particulars of previous auditors</b>
<b>Scope of assignment - special report by SCA in addition to main report</b>	<b>Statement of division of work &amp; review &amp; reporting responsibilities b/w joint auditors (Nationalised banks)</b>	

5. Authority appointing auditor -

Banking co. - <b>AGM</b>	Nationalised bank - Bank appoints through <b>board of directors</b> . <b>RBI</b> approval in both cases.
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**Q3) What info should bank share with auditors, considering importance of IT in PPFs?**

<b>Data integrity &amp; data security</b>	<b>MIS report generation &amp; periodicity</b>	<b>Business continuity plans &amp; disaster control plans</b>
<b>Data processing &amp; data interface</b>	<b>Overall IT policy, structure &amp; envt of bank's IT system</b>	

**Q4) Key security control aspects that auditor needs to address while doing audit in computerised bank.**

1. Ensure that authorised and complete <b>data</b> is available for processing.
2. Ensure that system prevent unauthorised <b>amendments</b> to programmes.
3. Verify that <b>changes</b> in parameters are authenticated.
4. Verify that charges calculated <b>manually</b> are authorised.
5. Verify that <b>A/c</b> master & balance <b>A/c</b> cannot be modified except by authorised personnel.

**Q5) Risk based internal audit is conducted based upon risk assessment of business & control risk of branches. What are components of risk assessment process?**

Identification of inherent business risk ( <b>Business risk</b> )	Assessment of effectiveness of control systems ( <b>Control risk</b> )	Overall <b>business risk and control risk</b> .	Drawing <b>risk matrix</b> , taking into a/c factors like risk of branch.
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**Q6) Internal control in diff. areas of bank.**Ans. (A) GENERAL

1. Staff shifted frequently/without prior notice.
2. Financial powers of officers of different grades - defined.
3. Work of one checked by other.
4. Arithmetical accuracy of books proved every day.
5. Signature book - access to authorised officers.

(B) CASH

1. Kept in joint custody of **2 responsible officers**.
2. In addition to checking by chief cashier, test checked daily.
3. High value cash transactions verified by higher officer.
4. Payment made only after vouchers passed by authorised officer.
5. Cashier - no access to customer ledger a/cs & Day book.

(C) CLEARINGS-

1. Electronic image of cheque is transmitted through clearing house.
2. Branch either call or email customer for **cheque received of 5 lakh & above for inward clearing**. Auditor - test check.
3. Auditor checks whether signature verified by staff.
4. Unpaid cheque in outward clearing sent to customer.

(D) LOANS & ADVANCES

1. Necessary **documents** executed by parties.
2. Operation **reviewed** at least **once in a year**.
3. Satisfy as to **creditworthiness** of borrower.
4. All **securities** - received & returned by responsible officer & kept in joint custody of **2 officers**.
5. All a/cs kept in **drawing power & sanctioned limit**. Additional temporary limit - sanctioned for max **20% of existing limit & 90 days max tenure**.

(E) DEMAND DRAFT & INTER BRANCH A/CS

1. Check sign on DD with sign book.
2. DD issued by branch - confirmed by advice to paying branch.
3. If paying branch doesn't receive confirmation - take steps to know reason.

(F) CREDIT CARD OPERATIONS

1. There should be effective **screening** of applications.
2. Strict control over **storage and issue** of cards.
3. System to monitor and **follow up customer payments**.
4. System to ensure **statements are sent regularly** to customers.
5. All **reimbursement - immediately charged** to customer a/c.

**Q7) Compliance with CRR & SLR reqt.**Ans. SLR - Statutory Liquidity Ratio

- Liquid assets maintained like gold & cash.
- Verify compliance on **12 odd dates of different months, not Friday**.
- Report sent to bank's top mgt & RBI.
- Audit approach & procedures-

- obtain understanding of RBI circular for DTL (Demand & Time Liabilities)
- Request branch auditor to **send weekly T/B as on Friday** to be consolidated at HO
- Examine consolidations of DTL, on test basis.
- **Items excluded from DTL-**

1. Paid up capital, reserve, cr. bal. of P/L A/c, loan from RBI, refinance from EXIM Bank, SIDBI, NHB, NABARD.
2. Bill discounted by bank with eligible financial institution
3. Net income tax provision
4. Amount recd from DICGC for claims held by bank pending adjustments
5. Amount recd from ECGC by invoking guarantee
6. Amount recd from insurance company for ad hoc settlement of claim pending court judgment.
7. Amount recd from court receiver
8. Net unrealised gain/loss from derivative transaction under trading portfolio
9. Income flows recd in advance like non refundable annual fees & other charges
10. Liabilities due to utilisation of limit under Bankers' Acceptance Facility (BAF)
11. Part amt of recovery from borrowers for bad & doubtful debts.
12. Amount in INR against import bill & held in sundry deposit pending receipt of final rates.
13. Unadjusted deposit/bal. in Link branch for agency business like dividend/interest warrant, refund of application money for shares/debentures to extent of payment by other branch, not adjusted by link branch
14. Margins in sundry deposits for funded facility.

- **Items included in DTL-**

1. Net credit balance in branch adjustment a/c. Credit entries in branch adj a/c o/s for >5 yrs taken at gross.
2. Reconciliation of nostro a/c with Nostro Mirror a/c.
3. Borrowings from abroad by Indian banks=liabilities to other(Take at gross)
4. Interest accrued on deposits-calculated on each reporting fortnight, whether or not interest accounted in BOA so that bank's liability reflected in total NDTL of same fortnightly return. Cash collateral recd under collateralised derivative transaction as it is in nature of 'outside liabilities'.

- While examining DTL computation - **Exempted categories of items -**

1. Minimum eligible credit (EC) & o/s long-term bonds (LB) to finance infra loan & affordable housing loan.
2. Eligible incremental FCNR(B) & NRE deposits of maturities of 3 yrs & above. Auditor verify loans out of FCNR(B) deposits & inter-bank foreign currency (IBFC) deposits for reporting in Form A return. Banks convert forex assets/liabilities (including borrowing) in USD, GBP, JPY, Euro to INR at RBI reference rate. For other currency consider New York rate for conversion to USD.
3. For conversion of forex assets/liabilities, reference rate from FBIL to be taken. If not available-New York closing rate for conversion of currency to USD.
  - Auditor to examine whether balance in branch adj a/c of foreign branch taken to a/c to arrive at net balance in branch adj a/c.
  - Auditor to examine correctness of data in Form A return for CRR & return in Form VIII for SLR purpose on sample basis.
  - Relevant info of branches in region consolidated at regional level. Auditor of region to verify & report. Consolidated statement counter-signed by regional manager. Central

auditor apply audit procedures to consolidation for bank as a whole. Where such procedure is followed, SCA describe in certificate.

**Q8) Audit procedures to verify balance with RBI.**

Verify ledger balance with bank confirmation certificate at yr end	Review following in reconciliation statement - <ul style="list-style-type: none"> <li>• Unresponded cash transaction</li> <li>• Revenue items requiring adjustments</li> <li>• Other Dr/Cr entries in RBI statement, <b>unresponded for &gt;15 days</b></li> </ul>
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**Q9) Audit procedures to verify balance with other banks (other than RBI)**

Examine

No dr. for charges / cr. for interest is outstanding	No cheque in clearing is outstanding	Large transactions in inter-bank account
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**Q10) Audit procedures to verify money at call & short notice.**

1. Call loans verified with certificates of borrowers.
2. Interest properly accounted on year end outstanding balance.
3. Repayment from borrowing bank ( <b>call loans made &amp; recd can't be net off</b> )

**Q11) Audit procedures to verify investments.**

Physical verification	Separation of investment functions	Examination of - Reconciliation, Documents, Valuation
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**Q12) Audit approach for NPA.**

**Both for sale/purchase of NPA**

Policy by <b>BoD</b>	Only such <b>NPA sold</b> which remained NPA in <b>books</b> of bank for <b>atleast 2 years</b>	NPA sold on <b>cash basis</b>	Asset sold/purchased " <b>w/o recourse</b> " only
Bank <b>hasn't purchased NPA</b> which it originally sold			

**Things to be ensured for sale of NPA-**

On sale, NPA has been <b>removed</b> from books of a/c of selling bank.	If sale price < Net book value (NBV), <b>shortfall - Dr to P/L A/c.</b>	If sale price > NBV, <b>excess provision</b> - not reversed, but utilised to <b>meet shortfall on a/c of sale of other NPA.</b>
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**Things to be ensured for purchase of NPA-**

NPA should be subjected to <b>provisioning</b> relevant to classification status in books of purchasing bank.	Any <b>recovery</b> of NPA purchased from other banks is first <b>adjusted against acq cost</b> & only <b>excess</b> recovered amt = <b>profit.</b>	For purpose of capital adequacy, banks assigned <b>100% risk weights</b> to NPAs purchased from other banks.
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**Q13) Read only-**

1. <u>A/cs with temporary deficiencies-</u> <ul style="list-style-type: none"> <li>• Banks shouldn't classify advance a/c as NPA merely due to temporary deficiency like non-availability of drawing power based on latest available stock statement, balance o/s exceeding limit temporarily &amp; non-renewal of limits on due date.</li> <li>• <b>Stock statement</b> relied upon by banks to determine drawing power should <b>not be older than 3 months.</b> Otherwise, it is considered irregular.</li> </ul>
2. Accounts where regular/ad hoc <b>limits</b> are <b>not reviewed within 180 days</b> from due date are <b>NPA.</b>
3. <u>Asset classification</u> = <b>borrower wise</b> & not facility wise.

- All facilities granted by bank = treated as NPA and not particular facility, which has become irregular.

**Q14) Government guaranteed advances.**

1. If government guaranteed advance becomes NPA, then for income recognition purpose, **interest** on such advance should not be taken to income unless interest is **realised**.
2. For asset classification purpose, credit facility backed by **CG guarantee**, though overdue, can be treated as **NPA** only when **CG repudiates** guarantee, when invoked.
3. This exception is NA for **SG** guaranteed advance, where advance is to be considered as NPA if it remains overdue **for > 90 days**.
4. In case **bank has not invoked CG guarantee**, though amount is overdue for long, reasoning for the same should be taken and reported in **LFAR**.

**Q15) Agricultural advances.**

1. Ensure that **NPA norms** have been applied **as per crop season** determined by State Level Bankers' Committee in each state.
2. Depending on duration of crops (short/long-term), NPA norms would also be made applicable to **agricultural term loans**.
3. Ensure these norms are applicable to all direct agricultural advances listed in **master circular** on lending to priority sector.
4. For agricultural **loans, other** than circular, ensure that identification of NPAs has been done on **same** basis **as non-agricultural advances**.

**Q16) Restructured advances.**

- Restructuring is an act, in which lender, for economic/legal reasons wrt borrower's financial difficulty, grants concession to borrower.
- Eg, modification of terms, alteration of instalment/repayment period.
- Imp. Points -

- Auditor has to verify compliance with **RBI circular**.
- Banks may **restructure** a/cs classified under **std, substd & doubtful**.
- Banks **can't restructure** a/cs with **retrospective** effect.
- If banks receive application for restructuring- implies that a/c is intrinsically **weak**.
- Auditors need to consider whether **provision reqd** for a/cs for which pending approval for restructuring.
- On restructuring, a/c will **downgrade from std to substd**. NPAs will remain in same category.

**Q17) Fixed assets and other assets.**

- Verify opening balance - FA schedule.
- Check documents/title deed.
- Reconcile FA register with ledger.
- If premises under construction, show in separate heading "Premises under construction"
- For self constructed FA, check bills.
- Leased FA - AS 19/Ind AS 116 - Leases

**Q18) Banking**

- Keywords - Stress testing & Basel III Framework
- Tier I Capital-
  - **Share capital + disclosed reserves**
  - Bank's **highest quality capital** because fully available to cover losses
- Tier II Capital-

○ **Certain reserves + subordinated debt**

- **Loss absorption capacity of Tier II capital is lower** than Tier I capital.
- Capital Risk Adequacy Ratio (**CRAR**) =  $\frac{\text{Eligible total capital funds}}{\text{Risk weighted assets \& off B/S items}} \times 100$
- RBI requires banks to maintain minimum **CRAR of 9%** on ongoing basis.

Eg, for secured housing loans,

- upto 75 lakh - Risk weight is 50%
- > 75 lakh - 75%
- > 75 lakh - 100% (Loans to commercial real estate)
- For house loan of 60 lakh, risk weighted asset is 50% i.e. 30 lakh for denominator in CRAR formula.

**Q19) Examples of contingent liability.**

<b>Claims against bank, not acknowledged as debt</b>	<b>Liability for partly paid investments</b>	<b>Liability for o/s forward exchange &amp; derivative contracts</b>
<b>Guarantee given on behalf of constituents</b>	<b>Acceptance, endorsements &amp; other obligations</b>	

**Q20) Audit approach for contingent liability.**

Ans. Auditor should obtain representation from management that-

1. All <b>off</b> B/S trans have been accounted in books as & when such trans has taken place.
2. All <b>off</b> B/S trans have been entered after due procedure.
3. All <b>off</b> B/S trans - supported by documents.
4. All yr end <b>contingent liabilities - disclosed</b> .
5. <b>Disclosed CL</b> do not include crystallised liabilities which are of nature of loss/expense & requires creation of provision in FS.

**Q21) Acceptance, endorsement & other obligations.**

Evaluate adequacy of IC over issuance of LOC.	Verify balance of LOC from bank register.	Examine whether bank incurred potential financial obligation.
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**Q22) Bills for collection - audit procedures.**

Ensure that bills drawn on other branches of bank are not included in bills for collection.	Verify bills for collection wrt corresponding register.	Examine procedure for crediting party on whose behalf bill collected.
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**Q23) Audit report.**

Ans. Nationalised bank  $\longrightarrow$  Auditor gives report to  $\longrightarrow$  CG

Content of audit report-

1. Whether <b>B/S</b> is full & fair, with necessary particulars & properly drawn to exhibit T&F view.
2. In case auditor had called <b>explanation</b> , whether given and satisfactory.
3. Whether or not transactions of bank are within <b>powers</b> .
4. Whether <b>returns</b> recd from offices and branches - adequate.
5. Whether <b>P&amp;L</b> A/c shows T&F balance of P&L.
6. <b>Other</b> matters

**Q24) LFAR - Long Form Audit Report**

1. Given by <b>statutory branch as well as statutory central auditors</b> .
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2. **Questionnaire** form.
3. Observation on **cash, bank balance, investments, advances, deposits.**
4. Statutory **branch auditor** will **submit** to statutory **central auditor.**
5. **Consolidation** at head office.
6. Statutory **central auditor submits to management.**
7. **Mgt submit to ACB**, along with action taken to rectify irregularities.
8. Copy of LFAR & agenda note - submit to **RBI within 60 days** of submission of LFAR by stat auditors.

**Q25) Report and certificate content.**

Ans. Statutory Central auditor provides report and certificate on-

<b>LFAR</b>	<b>Report on compliance with SLR requirements</b>	<b>Asset liability management</b>	<b>Certificate for custody of unused bank receipt forms &amp; utilisation.</b>
<b>Report on instances of adverse credit - deposit ratio in rural areas.</b>			

**Q26) Concurrent audit**

1. Verification of trans. concurrently as & when trans. takes place.
2. Done by **internal staff**, not involved in operations or **external auditor.**
3. Purpose - Deviation from laid down procedures noticed immediately & quick action can be taken.
4. Scope of concurrent audit-
  - Scope determined by Bank's **Central Inspection & Audit Dept** in consultation with ACB.
  - Check **high risk transactions** with large financial implication.
  - **RBI guidelines** to be followed.
  - Areas/scope of concurrent audit - **cash, deposits, advances, investments, foreign exchange, housekeeping, other items.**
5. Bank ki marzi - external auditor or internal staff.
6. If internal staff - **independent** of branch.
7. Tenure of external concurrent auditor with a bank- **max 5 years on continuous basis.**  
Tenure with **1 branch - max 3 years.**
8. If external auditor - serious **omission/commission.** Then, appointment cancelled & report to **RBI & ICAI.**
9. Terms of appointment and remuneration - decided by ACB.

**Q27) Concurrent audit reporting.**

1. Every bank has structured **format.** Major deficiencies highlighted in special note & given to bank's controlling offices. **Quarterly review** placed before **ACB.**
2. **Zone wise reporting** of findings to ACB & **annual report** of audit system placed before **ACB.**
3. Auditor **discuss issues with branch manager** before submission of report.
4. Minor irregularities rectified timely. Serious **irregularities**-reported to **HO.**
5. **Fraud** - immediately report to **Inspection & Audit Dept (HO), Chief Vigilance Officer, Branch Manager,** unless involved in fraud.
6. **Follow up** by inspection and audit department.

**Q28) Steps in audit.**

Ans. **Stage I - Initial Considerations**

Acceptance & Continuance	Declaration of indebtedness	Internal assignment by statutory auditors	Terms of Audit Engagement
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Communication with previous auditor	Planning	Establish engagement team
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**Stage II - Understanding**

Bank & envt, including IC	Bank's a/cing process	Risk mgt process
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**Stage III - Risk assessment**

Identify & assess ROMM	Assess risk of fraud, including money laundering	Assess specific risk	Risk of outsourcing of activities
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**Stage IV - Execution**

Eng. Team Discussion	Response to assessed risk	Establish overall audit strategy	Audit Planning Memorandum	Audit Materiality	Going Concern
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**Stage V - Reporting****Q29) Legal framework (Laws applicable to banks)**

Banking Regulation Act, 1949	RBI Act, 1934	SBI Act, 1955
IT Act, 2000	COA, 2013	

**Q30) MCQ**

Bank ka **half yearly review** (30/09 & 31/03) of investment portfolio.

**Q31) Bonus Answer - Blank in exam - Internal control/ Audit Procedures/ Audit approach-**

Auditor will verify amount, docs, compliance with RBI guidelines, signature, policy of BoD, books
Periodical inspection, Internal control

**BONUS TIP : ASSERTION 1 LINE EXPLANATION TECHNIQUE-**

<b>For P/L Items</b> - occurrence, completeness, accuracy, classification, cut-off.
<b>For B/S Items</b> - existence, completeness, valuation, presentation, rights, and obligation.

**UNIT 2 - NBFC AUDIT****Q1) Definition.**

As per RBI (Amendment) Act, 1997, Non Banking Financial Company-

Financial institution which is co.	Non-banking institution which is co & principal business is receiving deposits/ lending	Other non-banking institution, notified in Official Gazette
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**Q2) Principal Business Criteria (50% criteria or 50-50 test)**

<p>1. Co. is treated as NBFC when company's <b>financial assets constitute &gt;50% of total assets</b> (net off by intangible assets) &amp; <b>income from financial assets is &gt;50% of gross income.</b></p> <ul style="list-style-type: none"> <li>○ See figures of last audited balance sheet</li> <li>○ Co. fulfilling both criteria is NBFC &amp; requires to be registered as NBFC by RBI.</li> </ul>
<p>2. <b>Registration &amp; regulation of NBFC</b> - No NBFC is allowed to commence/carry on business without</p> <ul style="list-style-type: none"> <li>○ Obtaining <b>certificate of registration</b> by RBI.</li> <li>○ Net owned fund of ..... crore</li> </ul>

- **10 crore** for NBFCs currently applying for registration-from 01/10/22 (**2 crore** for NBFC P2P, AA & NBFCs with no public funds & no customer interface; **300 crore** for NBFC-IFC & IDF-NBFC)
- For existing NBFCs, NOF is **2 crore** which is to be **increased to 10 crore** for certain NBFCs in phased manner as follows -

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹ 2 crore	₹ 5 crore	₹ 10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹ 7 crore (₹ 5 crore in NE Region)	₹ 10 crore
NBFC-Factor	₹ 5 crore	₹ 7 crore	₹ 10 crore

### Q3) Categories of NBFC.

Deposit accepting NBFCs	Non deposit accepting NBFCs - BL,ML,UL,TL
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### Q4) Co. exempted from registration.

Housing finance institutions	Merchant banking company	Stock exchange
Stock broking/sub broking company	Venture capital fund company	Nidhi company
Insurance company	Chit company	Micro finance company
Securitisation and reconstruction company	Mutual benefit company	Alternative investment fund (AIF) company
<b>Core investment company (CIC)</b>		

-CIC of asset less than 100 crore, & asset of 100 crore & above but not accessing public funds are exempted.

### Q5) Bank vs NBFC.

1. NBFC <b>can't accept demand deposit</b> but some NBFC accept term deposits.
2. NBFC <b>do not form part of payment &amp; settlement system</b> & cannot issue cheques drawn on itself.
3. Deposit insurance facility of Deposit Insurance & Credit Guarantee Corporation ( <b>DICGC</b> ) is <b>not available</b> to depositors of NBFC, unlike banks.
4. <b>No minimum exposure</b> to priority sector reqd. by NBFC.

### Q6) Audit procedures.

1. <b>Ascertaining business of co.</b> <ul style="list-style-type: none"> <li>○ MoA/AoA, minutes of Board meeting, discussion with mgt.</li> </ul>
2. <b>Evaluation of internal control system</b> <ul style="list-style-type: none"> <li>○ Maintenance of a/cing system + IC - Responsibility of mgt.</li> <li>○ Loopholes &amp; fraud identification.</li> <li>○ Determine NTE of AP &amp; whether IC - adequate.</li> </ul>
3. <b>Registration with RBI</b> <ul style="list-style-type: none"> <li>○ Check Ans. 2</li> </ul>
4. <b>NBFC Acceptance of Public Deposit Directions</b> - NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 2016 - Check 6 things <ul style="list-style-type: none"> <li>○ Check whether NBFC has filed <b>returns</b> timely.</li> </ul>

- For NBFC not accepting public deposit, check whether Board **resolution** passed that it has neither accepted PD nor would it accept any PD.
- Test check **interest** calculation to ascertain that NBFC hasn't paid excess interest.
- Check whether investment in liquid assets by NBFC accepting public deposit lodged in safe custody with **SCB**.
- Verify deposit **register** & test check particulars in it for each depositor.
- Obtain copy of credit **rating** assigned to NBFC & check if PD held are as per credit rating.

If upgrading/downgrading credit rating, NBFC will have to increase/reduce PD & inform in writing to RBI.

-In **downgrading** below minimum grade, NBFC shall **regularise excess deposit**-

i. With immediate effect, **stop accepting fresh deposit** & renewing existing.

ii. All **existing deposit** shall run off to **maturity**.

iii. **Report** position within **15 working days** to regional office of **RBI**.

-**No matured PD** shall be **renewed** w/o express & voluntary consent of depositor.

### 5. NBFC Prudential Norms

- Check compliance with **prudential** norms of income recognition, income from investment, AS, asset classification, etc.
- Auditor should assess whether NBFC is complying with **Prudential norms**. Verify that advances are classified as standard/ sub standard/doubtful/loss & proper provision is made.
- For **NPA**, auditor has to check whether unrealised income hasn't been taken to P/L account on accrual basis. Income from NPA has to be accounted on realisation basis.
- Check whether all accounts classified as **NPA** in PY, continue to be shown as NPA in CY. If not, examine whether it is regular and can be treated as performing.

### Q7) Classification of fraud by NBFC.

1. **Misappropriation** and criminal breach of trust.
2. **Irregularities** in foreign exchange transactions.
3. **Cheating** and forgery.
4. **Any** other fraud.
5. **Fraudulent** encashment through forged instruments, manipulation of BoA.
6. **Unauthorised** credit facilities extended for reward.
7. **Negligence** and cash shortages.

Point 2 & 7-reported as fraud if intention is suspected/proved. But following cases where intention is not suspected/proved are fraud -

**Cash shortage >10,000**

**Cash shortage > 5,000**

Detected by mgt/auditor/officer & not reported

### Q8) Audit checklist/verification procedures for all NBFC. Eg NBFC - ICC

1. **Test** check bills recd from brokers wrt prices vis-à-vis stock market quotations on respective dates.
2. Verify whether NBFC hasn't advanced any **loan** against security of own shares.
3. Verify **charges** recd/paid in respect of securities lend/borrowed.
4. Obtain balance **confirmation** from concerned parties.
5. Obtain **confirmation** from approved intermediary regarding securities deposited/ borrowed from it as on year end.
6. In respect of securities held through depository, obtain **confirmation** from depository as to securities held by it on behalf of NBFC.

### Q9) Ind AS applicability - **All NBFCs**

**Q10) Diff. b/w Div II (Ind AS-Other than NBFC) & Div III (Ind AS-NBFC) of Sch III.**

1. NBFC are allowed to present items of **B/S** in liquidity order which is not allowed for Div II.
2. NBFC is required to separately **disclose** by way of note any item of 'other income' or 'other expenditure' in excess of 1% of total income.  
Div II requires disclosure for any item of income/exp. exceeding 1% of revenue from operations or ₹10,00,000, whichever is higher.
3. NBFC are required to separately disclose under '**receivables**', debts due from LLP in which its director is partner/member.
4. NBFC are required to disclose items of 'revenue from operations' and 'other comprehensive income' on face of statement of **P/L** instead of showing them as part of notes.
5. Separate disclosure of **T/R**, which have significant increase in credit risk & credit impaired.
6. **Condition** for distribution for statutory reserves have to be separately disclosed in notes.

**Q11) Audit report to BoD/Auditor's additional report to BoD/auditor's duty to report/ auditor's obligation-**Ans. (I) For all NBFCs-

Auditor has to examine that <b>CoR</b> obtained from RBI	Whether min <b>NOF criteria</b> is met	If obtained, ensure co. is <b>entitled to continue</b> hold certificate & whether <b>Principal Business Criteria</b> is fulfilled as on 31/03 of applicable year
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NOTE-Every NBFC submit certificate from stat auditor that it is **eligible to hold CoR** to Regional Office of Dept of Non-Banking Supervision under whose jurisdiction NBFC is regd, within **5** working **days from date of signing AR, but not later than 31<sup>st</sup> December** of same year.

(II) For NBFC accepting public deposit (PD)-

○ Whether co. <b>violated restriction</b> on acceptance of PD.
○ Whether co. <b>defaulted</b> in paying to depositors, interest/principal after it became due.
○ Whether co. furnished to <b>RBI</b> , quarterly returns on Prudential norms.
○ Whether co. furnished to <b>RBI</b> , return on deposits specified in DNBS 01.
○ Whether PD are in excess of permissible <b>limits</b> .
○ Whether NBFC is accepting PD <b>w/o min.</b> investment grade <b>credit rating</b> .

(III) For NBFC not accepting PD - Whether

Board has passed <b>resolution</b> for non-acceptance of public deposit	Company has <b>accepted PD</b>	Complied with <b>Prudential norms</b> for income recognition, AS, asset classification, etc.
NBFC is correctly classified as NBFC Micro Finance Institutions ( <b>MFI</b> )	Whether <b>Capital adequacy ratio</b> disclosed in form NBS-7 has correctly arrived & whether it is in compliance with min CRAR.	

(IV) NBFC which is not required to hold CoR - Auditor has to include **statement** that company is **complying with RBI directions**.

IMP. POINTS-

1. If AR unfavourable/qualified statement is given - state reason.

**2. Obligation of auditor to submit exception report to RBI.**

- In case of NBFC, **statement** as to any items above is unfavourable/**qualified**/non-complaint with

RBI Act, 1934.	NBFC Acceptance of Public Deposits (RBI) Directions, 2016
Master Direction - Reserve Bank of India (NBFC-Scale Based Regulation) Directions, 2023	

- It shall be obligation of auditor to make **report** containing details of unfavourable/qualified statements to Regional office of Dept of Non-Banking Supervision of **RBI**.
- It shall be duty of auditor to **report only contraventions** of RBI Act, 1934 & directions & such report shall **not contain** any statement of **compliance** with any provisions.

**Q12) Prudential Norms**

(I) **Capital Requirements**- Every NBFC shall maintain **capital ratio of min. 15%** of risk weighted assets of which **Tier I capital** of NBFC (except NBFC-MFI) shall be **10% min**. If lending against **gold jewellery** (loan comprising 50% or more of financial assets), **Tier I capital min 12%**

**Tier 1 capital for NBFCs (except NBFC-BL) is sum of -**

1. Owned fund as reduced by investment in shares of other NBFCs, shares, debentures, bonds, o/s loans & advances, including hire purchase & lease finance made to & deposits with subsidiaries & companies in same group exceeding, in aggregate, 10% of owned fund.
2. Perpetual debt instrument issued by non-deposit taking NBFCs in each year to extent it doesn't exceed 15% of aggregate Tier 1 capital of such company as on 31 <sup>st</sup> March of previous accounting year.

NOTE-NBFC-BL aren't eligible to include perpetual debt instrument in Tier 1 capital.

**Tier 2 capital for NBFCs (except NBFC-BL) is sum of -**

1. Preference shares except those which are compulsory convertible into equity.
2. Revaluation reserve at discounted rate of 55%
3. General provisions (including that for standard assets) & loss reserves to extent these aren't attributable to actual diminution in value or identifiable potential loss in any specific asset & are available to meet unexpected loss to extent of one & one fourth % of risk weighted assets.
4. Hybrid debt capital instruments
5. Subordinated debt
6. Perpetual debt instrument issued by non-deposit taking NBFC in excess of what qualifies for Tier 1 capital. to extent aggregate doesn't exceed Tier 1 capital.

NOTE-NBFC-BL aren't eligible to include perpetual debt instrument in Tier 2 capital.

S. No.	Weighted risk assets - On-Balance Sheet items	Percentage weight
(i)	Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii)	<b>Investments:</b>	
	(a) Approved securities [Except at (c) below]	0
	(b) Bonds of public sector banks	20
	(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
		100
	(d) Shares of all companies and debentures / bonds/ commercial papers of all companies and units of all mutual funds	
	(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation	50
(iii)	<b>Current assets/Other Financial Assets:</b>	
	(a) Stock on hire (net book value)	100
	(b) Intercompany loans/deposits	100
	(c) Loans and advances fully secured against deposits held	0
	(d) Loans to staff	0
	(e) Other secured loans and advances considered good	100
	<b>(i) Consumer credit exposure (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans</b>	<b>125</b>
	<b>(ii) Credit Card Receivables</b>	<b>125</b>
	[Except at (vi) below]	
	(f) Bills purchased/discounted	100
	(g) Others (To be specified)	100
(iv)	<b>Fixed Assets (net of depreciation):</b>	
	(a) Assets leased out (net book value)	100
	(b) Premises	100
	(c) Furniture & Fixture	100
(v)	<b>Other assets:</b>	
	(a) Income tax deducted at source (net of provision)	0
	(b) Advance tax paid (net of provision)	0
	(c) Interest due on Government securities	0
	(d) Others (to be specified)	100

(vi)	<b>Domestic Sovereign:</b>	
(a)	Fund based claims on the Central Government	0
(b)	Direct loan / credit / overdraft exposure and investment in State Government securities	0
(c)	Central Government guaranteed claims	0
(d)	State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
(e)	State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

(II) Income Recognition/Asset classification (except NBFC-MFI)- Every NBFC classify loans and advances into standard /substandard/doubtful/loss assets.

"**Standard asset**" means asset in respect of which **no default** in repayment of principal/ interest.

"**Sub std asset**" - Asset classified as NPA 

Asset where **terms** for interest/principal are **renegotiated** until expiry of **1 year** of satisfactory performance.

"**Doubtful asset**" - Asset which remains sub std 

"**Loss asset**"-Asset identified as loss asset by NBFC to the extent it isn't **w/off** or non recoverability due to **erosion in value of security**.

"**NPA**" means overdue for **>180 days**. Classification - Borrower wise & not facility wise except lease & hire purchase.

Period of >180 days-adjusted as per *Glide Path*: NPA classification norm stands changed to overdue period of >90 days for applicable NBFCs.

<b>NPA Norms</b>	<b>Timeline</b>
>150 days overdue	By 31 <sup>st</sup> March, 2024
>120 days overdue	By 31 <sup>st</sup> March, 2025
>90 days overdue	By 31 <sup>st</sup> March, 2026

*Glide path* NA to NBFCs which are already required to follow 90 day NPA norm.

### Q13) Provisioning requirements (except NBFC-MFI)

1. **Loss assets** - **100%** of outstanding (o/s) provided for.

2.

Doubtful assets**Unsecured** - 100% o/s provided for**Secured**Period for which doubtful% of provision

Upto 1 year

20

1-3 years

30

&gt;3 years

50

3. **Substandard asset** - 10% of total o/s

4. **Standard asset** - 0.25% for NBFC-BL & 0.40% for NBFC-ML. Provision for standard assets-Don't net from gross advances but shown separately as 'Contingent provisions against standard assets' in B/S.

**Q14) Types of NBFC (kind of activities)**

Investment and credit company (ICC)	Infrastructure finance company (IFC)	Core investment company (CIC)
Infrastructure debt fund NBFC (IDF - NBFC)	NBFC - Micro Finance Institution (NBFC - MFI)	NBFC - Factors
NBFC - Non Operative Financial Holding Co. (NOFHC)	Asset finance co., Invst Co., Loan co., mortgage guarantee co.	

**Q15) CARO 2020 - Clause xvi**

Report "**whether co. is reqd to be regd u/s 45IA of RBI Act, 1934 & whether reg. obtained**"  
Check 50% criteria to know registration requirement and minimum NOF.

Eg, company with NOF 1.5 crore & not having reg. So report as per clause xvi.

**PRO TIP** -If question says about audit reporting & is confusing you, write any 5-6 points from question 11.

**Q16) NBFC classification as per scale-based regulation (SBR)**

NBFC-Base Layer <b>(NBFC-BL)</b>	NBFC-Middle Layer <b>(NBFC-ML)</b>	NBFC-Upper Layer <b>(NBFC-UL)</b>	NBFC-Top Layer <b>(NBFC-TL)</b>
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**1. NBFC - BL :**

- A. Non-deposit taking NBFC below asset size of 1000 crore.
- B. NBFC with following activities

NBFC-Peer to Peer Lending Platform (NBFC-P2P)	NBFC-Account Aggregator (NBFC-AA)	Non Operative Financial Holding Co. (NOFHC)	NBFC not availing public funds & not having customer interface
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**2. NBFC - ML :**

- A. All deposit taking NBFCs, irrespective of asset size (NBFC -D)
- B. Non-deposit taking NBFCs with asset size of 1000 crore & above.

## C. NBFC with following activities-

Standalone Primary Dealers (SPDs)	Infrastructure debt fund NBFCs (IDF-NBFCs)	Core investment Co. (CICs)	Housing finance co. (HFCs)	Infrastructure finance co. (IFC)
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## 3. NBFC -UL :

- A. NBFC identified by RBI requiring enhanced regulatory requirement.  
 B. **Top 10** eligible NBFCs in terms of asset size, irrespective of other factors.

4. NBFC - TL : **Empty**. Populated if RBI is of opinion that there is substantial increase in potential systemic risk from specific NBFCs in Upper Layer. Move to TL from UL.

**-Imp. Points - (Categorisation of NBFCs - specific activity)**

SI-always in ML, CHI & NBFC-D:ML/UL, Govt owned NBFCs - BL/ML

IMM - Any Layer

NBFC-Invst & Credit Co. (NBFC-ICC)	NBFC Micro Finance Institution (NBFC-MFI)	NBFC Factors & Mortgage Guarantee Co. (NBFC-MGC)
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PSU AUDIT

## Q1) Framework for govt audit.

1. Performed by <b>C&amp;AG</b> through <b>IAAD</b> .
2. Article 148-151 of Constitution - Role of C&AG.
<ul style="list-style-type: none"> <li>○ <b>Article 148</b> - <ul style="list-style-type: none"> <li>i. <b>Appointment</b> of C&amp;AG by <i>President</i>.</li> <li>ii. <b>Removal</b> of C&amp;AG - proven misbehaviour/incapacity.</li> <li>iii. <b>Salary</b> / T&amp;C - Parliament.</li> </ul> </li> <li>○ <b>Article 149</b> - <ul style="list-style-type: none"> <li>i. Functions &amp; powers of C&amp;AG as per C&amp;AG's (Duties, Powers &amp; Conditions of Service) Act, 1971.</li> </ul> </li> <li>○ <b>Article 150</b> - <ul style="list-style-type: none"> <li>i. President prescribe <b>form of accounts</b>.</li> </ul> </li> <li>○ <b>Article 151</b> - <ul style="list-style-type: none"> <li>i. Audit report of C&amp;AG.</li> <li>ii. <b>CG</b>— submit →President— laid → Parliament</li> <li>iii. <b>SG</b>—submit →Governor —laid →Legislative Assembly</li> </ul> </li> </ul>
3. As per Act, C&AG hold office for <b>6 yrs or upto age of 65 years, whichever is earlier</b> .
4. <b>Resign</b> to President.

## Q2) Financial committees of Parliament.

1. <b>Public Accounts Committee (PAC)</b> - Duty to satisfy itself that -
<ul style="list-style-type: none"> <li>○ <b>Money disbursed</b> legally on <b>purpose</b> to which applied.</li> <li>○ <b>Expenditure</b> was authorised.</li> <li>○ <b>Re- appropriation</b> as per provisions.</li> <li>○ Examine C&amp;AG report on a/cs of <b>autonomous &amp; semi autonomous bodies</b>.</li> </ul>
2. <b>Estimates Committee (EC)</b> -Examine estimates with view to -
<ul style="list-style-type: none"> <li>○ <b>Report</b> what economies, improvement in org., efficiency may be effected.</li> <li>○ Suggest alternative <b>policies</b>.</li> <li>○ Examine if <b>money</b> well laid out within limit.</li> <li>○ Suggest form in which estimates presented to <b>Parliament</b>.</li> </ul>
3. <b>Committee on Public Undertakings (COPU)</b>
<ul style="list-style-type: none"> <li>○ To examine <b>reports</b> &amp; accounts of PU.</li> <li>○ To examine <b>reports of C&amp;AG</b> on PU.</li> <li>○ To examine <b>autonomy &amp; efficiency</b> of PU &amp; to see if they are managed as per sound business principles &amp; prudent commercial practices.</li> <li>○ To exercise <b>other functions</b> vested in PAC and EC, if allotted by speaker.</li> </ul>

## Q3) C&amp;AG's Role

Friend, philosopher, Guide of committees.

1. His <b>reports are basis</b> of committees' working, although they are not precluded from examining other issues.
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2. He **scrutinises notes** - ministries submit committees & helps committees to check correctness & facts in draft report.



4. **For AR, which couldn't be discussed in detail** by committees, **written ans.** obtained **from dept** & sometimes incorporated in report to Parliament/SL.

**Q4) Audit by C&AG**

<b>Financial</b>	<b>Compliance</b>	<b>Performance</b>
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Government audit - 2 elements

<b>Fiscal accountability</b> Audit of provision of funds, sanctions, compliance, propriety	<b>Managerial accountability</b> Audit of economy, efficiency & effectiveness
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-Managerial accountability= efficiency-cum-performance audit.

**Q5) Elements of PSU audit.**

<b>Three parties</b>	<b>SM, criteria, SMI</b>	<b>Types of engagement</b>
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**A. 3 Parties-**

<b>Auditor</b>	<b>Responsible party (RP)</b>	<b>Intended users</b>
SAI, India	Auditable entities & its TCWG	Individuals/org./classes for whom auditor prepares AR.
C&AG & IAAD constitute SAI		
Senior functionaries of SAI representing C&AG in state are called Accountants General.		

**B. SM, criteria, SMI-**

- SM (Subject matter) - ICA measured against criteria.
- Criteria - benchmarks
- SMI (Subject Matter Info) - Outcome of measuring SM against criteria

**C. Types of engagement**

<b>Attestation engagement</b>	<b>Direct reporting engagement</b>
RP measures SM against criteria & presents SMI. Auditor gathers SAAE to	Auditor measures SM against criteria. Eg, performance & compliance audit.

provide reasonable basis for expressing conclusion. Eg, financial audit.	
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### Q6) Financial and compliance audit.

1. <b>Financial Audit</b>	Conducted to express audit opinion on FS and enhance confidence of intended users in FS.
2. <b>Compliance audit</b>	Independent assessment of whether given <b>SM</b> is in <b>compliance</b> with applicable <b>criteria</b> .

Compliance audit is concerned with -

A. <b>Regularity</b> - adherence of SM to formal criteria emanating from Laws/Reg./Agreements
B. <b>Propriety</b> - observance of general principles of sound FM & ethical conduct of public officials.

Compliance audit is conducted-

i. <b>with audit of FS.</b>
ii. <b>Separately</b> as individual compliance audit.
iii. <b>In combo</b> with performance auditing.

### Q7) Performance audit.

• <b>Objective and systematic examination</b> of evidence
• <b>To provide independent assessment</b> of performance of govt org/program /activity
• <b>To provide info</b> to improve public accountability & facilitate DM by parties with responsibility to oversee corrective action.
• Performance audit address issues of economy, efficiency, & effectiveness

1. **ECONOMY** - **Minimising cost** of resources used - appropriate quantity, quality, best price.

2. **EFFICIENCY** - **Input output ratio**, min input - max output. Auditing efficiency embraces aspects like whether -

○ Sound <b>procurement</b> practices followed.
○ <b>Resources</b> properly protected and maintained.
○ Human/financial/other <b>resources</b> efficiently used.
○ Optimum amount of <b>resources</b> used in producing appropriate quality/qty of G&S.
○ Efficient operating <b>procedures</b> used.
○ Objectives of <b>public</b> sector programmes met cost effectively.

3. **EFFECTIVENESS** -Extent to which objectives achieved and relation between intended impact and actual impact of activity.

In auditing effectiveness, performance audit, may -

○ <b>Identify</b> factors inhibiting satisfactory performance or goal fulfillment.
○ <b>Identify</b> ways of making programmes work more effectively.
○ <b>Assess</b> compliance with L/R applicable to program.
○ <b>Assess</b> effectiveness of program and individual program components.
○ <b>Assess</b> adequacy of mgt control system to measure, monitor & report programme's effectiveness.

**Q8) Planning for performance audit/factors considered/steps.**

- 1) **Understanding entity/programme.**
- 2) **Defining objectives and scope of audit.**
- 3) **Determining audit criteria.**
- 4) **Deciding audit approach.**
- 5) **Developing audit questions.**
- 6) **Assessing audit team skills and whether outside expertise required.**
- 7) **Preparing audit design matrix.**
- 8) **Establishing time table and resources.**
- 9) **Intimation of audit programme to audit entities.**

**Q9) Understanding Entity/Programme - Sources**

- a) **Docs** of entity - Policy files, annual report, accounts.
- b) Legislative **docs** - Legislation, Parliamentary questions & debates, report of PAC, EC, COPU, letters from MP.
- c) Policy **docs** - Docs of planning commission, MoF.
- d) **Special** focus groups - Report of World Bank, RBI, NGOs.
- e) **Academic**/special research - Independent evaluation, academic research by other govt and other SAIs.
- f) Past **audits** - Past financial and performance audit.
- g) Media **coverage** - Print/electronic media.

**Q10) Determining audit criteria. - Sources**

- a) **Procedure** manuals of entity.
- b) **Policies**, standards, directives, guidelines.
- c) Criteria used by same/**other** entity in similar activity.
- d) Independent expert **opinion** and know how.
- e) New/established **scientific** knowledge/other info.
- f) General management and **SM** literature and research papers.

**Q11) Deciding audit approach.**

- a) **Analysis** of procedures - Review of systems for planning, conducting, checking, monitoring activity.
  - b) **Analysis** of results - Auditor - output input analysis to determine efficiency of program.
  - c) Quantitative **analysis** - Examination of available data of financials like earning, revenue or data of program implementation like details of beneficiary.
  - d) **Case studies** - Descriptive analysis of entity, scheme, program. Analysis of particular issue within context of whole area.
  - e) **Use of existing data** - Audit staff investigates data held by entity mgt + other sources.
  - f) **Surveys** - Collecting info from members of population to assess interrelation of events & conditions.
- **Audit Design Matrix (ADM)** includes audit objective, audit questions, audit criteria, evidence, data collection & analysis method.

**Q12) Comprehensive audit.**

C&AG conducts efficiency-cum-performance audit other than field already covered by IA of individual concerns/professional auditors. He locates weak areas.

- Issues/matters in comprehensive audit to be examined -

1) Has <b>planned</b> rate of return been achieved?
2) Is there poor/inefficient <b>project</b> planning?
3) Are system of <b>project</b> formulation & execution sound? Are there inadequacies? What is effect on capital cost?
4) If enterprise has adequate system of <b>Repairs &amp; Maintenance</b> ?
5) Are procedures effective & <b>economical</b> ?
6) Does enterprise has <b>R&amp;D</b> programmes? What is performance by adopting new process, techno, ↑ profits & ↓ cost by technological progress?

**Q13) Propriety audit.**

1) Verification of trans. on tests of <b>public interest, commonly accepted customs &amp; std of conduct.</b>
2) Auditor bring out cases of <b>improper, avoidable, infructuous exp.</b> , even if exp. is as per rules.

**-Principles of propriety audit -**

1) <b>Exp.</b> is <b>not</b> prima facie <b>more than occasion</b> demands & every official exercise same degree of vigilance for exp. as person of ordinary prudence would for own money.
2) Authority exercise power to sanction exp. to pass order - <b>not</b> directly/ indirectly accruing to <b>own advantage.</b>
3) Funds <b>not</b> utilised for <b>benefit</b> of <b>particular/group of persons.</b>
4) Apart from agreed remuneration, <b>no</b> other <b>avenue</b> kept open to indirectly <b>benefit mgt</b> personnel/employees/others.

**-Functions of auditor in context of propriety audit-**

1) See that all exp. properly <b>planned.</b>
2) See that size & <b>channel</b> of exp rightful & expected to give max results.
3) See that substitute plan of action can bring <b>improvement</b> on current operation.
4) Appraise whether exp. likely to give optimum <b>result.</b>
5) Examine <b>actions</b> & decisions of mgt to see that they are conducive to public interests & they meet std of conduct.

**-Problems in propriety audit -**

1) <b>Distinct</b> nature.
2) Formulation of auditing proposition.
3) <b>Subjective</b> - difficult to establish std of public interest, commonly accepted customs, std for conduct. Solution - Norms of property laid by C&AG.
4) <b>Auditor's judgement - objective.</b> Otherwise - Propriety audit - counterproductive.

**Q14) Audit report of C&AG**

Presented to Parliament in several parts consisting -

- |   |
|---|
| 1) <b>Intro</b> - General review of working results of govt co., deemed govt co. & Corporations.  |
| 2) <b>Results</b> of comprehensive appraisal of selected undertakings conducted by Audit Board.   |
| 3) <b>Resume</b> of co. auditors' report submitted by them under directions of C&AG.              |
| 4) Significant <b>results</b> of audit of undertakings not taken up for appraisal by Audit Board. |

-For certain **states**, C&AG submit **separate audit report** (commercial) to legislature, while for other states/UTs with legislature, there is commercial chapter in main auditor report.

**Q15) Principles of PSU audit.**1) **General principles** -

- |   |
|---|
| • Quality control                                 |
| • Audit risk                                      |
| • Materiality                                     |
| • Documentation                                   |
| • Communication                                   |
| • Ethics and independence                         |
| • Audit team management and skill                 |
| • Professional judgement, due care and skepticism |

2) **Principles related to audit process** -• **Planning audit-**

- |   |
|---|
| i. Establish terms of audit.                      |
| ii. Obtain understanding of entity.               |
| iii. Conduct Risk assessment of problem analysis. |
| iv. Identify risk of fraud.                       |
| v. Develop audit plan.                            |

• **Conducting audit-**

- |                                       |
|---------------------------------------|
| i. Perform planned AP to obtain AE.   |
| ii. Evaluate AE and draw conclusions. |

• **Reporting and follow up** -

- |   |
|---|
| i. Prepare report based on conclusions. |
| ii. Follow up on reported matters.      |

INTERNAL AUDIT

## Q1) Meaning of Internal Audit (IA)

IA provides independent assurance on *effectiveness of internal control & risk mgt* process to *enhance governance* & achieve *organizational objectives*.

## Q2) Objectives &amp; scope of IA Function as per SA 610-'Using the work of Internal Auditor'

**1. Examination of financial & operating info-**

- o Eg, IA of sales record, sales commission to identify correctness of revenue

**2. Monitoring of Internal control-**

- o Eg, 3 way match-purchase order, material receipt, vendor invoice

**3. Review of compliance with law & regulations-**

- o Eg, New Tax Regime

**4. Review of operating activities-**

- o Eg, Review inventory mgt activity & handling

**5. Risk Management-**

- o Eg, Evaluation of risk exposure for complex financial instrument trans.

**6. Governance**

- o Eg, Governance in accomplishment of objectives on ethics/values

## Q3) Applicability of IA-Sec 138 of Companies Act, 2013-(Comply any 1)

• **listed company**• **unlisted public company-**

- o **PUSC 50cr** or more in last FY, or
- o **turnover 200cr** or more in last FY, or
- o o/s **loan** from bank/public FI **>100cr** at any point of time in last FY, or
- o o/s **deposit 25cr** or more at any point of time in last FY

• **pvt. company-**

- o **Turnover 200cr** or more in last FY, or
- o o/s **loan** from bank/public FI **>100cr** at any point of time in last FY

Comply within 6 months of applicability

## Q4) Who formulates objectives of IA?

- Sec 138 of **Companies Act -AC/BoD**, with mgt & Chief of IA
- Other org.-Those who appoint IAr

## Q5) Eligibility of Internal Auditor-

- Individual/firm/body corporate
- **CA/CMA(whether in practice or not)/Decided by Board**
- May/may not employee of co.
- Part of mgt & not merely assistant

**Q6) Std on IA(SIA)210-Managing IA Function, IA Function does activities to achieve objectives-**

- **Identify**, source, engage & manage **external expert** & technical solution
- Define overall **plan, scope** & methodology of IA Function periodically
- Develop **quality evaluation & improvement** program
- **Communicate** & engage **stakeholders** about progress & objectives
- **Monitor** audit assignment, **planning, execution**, reporting of finding, closure of observation

**Q7) Internal Auditor's Responsibilities wrt accounting function & financial records-**

- Internal auditor-independent **status**
- operate independently of **a/cing** staff & not divest with responsibility
- observe **facts** & report to authority
- Not perform executive **function**
- ascertain adequacy of internal control by exam. of **a/cing** procedures

**Q8) Internal Audit Plan**

**Developed** & documented by **internal auditor**, in consultation with **TCWG**, including **AC**.

Developed in way that all business processes of financial & operational activities are reviewed by internal audit function within defined time & ensuring appropriate **consideration** made & balance ensured to following-

- **Risk** underlying business process
- **Risk** appetite of organization
- **Value** that IA can provide to org.
- **Effort** involved to conduct IA for particular business process
- **Coverage** of all auditable areas within defined time range

**Q9) Scope of Internal Auditor's work-**

- **Review of Internal Control System & Procedures-**
  - Assessing design, operational **efficiency & effectiveness** of IC System
  - Consider **limitations** of IC-cost benefit comparison, human error, collusion
- **Review of Custodianship & safeguarding of Assets-**
  - Verify **existence** of asset
  - Review **segregation of duties** is in place
  - Ensure all assets **accounted** fully
  - Review **control** system for intangible assets. Eg procedures related to credit control
- **Review of Compliance with Policies, Plans, Procedures & Regulations-**
  - Examine system of periodical **review** of existing **policies** in case of change in method & nature of operations.
  - Point out specific **weakness** & suggest remedial **action**
- **Review of Relevance & Reliability of Information-**
  - **Review** information system
  - Examine if **reporting by exception** i.e. report highlight significant & distinctive features
- **Review of Organisation Structure-**
  - Review manner in which activities of enterprise **grouped for managerial control**

- Examine reasonableness of **span of control**(no. of subordinates) of each executive
- Review **SoD** considered in org. structure
- **Review of Utilisation of Resources-**
  - Check if proper operating std & **norms established**
  - If wide **divergence** b/w actual & std performance, consider **reason**
- **Review of Accomplishment of Goals & Objectives-**
  - Review objectives of enterprise to see if clearly **stated** & attainable
  - Examine if objectives in precise **quantifiable** terms

#### Q10) Independence, Integrity & Objectivity of Internal Auditor-

- Free of undue influence/interference. Independence in mind+appearance
- Honest, truthful, high integrity, fair, avoid conflict of interest, no undue advantage
- Objective, No bias/prejudice

#### Q11) Qualities of Internal Auditor-

- Special expertise to evaluate mgt control system, specially financial & **a/cing** controls
- **A/cing** & financial expertise
- Knowledge of commerce, law, tax, cost **a/cing**, economics, quantitative method, EDP system
- Provide assurance to **mgt** that confidentiality of info maintained
- Understanding **mgt** principle, technique
- Understanding **a/cing** software, ERP system; knowledge of IT controls

#### Q12) Performing Internal Audit Engagement-

##### **STEP 1-Obtain knowledge of business & Environment**

- **Meeting** with stakeholders, BoD, KMP
- Understanding **docs**-SOPs, FS

##### **STEP 2-Perform Audit Planning**

- **Plan audit engagement**-SIA 310-Planning IA Assignment. **Scope approved by AC/BoD**

##### **STEP 3-Gather required information**

- **Obtain** info directly from source & check **correctness** & integrity

##### **STEP 4-Perform audit checks**

- **Collate data** & perform analytical procedures(**AP**) for **key trends**. AP as per SIA 6
- SIA 5-**Sampling** (to select samples)
- SIA 330-IA **Documentation** (for IA work papers)

##### **STEP 5-Reporting of Internal Audit Issues**

- **Draft report** of IA issues covering business process reviewed as per scope, audit coverage, exclusions, gaps, etc
- **Review mgt action against** those agreed in **previous audit** & report follow up in report
- IA circulate **Final report** & findings **to AC**.

#### Q13) Internal Audit Report

- If Internal auditor identifies **fraud**(actual/suspected)/misappropriation of asset- Immediately **report to mgt**
- SIA 370-Reporting results, **reporting** of IA result in **2 stages-**

- **At end of assignment**, IA Report covering **area**, function prepared by Internal auditor highlighting key **observation**. Issued to **auditee**; **copies** shared to local/executive **mgt**
- **Periodically**, at close of plan period, **comprehensive report** of all IA activities covering entity & plan period **prepared by CIA** (or EP in case of external service provider). **Reporting** normally **quarterly & submitted** to generally **AC**. Some part of IA Reports may form part of periodic (Eg, Quarterly) report shared with AC.

SIA 370 deals with Internal auditor's responsibility to issue only 1st type of report.

#### Q14) Elements in IA Report-

- **Overview** of objectives, scope & approach of assignment
- **Fact** that IA conducted as per SIA
- **Executive** summary of key observation of imp aspects, specific to scope of assignment
- **Summary** of corrective action for each observation
- **Nature** of assurance derived from observation

#### Q15) Form & content of Report-

Decided by internal auditor based on judgement, in consultation with auditee. No IA report in final form unless written draft previously shared with auditee.

Typical IA report includes-

- Audit **scope**
- Audit **period**
- Executive **summary**
- **Summary** of critical findings
- **Detailed** audit finding with elaboration on business impact & root cause of issues

#### Q16) Documentation-

- Copies of draft & final IA report, cross referenced to observations
- Mgt action plan counter signed by respective mgt personnel

#### Q17) Follow up-

- SIA 390-Monitoring & Reporting of **Prior Audit Issues**, **CIA** responsible for **monitoring closure** of such issues by action plan.
- Responsibility to implement **action plan** is of **mgt**
- **Internal auditor review** if follow up by mgt on basis of report. If **no action taken** in reasonable time-**draw** mgt **attention**. If mgt **not implemented recommendations**, internal auditor ascertain **reasons**
- If mgt **accepted recommendation**, internal auditor periodically review **manner & extent of implementation** & report to mgt which recommendation not implemented fully/partly

#### Q18) Relation between Internal (IAr) & External Auditors (EAR)-

- Scope & objective of IA depends on **size & structure** of entity & mgt requirement. Internal auditor-areas like review of a/cing system & IC, exam. of financial & operating info. There is **overlap** b/w work of IAr & EAR

- **Work of IAr has imp bearing** on work of Ear.
- Ear-Examine **scope & effectiveness** of work of IAr.
- **Independence** of IAr & **status** in org. determine effectiveness of audit
- **EAR evaluate** IA function to determine **NTE** of compliance & substantive **procedures**.

## Q19) Diff. b/w Internal &amp; External Audit

BASIS	INTERNAL AUDIT	EXTERNAL AUDIT
<b>Performed by</b>	Independent IA Function within org/external body	Independent body, not part of org
<b>Status of auditor</b>	Can be employee	Not employee
<b>Appointment</b>	IAr appointed by AC/BoD	EAR appointed by members
<b>Users of report</b>	Top mgt & referred by EAR	Stakeholders
<b>Examination</b>	IAr examine adequacy of operational controls of org	EAR examine accuracy & validity of FS
<b>Period</b>	Continuously throughout yr	Once in yr
<b>Reporting</b>	IA report-IC weakness & effectiveness of operational activities	Opinion on truthfulness & fairness of FS

## Q20) Audit Trail (Edit Log)

**Visible trail of evidence** to trace info in report back to original input source. It is chronological **record of changes** (creating new, updating, deleting data) to data

Records maintained as audit trail include following info-

- **when** changes made i.e., date & time
- **who** made change i.e., user ID
- **what** data was changed i.e., data/transaction reference

ICs to be implemented/IT Controls-

- Controls to ensure audit trail feature not **disabled**
- Controls to ensure User ID given to each individual/not **shared**
- Controls to ensure change to **configuration** of audit trail authorized & log maintained
- Controls to ensure periodic **backup** of audit trails taken+archived
- Controls to ensure access to audit trail **disabled** & access log maintained

DUE DILIGENCE

## Q1) Audit vs DD

Audit	DD
<b>Independent examination</b> of FS to express <b>opinion</b> .	- <b>examination</b> of potential <b>investment</b> to confirm material facts of prospective business opportunity. -Review of <b>financial and non-financial</b> records. -Take care reasonable person would before entering into trans. with other party.

## Q2) Importance of DD

To confirm that <b>business</b> is what it <b>appears</b> to be.	To identify potential ' <b>deal killer</b> ' <b>defects</b> in target co. & avoid bad business transaction.	To gain useful <b>info for asset valuation, defining representation</b> , warranties & negotiating price concession	To verify that <b>trans. complies</b> with invst/ <b>acq. criteria</b> .
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## Q3) Classification of DD

1) <b>Personnel DD</b> - Personnel <b>policies in line</b> & changed with restructuring.
2) <b>Information systems DD</b> - <b>Computer</b> system.
3) <b>Commercial/Operational DD</b> - Done by acquire enterprise. <b>SOC</b> evaluation (Strategic, operational, commercial) <u>Eg</u> , whether merger will create operational synergy.
4) <b>Legal DD</b> - <b>Legal</b> aspects.
5) <b>Environmental DD</b> - Entity's <b>envt, flexibility</b> & adaptiveness to acquirer entity.
6) <b>Financial DD</b> - Analysis of <b>BoA</b> & other fin. matters. Its performed after commercial DD.
7) <b>Tax DD</b> - Separate DD exercise but since its integral component of financial status of co., generally included in FDD. <b>Tax effect</b> of M&A.

Q4) Mr. A wants to sell business. B Ltd. wants to buy business. You are doing DD audit to decide whether its worthwhile to buy business. What procedures to follow before advice? Or DD process includes some objectives for verification areas. What are they?

<b>Brief description of history of business</b>	<b>Accounting policies &amp; practices</b>	<b>Mgt info system</b>
<b>Background and standing of promoters</b>	<b>Trading results of both past and recent past</b>	<b>A&amp;L of latest B/S</b>

-SCOPE OF FINANCIAL DD-

<b>A/cing policies</b>	<b>Review of FS</b>	<b>Financial projection</b>	<b>Cash flow</b>	<b>Taxation</b>
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## Q5) DD for hidden liabilities

Co. may not show SCN which have not matured into demands as contingent liabilities - material & imp.

Tax	Tax <b>liability</b> of DT/IDT.
	Long pending <b>sales tax</b> assessment.
	Pending final assessment of <b>custom duty</b> where only provisional assessment completed

<b>Labour</b>	Unresolved labour <b>litigation</b> .
	Unfunded <b>gratuity</b> /superannuation/leave salary liability.
	Huge labour <b>claims under negotiation</b> since labour wage agreement expired.

## Q6) DD for over valued assets

<b>Uncollected receivables</b>	<b>Litigated assets and property</b>	<b>Intangible assets of no value</b>
<b>Investment carried at cost though realisable value is much lower</b>	<b>Investment with very low rate of return</b>	<b>Deferred revenue expenditure</b>

## Q7) DD for cash flow

1) Is co. able to <b>honor commitments</b> to T/P, banks, government, etc.?
2) How well is company able to <b>turn its T/R and inventories</b> ?
3) How well does it <b>deploy</b> funds?
4) Are there <b>idle funds</b> lying/Is co. able to take max benefits out of available funds?
5) What is <b>investment pattern</b> of company and are they easily realisable?

## Q8) Work approach to DD

<b>Reviewing &amp; reporting on financials of target co.</b>	<b>Assessing business first hand by site visit.</b>	<b>Working through DD Process with acquisitioning co. by defining key areas.</b>	<b>Helping prepare offer based on completion of DD.</b>
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## Q9) How to conduct DD?

1) Start with <b>open mind</b> . Don't assume that wrong will be found. Identify trouble spots & ask for explanation.
2) Make best <b>team</b> - Internal/external experts - check experience
3) To get <b>360° view</b> - get help in all areas like finance, tax, law.
4) <b>Talk</b> to suppliers, customers, employees, business partners.
5) Take <b>risk management</b> approach.
6) Prepare comprehensive <b>report</b> - compliance and substantive risk.

## Q10) Contents of DD report/DD review report

EI	<b>Executive summary, Introduction</b>
BOT	<b>Background of target co., objective of DD, Terms of reference &amp; scope of verification</b>
BSO	<b>Brief history of co., shareholding pattern, observations on review</b>
AAA	<b>Assessment of mgt structure, financial liabilities &amp; valuation of assets</b>

Q11) Can non CA perform DD? - DD can be done by **any person**.

## Q12) Areas where DD can be done?

<b>Public offerings</b>	<b>Venture capital financing</b>	<b>Corporate restructuring</b>	<b>Disinvestment</b>
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Note - **SWOT analysis** is part of DD.

Q13) Mr X - credit manager of SBI. A Ltd. wants 10 cr loan from SBI. Mr X checks past history of A Ltd, background of promoters, shareholding pattern, nature of business, past and future financial analysis, SWOT analysis, net worth of directors, CIBIL score, creditworthiness of company and promoters. Identify activity done by Mr. X and discuss its nature.

DD - **Due Diligence**. Prudence activity. Ans. 1 DD Part.

### INVESTIGATION

Q1) Audit versus investigation.

<b>Basis</b>	<b>Investigation</b>	<b>Audit</b>
<b>Objective</b>	-Establishing fact -Assessing particular situation.	Whether FS gives T&F view of state of affairs & working results .
<b>Reporting</b>	Outcome reported to person on whose behalf investigation done.	Outcome reported to owners of business entity.
<b>Evidence</b>	Conclusive evidence	Prima-facie evidence
<b>Appointing Agency</b>	Even 3 <sup>rd</sup> party can appoint investigator .	Owners/shareholders of co. appoint auditor .
<b>Inherent limitations</b>	×	✓
<b>Periodicity</b>	No rigid time frame. May take even year	Quarterly/half yearly/ yearly

Q2) Steps in investigation.

1) <b>Determination of objectives and establishment of scope of investigation.</b>
2) <b>Formulation of investigation programme</b> - Investigation programme should be drawn up having regard to - <ul style="list-style-type: none"> <li>• <b>Nature</b> of business.</li> <li>• Instructions of client embodying <b>objectives</b> and <b>scope</b> of work.</li> <li>• Necessity to extend <b>investigation</b> into books of <b>others</b>.</li> <li>• <b>Scope</b> and <b>depth</b> of investigation.</li> <li>• <b>Structure</b> of business organisation.</li> </ul>
3) <b>Collection of evidence</b>
4) <b>Analysis and interpretation of findings</b>
5) <b>Reporting of findings</b> - Nature of report depends on client's instructions & investigator's findings

Q3) Imp. issues to be kept in mind by investigator while preparing report.

Every word/expression should be properly considered so that possibility of different <b>meaning</b> is low.	Report should not contain anything which is not <b>relevant</b> .	Relevant facts should be linked with <b>evidence</b> .
Investigator's opinion should <b>appear</b> in final para of report	Report <b>nature</b> , objective, scope, limitations of assignment	

## Q4) Special issues in investigation

- Whether investigator reqd to undertake 100% verification approach or he can adopt selective verification - Depends on circumstances of case. If cash defalcated by cashier, examine all cash vouchers. In case of arriving at profitability, verify on selective basis.
- Whether investigator can put reliance on already audited statement of a/c - Entitled to put reliance on audited FS unless he finds that audit done very casually. But if investigation launched due to doubt in audited FS, no question of reliance arises.
- Whether investigator requires assistance of expert- Investigator may obtain views & opinion of experts after obtaining written consent of client.
- Whether to retain working papers or not - Retain full notes of work & all working papers

## Q5) What points to consider for studying economic &amp; financial position of business?

What will be <b>trend</b> of sales & profit in future?	Whether business is <b>operating</b> at 100% capacity/ improvements can be made?	Whether <b>profit</b> which business expected to maintain in future would yield adequate ROCE?	Adequacy or <b>otherwise</b> of fixed & working capital. Are these sufficient for growth of business?
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## Q6) How will you evaluate T/R as investigator?

- 1) Whether proper **PFBD** have been **made** in years in which relevant **sales** took place instead of in the year in which they have been w/off.
- 2) Length of **credit period** allowed OR Excessive **discounts** allowed throughout period under investigation.
- 3) Debtors should be **classified as per age**.
- 4) Determine **debtors to sales** ratio.

## Q7) What factors you will take into a/c as investigator in assessing turnover?

- 1) **Political & economic considerations** - Are govt policies likely to promote extension of market for goods to other countries?
- 2) **Marketability** - Is it possible to extend sales into new markets OR they have been fully exploited?
- 3) **Trend** - Whether in past, sales have been increasing consistently OR fluctuating?
- 4) **Competition** - What is likely effect on business if other manufacturers enter same field OR if products sell in competition are placed on market at cheaper price?

## Q8) How will you evaluate working capital requirement as investigator?

- 1) Has ratio of inventory to **turnover** been increasing & if so, is it continuing or temporary trend?
- 2) Are **trade payables** paid promptly or backlog?
- 3) What will be effect on inventory, T/R, T/P if **turnover** is increased OR if new products are introduced?

## Q9) Investigation on behalf of incoming partner.

- 1) Ascertainment of **history** of inception and growth of firm.
- 2) Ascertain manner of **g/w** computation on admission/retirement.
- 3) Special clause in P/s **deed** to allow admission in future of new partner on concessional terms.
- 4) Position of orders at hand & range & quality of **clientele** of firm.
- 5) Composition & quality of **key personnel** of firm & likelihood of their leaving org. in near future.
- 6) Firsthand knowledge of **specialisation** of firm in any activities.

#### Q10) Investigation for valuation of shares in pvt. Co.

##### Equity shares - 2 methods of valuation -

##### **1<sup>st</sup> method - Value on basis of networth of co.**

**NW** is **divided by** no. of **shares** comprising equity capital to arrive at value of 1 share. **G/w** & non trading assets (like investment) based on estimated future maintainable profit is included among assets to arrive at NW.

##### **2<sup>nd</sup> method - Avg. profit of business of past 5 -7 years is computed.**

Assuming that same will continue, value of business calculated by capitalising it at reasonable rate of interest. If **rate - high, value** of business - **smaller**. If **rate - low, value** of business - **high**.

Provision of risk factor & restriction on t/f in value of shares made by varying rate of interest applied.

Rate of return that investor expects to earn in business of type in which co. engaged is ascertained from price of shares of co. engaged in similar business quoted on stock exchange.

#### Q11) Investigation on behalf of bank/FI proposing to give advance/loan to co.

- 1) **Purpose** of loan & manner in which borrower proposes to invest loan amt.
- 2) **Financial standing** & reputation for business integrity of directors /officers of co.
- 3) History of growth & development of co. & performance in **past 5 years**.
- 4) If loan application to **other bank**/FI was made & if yes, **reason of rejection**.
- 5) If company authorised by **MoA/AoA** to borrow money for purpose for which loan will be used.

To investigate profitability of business for judging accuracy of repayment schedule furnished by borrower, as well as value of security in form of assets of business already possessed and those which will be created out of loan, investigating accountant shall take following steps -

- Prepare condensed income statement from P&L for past 5 years.
- Compute ratios separately - sales to avg inventories held, sales to fixed assets, equity to fixed assets, current ratio, quick ratio, equity to long-term loans, sales to book debts & return on capital employed.
- Enter breakup of annual sales product wise to show trend.

#### Q12) Investigation on behalf of individual/firm proposing to buy business.

-In case of **proprietary concern/partnership-**

- 1) Unexpired period of **patent** owned by vendors.
- 2) Reason of sale of business and effect on turnover and **profit**.

3) Length of lease under which **premises** held.

4) Age of staff and **prospects** of continuing.

5) Valuation of **goodwill**.

-If business belongs to **ltd co**.

1) **Authorised & issued capital** of company.

2) If there is **uncalled liability** on shares.

3) If capital divided into class of shares - **rights of each class**.

4) Particulars of **dividend** paid in past & arrear amt (on cum. pref. shares)

5) Mortgage/charge on assets - search in **Register of charges**.

### Q13) Investigation in connection with review of profit/financial forecasts

There are many investigations involving examination of future profits like-

- **Profit reports** reqd as part of general investigation into purchase of business.
- By banks and FIs wrt project **cash flow & profitability statements** for appraisal of loan applications submitted by intending borrowers.

### Q14) Fraud diamond/4 elements of fraud/4 categories of indicators of fraud.

1) **Incentive** - I want to/have need to commit fraud.

2) **Opportunity** - There is weakness in system that right person could exploit. Fraud is possible.

3) **Rationalisation** - I have convinced myself that this fraudulent behaviour is worth risks.

4) **Capability** - I have necessary abilities to be right person to pull it off. I have recognised fraud opportunity & can turn it into reality.

### Q15) Indicators of fraud/possible frauds-

1) **Discrepancies in a/cing records** including incorrect/delayed recording of amount.

2) **Conflicting/missing evidence** including altered documents.

3) Unacceptable **mgt response** like denial of access to records, unusual delay in providing info.

4) Other indications like frequent **change in a/cing estimates**.

### Q16) Factors affecting auditor's ability to detect fraud

1) **Skillfulness of perpetrator**

2) **Frequency and extent of manipulation**

3) **Degree of collusion**

4) **Relative size of individual amounts manipulated**

5) **Seniority of individuals involved**

### Q17) Investigation for cash receipts.

1) Showing larger cash discount than actually allowed.

2) Undercasting receipt side of cashbook/overcasting pyt. side.

3) Adjusting cash sale as credit sale & raising debit in a/c of customer.

4) Adjusting fictitious credit in a/c of customer for value of goods returned by him.

5) Writing of good debt as bad to cover up amt collected which has been misappropriated.

**Verification of cash receipts/audit procedures -**

- |   |
|---|
| 1) Carbon copies of receipts marked 'duplicate' should be scrutinised to confirm that they are copies of receipts issued earlier. |
| 2) Cash sales vouched in detail.  |
| 3) All withdrawals from Bank checked wrt entries in bank passbook.  |
| 4) Recovery from customer checked with receipts issued to them.   |
| 5) Evidence of income from diff sources scrutinised.Eg, sales summary.  |

**Q18) Investigation for cash payments.**

- |  |
|--|
| 1) Making double payment of invoice/paying false invoice.  |
| 2) Paying personal exp from business by false details.Eg showing betting loss as adv exp.            |
| 3) Withdrawing unclaimed cr. balance of customer or amt falsely credited in a/cs of parties.         |
| 4) Falsely adjusting refund in a/c of customer & withdrawing cr. balance.                            |
| 5) Wrong totalling of wage sheet & misappropriating excess amt withdrawn from bank for pyt of wages. |

**Verification of cash payment/audit procedures -**

- |  |
|--|
| 1) Evidence of cash payment - scrutinised.   |
| 2) Payment by bearer cheques - examined.   |
| 3) Petty cash book vouched & totalled.   |
| 4) Special attention - wage payment. Obtain confirmation of mgt that pyt. to actual persons. |
| 5) Obtain confirmation from partners/directors for amt shown as paid to them.                |

**Q19) Fraud through suppliers' ledger.**

- |  |
|--|
| 1) Suppressing cr. notes issued by suppliers & withdrawing corresponding amt. not claimed by them.   |
| 2) Withdrawing amt unclaimed by suppliers for any reason by showing that it has been paid to them.   |
| 3) Accepting purchase invoice at price higher than market price & collecting excess amt paid in cash from suppliers.                             |
| 4) Adjusting fictitious invoice as purchase in a/cs of suppliers & subsequently misappropriating amt when payment made to suppliers for invoice. |

**Verification of balance in suppliers' ledger/audit procedures**

- |  |
|--|
| 1) Purchase journal vouched wrt entries in goods inward book.  |
| 2) All suppliers - furnish statements of a/cs.   |
| 3) Examine internal control system for purchase order issued & identify possibility of collusion with suppliers. |
| 4) Allowances and rebates - evaluated.   |

**Q20) Fraud through customers' ledger.**

- |   |
|---|
| 1) Teeming & lading.  |
| 2) Misappropriating amt collected from customer & adjusting his a/c by crediting amt on a/c of allowance/rebate for excess price charged. |
| 3) Crediting amt recd from customer to a/c of another customer & subsequently withdrawing amt wrongly credited.                           |

**Verification of balance in customers' ledger/audit procedures-**

1) Special attention - allowance adjusted on a/c of goods returned/diff. in price.
2) Obtain confirmation of customer for amt standing in a/cs.
3) To confirm that a/cs of customers have been dr. for goods supplied to them. Entries in order book cross checked with those in sales day book.
4) Those with no balance in a/cs - requested to confirm statement of a/c for ascertaining that entries shown were genuine.

**Q21) Inventory frauds.**

Employees <b>remove</b> goods from premises.	<b>Theft</b> of goods - concealed by <b>w/off</b> as damaged goods.
Stock actually dispatched but <b>not entered in sales a/c.</b>	<b>Inflating qty</b> issued for production.
Inventory <b>records manipulated</b> by employees who committed theft so that book qty tally with actual qty .	

**Verification for defalcation of inventory / Audit procedures**

Entire system of receipt, storage, dispatch of goods <b>reviewed</b> to localise weakness.	Physical quantity in inventory & those shown by inventory books - <b>reconciled</b>
Take guidance from past <b>records</b> showing extent of wastage in production.	Check per <b>hr</b> capacity of m/c & time it took to complete 1 cycle of production.

**FORENSIC ACCOUNTING****Q1) Definitions**

<b>Forensic A/cing</b>	<b>Red Flag</b>
Application of <b>a/cing methods</b> to tracking & collection of forensic <b>evidence</b> for investigation & prosecution of criminal acts.	<ul style="list-style-type: none"> <li>Indicator of <b>danger</b>/inappropriate behaviour.</li> <li>Not necessarily indicate fraud - but caution.</li> <li><b>FP red flag, a/cing system red flag, operational red flag, behavioral red flag.</b></li> </ul>

-Statutory audit : only by CA. Forensic : non-CAs permitted.

**Q2) Difference between other audits and forensic accounting**

	<b>Other audit</b>	<b>Forensic a/cing</b>
<b>Objective</b>	Opinion - <b>T&amp;F</b>	If <b>fraud</b> actually in books.
<b>Techniques</b>	Substantive and compliance. <b>Sample based</b>	Investigative, substantive, <b>in depth</b> checking.
<b>Period</b>	Particular a/cing <b>period</b>	<b>No</b> limitation
<b>off B/S items (contracts)</b>	Used to vouch <b>arithmetic accuracy</b> & compliance with procedures.	<b>Regulatory &amp; propriety</b> of trans. examined.
<b>Adverse findings</b>	-ve/ <b>qualified opinion</b> with/ without quantification.	Legal <b>determination</b> of fraud impact & identification of <b>perpetrators</b> .
<b>Verification of stock, estimation realisable value</b>	Relies on mgt <b>certificate</b> / representation.	Independent/ <b>verification</b> of suspected items where misappropriation suspected.

of assets,  
provision, liability

### Q3) Forensic Accountant Professional

- 1) Analyse, interpret, summarise & present complex financial & **business issues**.
- 2) Engaged in **public practice/employed** by insurance co, bank, police, govt agency.
- 3) Forensic accounting services -

<b>FS manipulations</b>	<b>Fund diversion/asset tracing</b>	<b>Anti Money laundering</b>
<b>License fee/dues/tax evasion</b>	<b>RPT/valuations</b>	<b>Suspicious trans under IBC</b>

- 4) Forensic Accountant Professional involved in -

<b>Fraud detection</b>	<b>Investigating financial evidence</b> , detecting financial fraud.
<b>Computer forensics</b>	Developing <b>computerised application</b> to assist in analysis & presentation of financial evidence.
<b>Fraud prevention</b>	Either <b>reviewing IC</b> to verify adequacy/ providing consultation in development & implementation of IC framework.
<b>Providing expert testimony</b>	Assisting in legal proceedings, including <b>testifying in court as expert witness</b> & preparing visual aids.

### Q4) Process of forensic a/cing

<b>Step 1 - Initialization</b>	- <b>Meet client</b> to understand imp facts & issues -Conflict check -Preliminary investigation before detail plan
<b>Step 2 - Develop Plan</b>	-Objectives & methodology by considering knowledge from <b>client meeting &amp; initial investigation</b>
<b>Step 3 - Obtain Relevant Evidence</b>	-Locating <b>docs</b> , economic info, person/proof -Gather detailed evidence - investigator understand <b>type</b> of fraud & how committed. -Investigator - alert - <b>docs falsified</b> , damaged by suspect.
<b>Step 4 - Perform Analysis</b>	- <b>calculating economic damages</b> . - <b>performing tracing of assets</b> . - <b>Summarising large number of transactions</b> - <b>Regression/sensitivity analysis</b> . - <b>Utilising charts &amp; graphics to explain analysis</b> . - <b>Performing PV calc. - disc. rate</b> . - <b>Utilising computerised appl. - spreadsheet</b> .
<b>Step 5 - Reporting</b>	-Issue report. -Client expect - <b>findings</b> of inv, summary of evidence, concl. - loss & perpetrator. -Report - <b>nature &amp; scope</b> of investigation, approach, limitation, findings, controls circumvent. -Investigative team - recommend <b>improvement</b> - future fraud
<b>Step 6 - Court Proceedings</b>	-Investigation - legal proceedings. -Evidence - presented in court & team called to court <b>describe evidence &amp; how suspect identified</b> .

**Q5) Forensic Accounting & Investigation report**

FAIS 510 Professional  $\longrightarrow$  report  $\longrightarrow$  stakeholders  
at conclusion of assignment

1 engagement - many assignments. Since many reports -1 for 1.

Report - **written**, addressed to primary stakeholders & shared with other SH.

Format not fixed - key elements

**Q6) Key elements of report**

1) **Title, addressee, distribution list (if any)**

2) **Scope & objectives of assignment**

3) **Approach & broad work procedures**

4) **Executive summary of results - important aspects & findings**

5) **Reference to use of expert, if applicable**

6) **Fact - assignment - FAIS/material departure**

7) **List of finding supported by key evidence & source of evidence**

8) **Assumptions, limitations & disclaimer of assignment**

9) **Conclusion**

Discussion of draft report -If discussion of finding with subject party, their response included in report.

Assumptions and limitations -

- List down assumptions and limitations. Eg of limitation -lack of mgt support, denied access to records.
- Report **won't give opinion**/judgement on guilt/innocence.
- Reporting timelines - reasonable, interim - standard

**Q7) Framework Governing Forensic Accounting & Investigation -FAI (the Framework)**-Objectives -

1) Provide overall understanding of FAI & key components.

2) Outline manner in which components come together in interrelated cohesive manner.

3) Maintain & improve quality of FAI services.

-Key components/pillars of Framework -

<b>Basic principles of FAI</b>	<b>Key concepts</b>	<b>Std on FAI</b>	<b>Guidance</b>
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-All components mandatory but **guidance recommended**.

-Code of ethics - Foundation of Framework

-FAIS provide

1) **Professionals** with minimum **std** for FAI assignment.

2) **Users** of FAI services - indication - expected **quality**.

3) **Regulator**/govt agency - appreciation - what **expected**.

4) Everyone - **guidance** - matters of implementation + practical issues.

-If member **depart** from FAIS/conflict b/w FAIS & other mandate - FAI **report** draws attention to material departure + explanation.

**EMERGING AREAS****Q1) What is sustainable development and its pillars of sustainability?**

It addresses needs of **present moment without compromising** current & **future generations** to meet sustainable lifestyles.

**3 pillars of sustainability** - Environment(E), Social (S), Governance(G) - ESG Reporting:

<b>Environment(E)</b>	Climate policies, energy, waste, pollution, natural resources like electricity, water
<b>Social(S)</b>	Relations with people & institutions like labour relations & value chain.
<b>Governance(G)</b>	Internal practices to govern, make investment decisions & comply with law.

ESG reporting is about disclosure of information & can be **quantitative & qualitative**.

**Q2) Name 17 SDGs -**

United Nations members states adopted sustainable development to provide blueprint which mentioned Sustainable Development Goals (SDGs). Corporates contribute to SDGs due to their capacity to provide solutions necessary to meet SDGs. Companies lead in innovation and contribute to achievement of SDGs.

<b>C</b>	<ul style="list-style-type: none"> <li>Clean water and sanitation</li> <li>Affordable and clean energy</li> <li>Sustainable cities and communities</li> <li>Responsible consumption and production</li> <li>Climate action</li> </ul>
<b>E</b>	<ul style="list-style-type: none"> <li>Quality education</li> <li>Gender equality</li> <li>Decent work and economic growth</li> </ul>
<b>P</b>	<ul style="list-style-type: none"> <li>No poverty</li> <li>Peace, justice and strong institutions</li> <li>Partnership for the Goals</li> </ul>
<b>H</b>	<ul style="list-style-type: none"> <li>Zero hunger</li> <li>Good health and well-being</li> </ul>
<b>I</b>	<ul style="list-style-type: none"> <li>Industry innovation &amp; infrastructure.</li> <li>Reduced inequalities</li> </ul>
<b>L</b>	<ul style="list-style-type: none"> <li>Life below water</li> <li>Life on land</li> </ul>

**Q3) Global trends in sustainable reporting.**

Most widely used framework in world is Global Reporting Initiative (GRI) Sustainability Reporting Standards having 93% of world's largest 250 corporations. It is used in over 100 countries & is based in Amsterdam, Netherlands.

(I) <b>Global Reporting Initiative (GRI)</b>	Helps org. to report on <b>economic, environmental &amp; social impacts</b> .
(II) <b>Carbon Disclosure Project (CDP)</b>	<b>GHG emissions</b> , water, forest, supply chain
(III) <b>International Integrated Reporting Framework (IIRC)</b>	Principles to produce <b>integrated reports</b> . Governance structure, business model, <b>risks &amp; opportunities, strategy</b> .

## Q4) 6Cs of Integrated Reporting / 6 Capitals of Integrated Reporting

I) <b>Financial capital</b>	<ul style="list-style-type: none"> <li>Pool of <b>fun</b>ds for use in production of G&amp;S.</li> <li>Debt, equity</li> </ul>
II) <b>Manufactured capital</b>	<ul style="list-style-type: none"> <li>Human created <b>equi</b>pment and tools.</li> <li>Available for use in production of G&amp;S.</li> </ul>
III) <b>Natural capital</b>	<ul style="list-style-type: none"> <li>Input for production of G&amp;S.</li> <li><b>Water, land, forest.</b></li> </ul>
IV) <b>Human capital</b>	<ul style="list-style-type: none"> <li>People's <b>skills</b> and experience.</li> <li>Alignment with <b>human rights</b>.</li> <li>Ability to implement strategy</li> <li><b>Loyalties</b> and motivation.</li> </ul>
V) <b>Social capital</b>	<ul style="list-style-type: none"> <li><b>Relations</b> between each community.</li> <li><b>Values</b></li> <li>Social license</li> </ul>
VI) <b>Intellectual capital</b>	<ul style="list-style-type: none"> <li>Future earning potential</li> <li>Investment in <b>R&amp;D, innovation</b>, human resources.</li> </ul>

-Asia Pacific region - 60% companies reported in 2022. Integrated reporting is strong in Middle East.

## Q5) Global scenario in various countries.

(I) **UNITED STATES**- In March 2022, US Securities & Exchange Commission (SEC) proposed climate risk disclosure requirements. Reporting includes-

Co's climate <b>risk mgt processes</b>	How <b>risks</b> identified impact <b>financial performance</b>	How <b>risks</b> are <b>managed</b> & mitigated	<b>Scenario analysis, transition plans</b> & publicly announced climate goals.
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(II) **UNITED KINGDOM** - UK ESG Disclosures is COA 2006. Rules apply to large companies that are either **listed, exceed £500 million in annual turnover** or have **more than 500 employees**.

Matters covered-

<b>Env</b> t (incl. co's impact on envt)	<b>Co's employees</b>	<b>Social matters</b>	<b>Respect for human rights</b>	<b>Anti-corruption &amp; anti-bribery</b>
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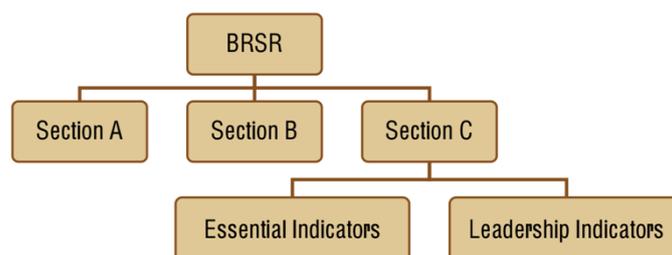
## Q6) Integrated Reporting &amp; BRSR.

(I) SEBI recommended **Integrated Reporting** for **top 500 listed companies (voluntary)**

(II) **BUSINESS RESPONSIBILITY & SUSTAINABILITY REPORT (BRSR)**

-SEBI - **Top 1000 listed co.** by market capitalization.

-Reporting under BRSR is mandatory from FY 2022-23. It was voluntary in FY 2021-22. 3 Sections



<b>Section A - General Disclosures</b>	-Details of listed companies, products, services, operations, employees. -Holding, subsidiary, associate companies.
<b>Section B - Mgt Process &amp; Disclosures</b>	-Policy & management processes. -Governance, leadership, oversight.
<b>Section C - Principle-wise Performance Disclosures</b>	2 categories of KPIs

<b>Essential indicators (Mandatory disclosures)</b>	<b>Leadership indicators (Optional disclosures)</b>
Data on training programs, environmental data on energy, emissions, water, waste mgt.	Life cycle assessments, conflict mgt policy, additional data on biodiversity, energy consumption, supply chain mgt.

### 9 Principles of BRSR -

#### Principle 1 - Ethics, Transparency & Accountability

-Business decisions - open to disclosure & accessible to interested parties.

1) Entities' governing structure develop <b>policies</b> for offices ensuring- <b>ethics not compromised</b> .
2) Info wrt policies along with performance - made <b>available to stakeholders</b> .
3) In case of adverse effects, more care to be taken for <b>transparent disclosures</b> .
4) Entities in <b>value chain</b> - <b>encouraged</b> to adopt these principles.
5) Entities - proactively <b>respond</b> to outside <b>entities</b> that <b>violate</b> 9 principles of BRSR, Eg, suppliers, distributors.

#### Principle 2 - Safe & Sustainable Goods & Service

-Entities - make sure that G&S result in better life for consumers.

1) Production method - devised to minimise <b>resource</b> usage to make it sustainable.
2) Educate & make aware consumers about their <b>rights</b> .
3) Measures to <b>reduce</b> over exploitation of natural resources - reduce, reuse, recycle.

#### Principle 3 - Promote well-being of all employees incl. those in value chain

1) Compliance with <b>regulatory</b> requirements.
2) Respect <b>dignity</b> of employee & shouldn't restrict <b>freedom of unions</b> for collective bargaining of rights & redressal of issues.
3) <b>Prevent child labour</b> , bonded labour, involuntary labour.
4) System in which <b>work-life balance</b> not compromised.
5) <b>Timely payment</b> of wages.
6) Payment of wages as per <b>living wages</b> that can take care of basic needs.
7) <b>Safe</b> , hygienic & comfortable work <b>environment</b> .
8) <b>Skill development</b> , career development, training.
9) Workplace <b>free of harassment</b> and violence.

#### Principle 4 - Respect for stakeholders' interests & responsiveness

1) <b>Transparent &amp; communicate</b> with stakeholders about impact of operations on people & nature.
2) Determine context of <b>operation</b> & identify interested parties.
3) Fairly <b>share benefits</b> to stakeholders.

#### Principle 5 - Respect & promote human rights

- 1) **Understanding** of human rights & ways by which human rights can be violated - Constitution, laws, international bill of human rights.
- 2) **Integrate** human rights element into policies.
- 3) **Respect** human rights of all stakeholders.

**Principle 6 - Protection & restoration of Environment**

- 1) Policies to assess & **rectify** impacts to envt.
- 2) Use of natural & manmade resources in **optimum** manner to ensure sustainability.
- 3) **Measure performance** wrt prevention of pollution, destruction of forest, waste etc.
- 4) Contribute towards **climate change resilience** .
- 5) **Comparison with industry** best practices to reduce, reuse, recycle.
- 6) Look for avenues by which **improve performance** towards envt responsibilities.

**Principle 7 - Influence on Public & Regulatory Policy**

- 1) Core elements of BRSR are to have met when org. go ahead with contributions to **policy formulation & policy advocacy**.
- 2) **Trade groups & industry chambers** utilised when moving ahead with policy advocacy & formulation.
- 3) Role in policy advocacy in such a way that encourages **fair competition** & prevents human rights abuses.

**Principle 8 - Promote Inclusive Growth & equitable development**

- 1) **Identify & address impact** of activities on social, cultural & economic aspects of people.
- 2) **Track** adverse **impacts** of activities on society & make plans to mitigate them.
- 3) Bring up **creative products**, techno. that help marginalised communities to have well-being.
- 4) When designing CSR activities - review **local development** priorities to help marginalised groups.
- 5) Ensure **relocation** of communities **doesn't happen** & in unavoidable cases, make sure fair compensation provided.
- 6) Intellectual property & traditional knowledge get respect & **benefits** derived from knowledge **shared** equitably.

**Principle 9 - Provide value to consumers in a responsible manner**

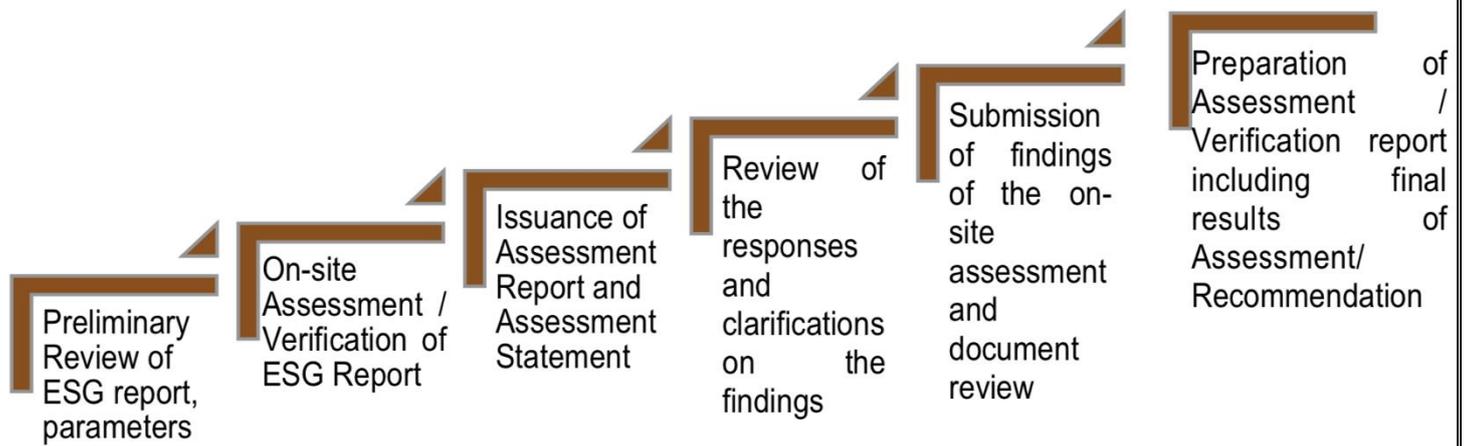
- 1) Reduce **-ve impact** of G&S on consumers & nature.
- 2) Shouldn't prevent **freedom of choice** and fair competition.
- 3) Disclose **adverse impacts** to user from products.
- 4) Right to **privacy** of customer data.
- 5) Inform customers - ways of **reduce, reduce, recycle** & eliminate overconsumption.
- 6) **No misleading** & confusing info. in **advertisement**.
- 7) Grievance **redressal** & feedback management system.
- 8) **Essential** goods & services - universal **access**.

**Q7) SSAE 3000.**

Standard on Sustainability Assurance Engagements (SSAE) 3000 "Assurance Engagements on Sustainability Information"- date of application -

- Voluntary -period ending on 31/03/23.
- Mandatory - period ending on or after 31/03/24.

## Q8) Methodology to provide assurance on BRSR.



## Q9) Role of auditor - consideration of climate related risks in audit of FS.

1) <b>Obtain RA</b> - FS as whole free of MM - fraud or error, to enable auditor to report whether <b>FS as per AFRF</b> .
2) Auditor include consideration of <b>climate related risks</b> and how are they <b>relevant</b> to <b>audit</b> .
3) Investors seek info from AR about how <b>climate related risks addressed in audit</b> .
4) Auditor's responsibilities & <b>matters of most significance</b> in audit and how addressed.
5) <b>EOM Para</b> to draw attention to disclosures that are of fundamental importance to users' understanding of FS.
6) Auditor determine whether entity appropriately <b>disclosed</b> climate related info in FS as per AFRF.
7) Auditor read other information for consistency with FS ( <b>SA 720</b> ).

PROFESSIONAL ETHICSQ1) Code of ethics vs Law = **Law** prevails

Q2) Fundamental principles discussed in code of ethics of ICAI

<b>Integrity</b>	<b>Objectivity</b>	<b>Confidentiality</b>
<b>Professional behaviour</b>	<b>Professional competence &amp; due care</b>	

<b>Integrity</b>	-Accountant - straightforward & honest -Not knowingly associated with info containing materially false/misleading statement.
<b>Objectivity</b>	Accountant - not to compromise judgement because of bias, conflict of interest, undue influence of others.
<b>Professional competence &amp; due care</b>	-Professional knowledge and skill . -Act diligently as per technical & prof. std.
<b>Professional behaviour</b>	Comply with L/R & avoid conduct discrediting profession.

**Confidentiality** - Respect confidentiality of info acquired as result of professional relations. But following are circumstances where accountant reqd to **disclose** confidential info -

1) Disclosure required by <b>law</b> .
2) Disclosure permitted by law and authorised by <b>client</b> .
3) There is professional duty/ <b>right to disclose</b> , when not prohibited by law :
a. To comply with requirement of <b>Peer review or quality review</b> of ICAI.
b. To respond to <b>inquiry/investigation</b> by professional body.
c. To protect professional interest of accountant in legal <b>proceedings</b> .
d. To comply with <b>Technical &amp; prof. std</b> .

-In deciding whether to disclose confidential info, accountant should consider following -

• Whether <b>interest</b> of 3 <sup>rd</sup> party - <b>harmed</b> .
• Whether all relevant <b>info</b> is <b>known</b> & substantiated.
• <b>Type of communication</b> and to whom it is addressed.
• Whether parties to whom communication is addressed are appropriate recipients.

Q3) Threats &amp; safeguards.

<b>Self - interest threat</b>	Financial or other interest - influence accountant's judgement.
<b>Self - review threat</b>	Accountant not appropriately evaluate result of judgement made/activity performed by accountant.
<b>Advocacy threat</b>	Promote client's position to the point that accountant's objectivity compromised.
<b>Familiarity threat</b>	Long/close relation with client - accountant too sympathetic to their interests.
<b>Intimidation threat</b>	Accountant deterred from acting objectively due to pressure.

Examples of threats

<b>Self - interest threat</b>	-Accountant:direct financial interest in client. -Accountant having close business relation with client. -Accountant receive loan/guarantee from employer.
<b>Self - review threat</b>	-Accountant issuing report on effectiveness of financial system after implementing it.

	-Accountant determining a/cing treatment for business combo after performing feasibility study of purchase decision.
<b>Advocacy threat</b>	-Accountant promoting interest of/shares in client. -Accountant acting as advocate on behalf of client. -Accountant lobbying in favour of legislation on behalf of client. -Accountant manipulate info in prospectus to obtain favourable financing.
<b>Familiarity threat</b>	-Accountant having close family member who is director/officer of client. -Audit team member having long association with client. -Accountant having long association with individuals influencing business decisions.
<b>Intimidation threat</b>	-Accountant threatened with dismissal/ replacement due to disagreement. -Accountant pressured to agree with judgment of client as client has more expertise. -Accountant: No promotion unless he agrees with wrong a/cing treatment. -Accountant accepted gift from client & threatened that it will be made public.

#### Safeguards to eliminate/reduce threats-

1) Assigning additional <b>time</b> & qualified <b>personnel</b> to tasks.
2) Having appropriate <b>reviewer</b> , who was not team member.
3) Using different partners & <b>engagement teams</b> for provision of non-assurance services to assurance client.
4) Involving another <b>firm</b> to perform/reperform part of engagement.
5) <b>Separating teams</b> when dealing with confidential matters.

#### Q4) Non-Compliance with Laws & Regulations (NOCLAR)

<ul style="list-style-type: none"> <li><b>Omission/commission</b>, intentional/unintentional, contrary to L/R committed by <b>client/employing organisation</b> or <b>mgt/TCWG</b> of client/employing organisation or other <b>individuals working under</b> direction of <b>client/employing organisation</b>.</li> </ul>
<ul style="list-style-type: none"> <li><b>Doesn't address personal misconduct</b> &amp; non-compliance by other parties.</li> </ul>

#### Examples of NOCLAR-

Fraud, corruption and bribery	Money laundering, terrorist financing and proceeds of crime	Securities markets and trading	Banking and other financial products and services
Data protection	Environmental protection	Public health and safety	Tax and pension liabilities and payments

#### Imp. Facts -

1) NOCLAR applicable if accountant encounters NC in course of service. Not required to investigate, nor responsible to ensure complete compliance.
2) Accountant expected to exercise professional judgement. Not expected to have knowledge of L/R greater than required.
3) Matters that are inconsequential/personal misconduct not covered.

4) Disclosure of matter to authority - precluded, if contrary to L/R.

#### Applicability of NOCLAR in India:

<b>Professional accountant in service</b>	Applicable to Senior professional accountants (KMP) in service, being <b>employees of listed entities.</b>
<b>Professional accountant in public practice</b>	<b>Audit</b> of entities, shares of which are <b>listed</b> on RSE in India & have <b>NW of 250 crores or more.</b>

#### NOCLAR vs SA 250 -

1) <b>SA 250</b> -applicable only on <b>audit</b> & not on other assurance engagements. But <b>NOCLAR</b> applicable on professional accountants in <b>service &amp; practice.</b>
2) <b>SA 250</b> - auditor's responsibilities for law - <b>direct effect &amp; no direct effect.</b> <b>NOCLAR</b> takes into a/c NC that causes <b>substantial harm</b> resulting in serious consequences in <b>financial/non-financial</b> terms.
3) <b>SA 250 doesn't</b> define <b>stakeholders.</b> <b>NOCLAR</b> is related to affect of NC on <b>investors, creditors, employees, public.</b>
4) <b>NOCLAR- imminent breach</b> of L/R - <b>disclose</b> matter <b>immediately</b> to authority to prevent consequences. <b>No</b> such provision in <b>SA 250.</b>

#### Steps to be taken for responding to NOCLAR:

<b>i)Obtaining understanding of matter</b>	<b>ii)Addressing the matter</b>	<b>iii)Seeking advice</b>
<b>iv)Determining whether further action is needed</b>	<b>v)Imminent Breach</b>	<b>vi)Determining whether to disclose matter to appropriate authority</b>
<b>vii) Documentation</b>		

#### Documentation requirements in NOCLAR:

• How mgt/TCWG have responded to matter.
• Course of action accountant considered.
• Public interest has been fulfilled.

#### Q5) Disabilities for purpose of membership.

<b>Not 21 years</b>	<b>Unsound Mind</b>	<b>Undischarged insolvent</b>	<b>Misconduct</b>
<b>Discharged insolvent, not obtained from court, certificate that insolvency caused by misfortune without misconduct.</b>			
<b>Convicted by court, within or o/s India for moral turpitude &amp; imprisonment unless granted pardon or on application made by him, CG removed a disability.</b>			

Failure to disclose that he suffers from disabilities - professional misconduct.

#### Q6) Types of members of ICAI.

1) Associate member - A.C.A after name.
2) Fellow member - F.C.A after name
a. Associate member - Continuous practice in India for at least 5 yrs.
b. Associate member - Qualification & experience = to 5 yrs continuous practice.

#### Q7) Removal of name from register & restoration.

Member -

<b>Dead</b>	<b>Request received to that effect</b>	<b>Not paid prescribed fee</b>	<b>Disabilities</b>
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Restoration of membership only in 3<sup>rd</sup> case - Appl. + arrears. Effective date of restoration of cancelled membership-

<b>Application</b> & fees within <b>same year</b> of removal	Restoration with effect from date on which it was <b>removed</b> from register.
<b>Removal</b> of name under <b>orders</b> of board of discipline, disciplinary committee, appellate Authority, High Court	Restoration as per <b>orders</b> .
Other cases	Restoration with effect from <b>date</b> on which <b>application</b> & fee received .

**Q8) Penalty for falsely claiming to be member.**

CA Act, 1949 - Any person who -

- i. Not member of ICAI
  - a. Represents that he is member or
  - b. Uses designation chartered accountant.
- ii. Being member, but not having COP represents that he is in practice.

<b>1<sup>st</sup> conviction</b>	<b>Fine upto ₹1000</b>
<b>Subsequent conviction</b>	<b>Imprisonment upto 6 mth or fine upto ₹5000 or both</b>

**Q9) CA in practice**

-Member not in practice precluded to render services of type prescribed for CA, even though he doesn't require special qualifications.

-Once person becomes **member** of Institute, he is bound by **CA Act**. If he **appears** before income tax tribunal, he could appear only in his **capacity as CA**. He couldn't set them at naught by contending that even though he continues to be member of Institute & has been punished by suspension from practice, he would be entitled to practice in other capacity.

-Member of Institute can have **no other capacity** in which he can take up such practice.

Summary - CA's name removed from membership - During period of removal, won't appear before tax authorities.

**Q10) Cancellation & restoration of COP**

<b>Name of COP holder removed from register.</b>	<b>COP issued on basis of incorrect info/by mistake.</b>	<b>Member ceased to practice.</b>	<b>Member not paid annual fee for COP till 30/09.</b>
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- When COP is cancelled, holder surrender the same to Secretary.
- Appln + Fee = Restore COP with effect from date on which cancelled provided application before expiry of year.

**Q11) Members deemed to be in practice**

Individually/partnership, for remuneration -

engages in practice of accountancy	Offers to perform/performance audit or verification of financial trans	Assistance - financial facts/data	Other services
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-Member: **salaried employee of CA in practice** -deemed in **practice** for purpose of **training articles**.

Sec 2(2)(iv) of Act -permits practicing CA to render '**management consultancy services**'

MCS excludes statutory/periodical audit, DT/IDT, representation/advice for tax matters or acting as liquidator, trustee, executor, administrator, arbitrator, receiver, but includes-

- Financial mgt planning & financial policy determination.
- Capital structure planning & advice regarding raising finance.
- Working capital mgt.
- Preparing project reports & feasibility studies.
- Cash budget, cash flow statement, profitability statement, statement of source & application of funds.
- Budgeting - capital & revenue budget.
- Inventory mgt, material handling and storage.
- Market research and demand studies.
- Price fixation & mgt decision making.
- Management accounting system, cost control, value analysis.
- Control methods, management information & reporting.
- Personnel recruitment and selection.
- Setting up executive incentive plan, wage incentive plan.
- Management and operational audit.
- **Valuation of shares & business & advice regarding amalgamation, merger, acquisition. Acting as regd valuer for securities/financial assets, not for plant & m/c.**
- Business policy, corporate planning, org. development, growth & diversification.
- Org. structure & behaviour, development of HR, training program, work study, job description, job evaluation, workload evaluation.
- System analysis/design & computer services, hardware, software, EDP.
- Acting as advisor/consultant to issue, including matters like-
  - Drafting of prospectus, memorandum, listing agreement, completing formalities with SEBI, ROC.
  - Preparation of publicity budget, advice for selection of - ad-media, centres for holding conferences of brokers & investors, bankers to issue, collection centres, brokers to issue, underwriters & underwriting agreement, distribution of publicity & issue material like application form, prospectus, brochure, deciding quantum of issue material.
  - Advice for selection of agencies. Eg, Registrars to issue, printer, ad - agencies.
  - Advice on post issue activities like listing of instruments & dispatch of certificate & refund.

**IMP - PUB (Portfolio mgt, Underwriting, Broking) not permitted.**

- Investment counselling for securities.
- Registrar to issue for transfer of securities.
- Quality audit.
- Environment audit.
- Energy audit.
- Recovery consultant in banking sector.
- Insurance Financial Advisory Services & insurance brokerage (IRDA)
- Insolvency professional (IBC)
- Administrative services - Assisting client with routine/mechanical task like word processing, preparing & submitting admin form, monitoring filing dates & advising client of dates, functions of GST practitioner.

-Member deemed in practice if he in professional capacity acts as **liquidator, trustee, executor, administrator, arbitrator, receiver, advisor, representative for costing/ financial/tax matters** or renders service with armed forces or take up appointment by CG/SG/court or act as secretary, unless his employment is on salary-cum-full-time basis

-Not only when engaged in practice of accountancy but also when he offers, even though no client served.

-Section 144 of COA 2013 -Services not to be rendered by auditor, directly/indirectly to co./holding co./subsidiary co. -

A/cing & bookkeeping service	Rendering of outsourced financial services	Design & implementation of fin. info system.
Actuarial services	Internal audit	Mgt services
Investment advisory service	Investment banking service	Any other services

### Q12) Companies not to engage in accountancy.

- 1) No co. can practice as CA. Co. includes LLP, which has co. as its partner.
- 2) If co. contravene-every Director/officer knowingly a party - fine -

**1<sup>st</sup> conviction - upto ₹1,000**

**Subsequent conv. - upto ₹5,000**

Firm/LLP - auditor of co. - only CA partners act & sign on behalf of firm.

### Q13) Maintenance of branch offices.

CA Firm > 1 office in India - <b>each office in separate</b> charge of <b>member</b> of ICAI.	Failure - professional misconduct
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- **Exemption** to members practicing in **hill areas**. 5 conditions:

- 1) Firm allowed to open temporary offices in city in plains for period upto **3 months** in a yr.
- 2) **Regular office not closed** during this period & correspondence made there.
- 3) **Name board** in temporary office **not** displayed at **other times**.
- 4) **Temporary office not** mentioned in **letterhead**/visiting card as place of business.
- 5) Before commencement of every winter, **inform Institute** that it is opening temporary office from particular date & after office closed, intimation sent to Institute by **regd post**.

- CA in charge : partner/whole time employee

Member <b>actively associated</b> with office - resides in place where office situated/ attends office for atleast <b>182 days</b> in yr.	<b>Name board</b> :No bar on putting in residence of member with designation Chartered Accountant but NB of <b>member &amp; not firm</b> .
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- **Exemption**: 2<sup>nd</sup> office w/o separate charge of ICAI member - 2<sup>nd</sup> office in

**same premises**

**same city**

**50km from municipal limits of city in which 1<sup>st</sup> office**

Declare main office.

### Q14) KYC Norms for CA in Practice

Mandatory & all assignments & attestation functions.

#### **Client - Proprietor**

- General Info- Name & address, PAN/Aadhar, Business description, copy of last audited FS
- Engagement Info- Type of engagement

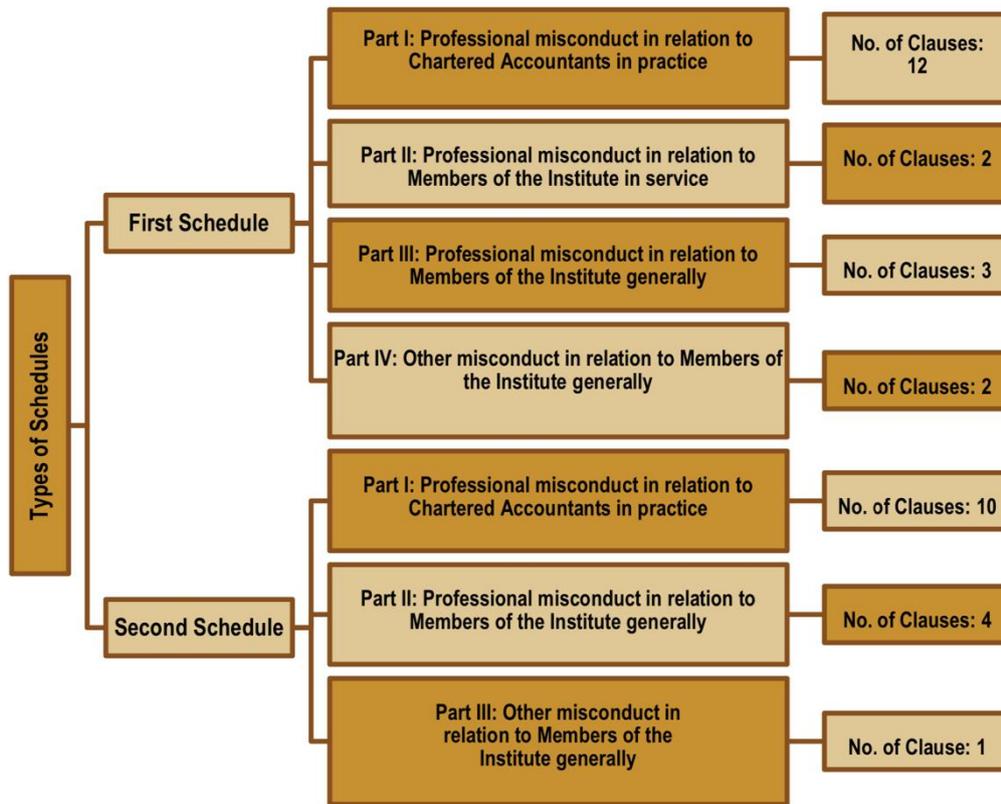
#### **Client - Corporate Entity**

- General Info-Same + Name of parent co. in case of subsidiary
- Engagement Info- Type of engagement
- Regulatory Info- co. PAN, CIN,DIN, Directors' Names & addresses

#### **Client - Non-corporate entity**

- General info- Same + Partners' Names & addresses (with PAN/Aadhar Card)
- Engagement Info-Type of engagement

**Q15) Schedules to the act.**



**FIRST SCHEDULE -**

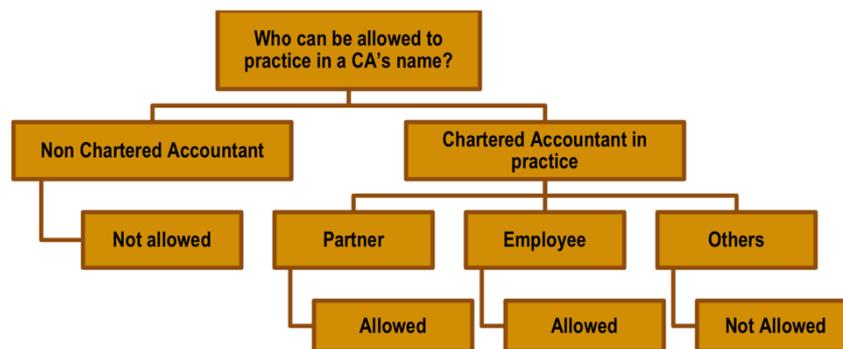
**PART 1 - Professional Misconduct + CA in practice**

Common line - CA in practice is deemed to be guilty of PM if he:

**CI 1: Allows anyone to practice in his name except practice**

Partner

Employee



**CI 12:**

**Allows to sign - person not Partner on BS/P&L/Report/FS**

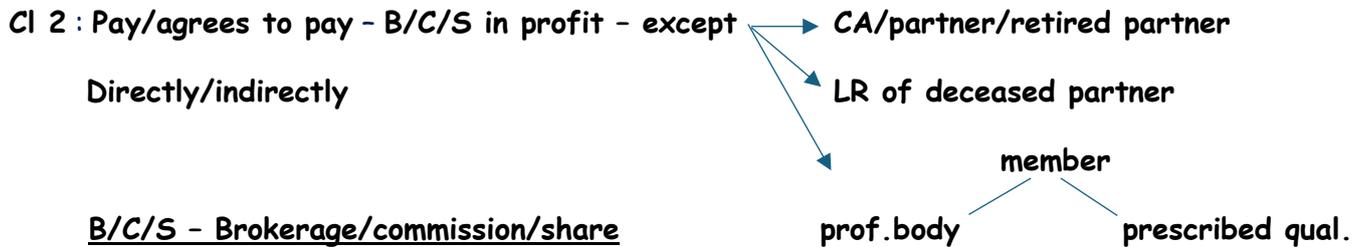
- Power to sign routine docs - delegated in these cases-

Issue of audit queries during audit.	Issue of memorandum of cash verification & physical verification/recording results in books of clients.
Asking for information or issue of questionnaire.	Issuing acknowledgements for records produced.
Letter forwarding draft observations/FS.	Raising of bills and issuing acknowledgements for money receipts.

Initiating and stamping of vouchers & schedules prepared for audit.	Attending to routine matters in tax practice (Income tax Act)
Acknowledging and carrying on routine correspondence with clients.	Office administration and routine work.

**-SPECIAL POINTS -**

Authority delegated. Fact that not signed is not defence.	CA - reqd to disclose name-should disclose name. No reqt - sign in name of firm.
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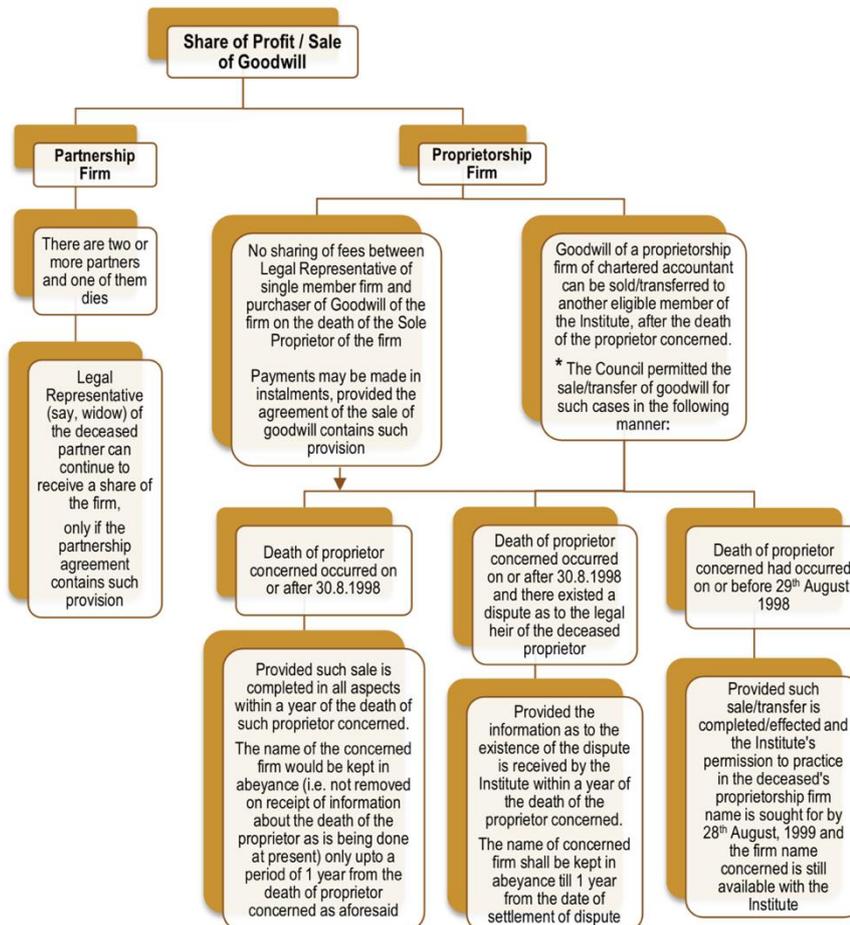


- Regulation 53A of CA Regulations, 1988

Related to CA - CS,CMA, lawyer, advocate, MBA	Science-engineering, BTech	AA-actuary, architect.
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Audit of state co-operative society- Audit fee to State treasury (SG)	<b>Nomenclature of office allowance - PM</b>	<b>% of fees to poor article - Not allowed</b>
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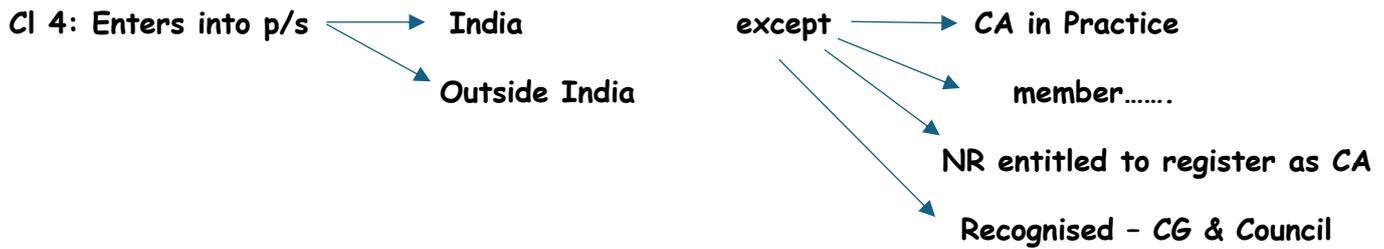
**Treatment of Goodwill -**



\* In case of a partnership firm when all the partners die at the same time, the above Council decision would also be applicable.

**CI 3: Accept/Agrees to accept - part of profit of prof. work from non CA.**

- Reg. 53A allowed
- **Referral fees amongst members:** Allowed



Reg 53B : Allowed (**Reg 53A - MBA**)

Members can't form multi disciplinary partnerships till Regulators permit.

CI 5: Secures professional business from non employee/non partner/means not open.

CA wrote letter to officer of Army canteen giving details of experience & audit fees. Guilty - CI 5 & 6.

CI 6: Solicits prof work-CA PIA: Circular, Ad, Personal communication, Interview, any other means  
Directly/Indirectly

- Nothing construed as prohibiting-

CA from securing work from practicing CA

Member from responding to tenders/enquiries

- Services -

**CA with min. Fee** (audit/attestation)

**All** (land revenue computerization)

### 1) **Advertisement and note in the press -**

**Not permitted** - letters to possible clients. Personal canvassing/canvassing for clients of previous employer through help of employees - not permitted.

#### **Exceptions-**

- **Request** another practicing CA for work.
- Advertise **changes in P/s/Dissolution/change in address/telephone no.** Facts, area of distribution, number of insertions.
- Classified Ad in journal/newsletter of ICAI for **sharing** professional **work** on assignment basis/**seeking p/s/employment** of accountancy nature, provided it only contains name, address, number, fax number, email, social networking site of member. Experience & specialisation - permissible.

### 2) **Application for empanelment for allotment of work-**

- **Free** to write to place name on panel. **Not proper - roving enquiries.** Quote fees on enquiries.

### 3) **Responding to tenders, advertisement and circulars-**

- refer above chart.
- EMD/security deposit - allowed to pay.
- Cost sheet maintained.

### 4) **Publication of books, articles, presentation -**

- Not permissible - professional attainment.
- **Permissible - Designation "Chartered Accountant" & Name of firm.**

**5) Issue of greeting cards/invitation -**

- **Not approve** greeting cards/personal invitation, indicating professional designation, status, qualification.
- **Designation "Chartered accountant" & name of firm** can be used in greeting cards, Invitation for Marriage, religious ceremony, inauguration of office, change in premises, change in no. provided it's sent only to **clients, relatives, friends**.

**6) Advertisement for Silver, golden, platinum, Centenary celebrations-**

- **Not permitted** to advertise events organised by firm **but** ad for **silver, golden, diamond, platinum, Centenary** celebrations published in newspaper/newsletter.

**7) Sponsoring activities-**

- **Not permitted** to sponsor event **but** can sponsor event conducted by **PoU of ICAI**, provided it has approval of CPE Directorate of ICAI.
- Members sponsoring activities related to **CSR** can mention their name with prefix CA but firm name or CA logo not permitted.

**8) Ad for teaching/coaching activities by members-Indirect solicitation/violative.**

- Can put outside coaching premises, **sign board** mentioning **name** of Institute, **contact** details, **subjects**. Sign board - Council guidelines.

**9) Sharing firm profile with prospective client - not permitted, unless query.****10) Television/movie credits - Not differently.****11) Soliciting work by roving enquiries - Not permissible-letters,emails,circulars.****12) Seeking work from prof. Colleagues - letter to CA - pioneer in liaisoning with govt department, expertise for getting clearance - not allowed.****13) Scope of representation-COA 2013-Not soliciting for continuance.** Letter-acting independently & willingness to continue.**14) Acceptance of original work by member emanating from client introduced to him by another member-Not accept.** Duty to ask client to come through other member.**15) Public interviews-Not publicity/professional attainments.** Give response to question & factual nature.**16) Advertisement under box number of newspaper - prohibited.****17) Educational videos-No reference to firm, contact, website.**

CI 7:

Advertise prof attainments/services

uses designation other than CA on

Prof docs/visiting cards/letter heads

unless → university degree (law)

→ Recognised by CG/Council

- Advertise through **write up - allowed**.

- CA prefix - allowed whether practice or not.

- Practice cannot use designation, other than chartered accountant, but not in practice and doesn't use the designation 'Chartered Accountant' may use other description.

- **Merchant banker/Advisor to issue - Name & address** of CA indicated under caption "Advisor/Consultant to issue" but it shouldn't appear prominently.

- **Directors of companies, members of political parties, position in clubs-not permitted** to mention.

- CA+ CMA- Though member can't designate himself as cost accountant, he can use letters **A.C.M.A / F.C.M.A after his name**.

- Permitted to **mention membership of foreign Institute** - MoU
- **Improper** to state on professional docs that he is income **tax consultant, CMA, CS, Cost consultant, management consultant.**
- **Not entitled** to use designation "**corporate lawyer**"
- **Not permitted** to use initials "**CPA**" on visiting cards.
- CA in practice can also practice as CS/CMA. **Not use designations simultaneously.**
- **Not use** designation, "**Member of Parliament**", "**Municipal Councilor**"
- Can mention '**Insolvency professional**/'**Regd valuer**' on visiting card & letterhead.
- **Date of setting up** practice on letterhead/professional docs **shouldn't be mentioned.** Website allowed.
- CA in practice can practice as advocate - not use designation "chartered accountant" for matters involving practice as advocate. Not use designation "Chartered Accountant" & "Advocate" simultaneously..
- COP of Sister Institute/Bar Council - treated as in full-time practice
- Not proper to use designation "chartered accountant" except on professional docs, visiting cards, letterhead, sign board, Cl 6. Can use prefix CA.
- **Notice in press for success in exam**-Name of principal, firm, town - published.
- Report & certificate - Extent & manner of publication Ltd. Use letterhead to issue R&C.
- Appearance on **electronic media & Internet**-Can give name & describe as **CA. Special qualifications**/knowledge of subject matter can be given. **Firm name** can be mentioned but exaggerated claim/comparison not permissible. **Not promotional.**
- Organising training courses, seminars-Can invite own staff + Staff of other CA + Clients. Prominence shouldn't be given to name of CA in booklet.
- Writing articles/letters to press-Can give name & description "Chartered Accountant"
- Glow sign/lights on large sized boards - not permissible.
- **Prospectus**/public announcements with CA as **directors- Cl 6 & 7. Don't advertise professional attainments.** Expression "Chartered Accountant" is permissible. **Expertise, specialisation, knowledge not** published. **Directorships** held in other companies can be **given** but name of **CA firm shouldn't be given.**
- Logo unconnected with first letter/logo of any kind - not permitted.
- **QR code on visiting card allowed** if it contains visiting card info.

**Cl 8: Accept position as auditor → w/o communicating in writing with → previous auditor**

- Valid reasons - change of venue, retires, dies, clash.
  - **Reasons for not accepting audit -**
    - **Non-compliance** of section 139 and 140 of COA 2013.
    - **Non-payment** of undisputed audit fee other than in case of Sick Units
    - Issuance of **qualified report.**
- 1<sup>st</sup> 2 cases** -Auditor who accepts - guilty of **PM** but in **last case**, he can **accept** if satisfied that attitude of **retiring auditor wasn't proper.** If retiring auditor had valid reasons, he should refuse to accept.
- Previous auditor not available for accepting payment - client to purchase demand draft & duty of incoming auditor to ensure payment.
  - **Objective of incoming auditor - circumstances not to accept appointment.**
  - Previous auditor hurt - Auditor can act after waiting for reasonable time.

- Mere posting of letter "**under certificate of posting**" isn't sufficient. Positive evidence of delivery needed -
  - Communication by letter sent through "**Registered acknowledgement due**"
  - By hand against **written acknowledgement**.
  - Acknowledgement of communication from retiring auditor's **email address**, registered with ICAI/last known official email address
  - **UDIN** generated on UDIN Portal.
- **Premises found locked - Deemed delivered.**
- **Firm not found at regd. Address** - Address same as regd with ICAI on date of dispatch - **Deemed delivered** unless retiring auditor proves that it wasn't served & he wasn't responsible for non service.
- Joint auditor - Applicable
- Healthy practice if tax auditor communicates with statutory auditor.
- Applicable to **all** types of **audit**.
- Healthy practice if retiring auditor is not a CA.
- No communication for parallel positions. Eg SA & IA. Applies only for replacement.
- Lack of time in acceptance of audit of **government co./bank**-No time to wait for reply from outgoing auditor. **Conditional acceptance & commence** work subject to objections from previous auditor. Incoming auditor decides about final acceptance after taking into a/c info from previous auditor.

CI 9: Accept position as auditor of co. —→ w/o ascertaining reqt —→ complied  
of Sec 139 & 140 of COA 2013

- **Not sufficient** to accept **certificate** of compliance from mgt.
- Necessary to **verify records**. If co. - not willing, auditor shouldn't accept.
- Appointment of auditor for 1<sup>st</sup> time after incorporation of co.-Appointment by BoD within 30 days of registration of co.
- If BoD not appointed - Appointment by members in GM.
- If appointment to fill casual vacancy (CV) - BoD fill casual vacancy.
- If vacancy by resignation of auditor - members in GM.
- If vacancy due to removal of auditor before expiry of term - special resolution passed at GM + approval of CG.
- Applicable to joint auditor.
- AGM adjourned-Retiring auditor continue till adjourned meeting. New auditor assumes office after adjourned meeting.
- AGM adjourned w/o appointing auditor - Special notice given to co. at least 14 days before original meeting.

**Board Guidelines for removal of auditors** - All cases (govt + non govt)

- Auditor resigns - written communication to BoD + ICAI with reasons. It's obligatory for incoming auditor to obtain communication from BoD.
- Auditor willing for reappointment but not reappointed - File with ICAI statement & sent to mgt. It's obligatory for incoming auditor to obtain communication from co.
- ESB can call further info.

CI 10: Charges/offer to charge for prof. employment fees based on % of profit/contingent upon findings or results.

Exception: Reg 192 -

- **Receiver/liquidator** - Fees on % of realisation/disbursement of assets.

- **Auditor of cooperative Society** - Fees on % of paid up capital/working capital/ gross or net income/profit.
- **Valuer for direct tax/duties** - Fees on % of property valued.
- **Mgt consultancy service** - Fees on % basis contingent on findings/results.
- **Fund raising services** - Fees on % of fund raised (Getting loan sanctioned is not fundraising)
- **Debt recovery services** - Fees on % of debt recovered.
- **Cost optimisation service** - Fees on % of benefit.
- Insolvency professional, non-assurance services to non-audit clients.

CI 11: Engages in business/occupation other than CA prof. unless permitted by Council. Nothing disentitle CA from being director of co.(Not MD/WTD) unless he/partners is interested in such co. as auditor.

- **Reg 190A -General Resolution** - No specific permission from Council:

Employment under Practicing CA	Pvt. tutorship	Authorship of books & articles
Holding of life insurance agency license for limited purpose of getting renewal commission	Attending classes & appearing for exam	Holding of public elective office like MP, MLA, MLC
Honorary office leadership of charitable, educational/non-commercial org.	Notary Public, Justice of peace, special executive magistrate	Part Time tutorship under coaching Org. of ICAI,
Valuation of paper, paper, setter, head examiner, moderator of exam	Editorship of professional journals	Surveyor & loss assessor
Recovery consultant in banking sector	Owning agricultural land & carrying agri. activity	Trading in equity/currency derivatives

- **Specific resolution** - Specific approval of council

Employment in business concern provided that member/relative don't hold substantial interest	Employment in non-business concern	MD/WTD provided that member/relative don't hold substantial interest
Interest in family business provided no active part	Interest in educational institution	Part Time/full Time lectureship for other than ICAI courses
Part Time/full Time tutorship under institution other than coaching org. of ICAI	Editorship of journals, other than professional journals	Other business
Receiving royalty from sale of domain name/website	Trading in commodity derivatives	

- Relative - husband, wife, brother, sister, lineal ascendant/descendant.
- Substantial interest = 20%
- Director Simplicitor -Simple director, not MD/WTD. Required only in BM & not paid remuneration except sitting fees.
- **Auditor of subsidiary company can't be director of holding company.**
- No bar for member to be promoter/signatory to MOA/AOA. No bar for promoter/signatory to be director simplicitor.
- Give evidence that interest in family business due to inheritance and not actively engaged.

- Karta of HUF- Makes investments from funds of HUF only.
- **Teaching hrs** shouldn't exceed **25 hrs a week**.

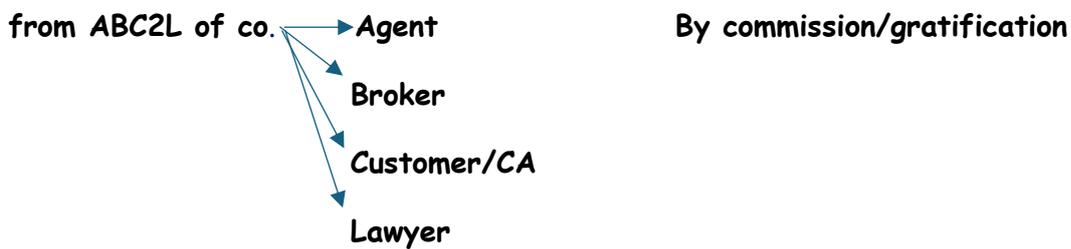
**PART 2 - Professional Misconduct + Service (whole time/part time/COP with employment)**

Common line - CA in service deemed to be guilty of PM if he being employee of co./firm/person:

CI 1 : Pays/agrees to pay  $\longrightarrow$  any share in emoluments of employment  
Directly/indirectly

- Doesn't restrict sharing among relatives, dependents, friends + not for job procurement/retainership.

CI 2 : Accept/agrees to accept  $\longrightarrow$  F/P/G (Fees/ profit/ gains)



**PART 3 : Professional Misconduct + General**

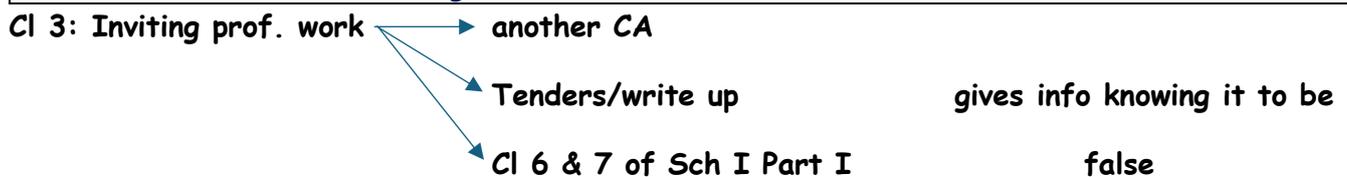
Common Line - CA in practice/not deemed to be guilty of PM if he -

CI 1 : Not a fellow, act as fellow of Institute.



Institute, Council, Committee, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board, Appellate Authority

- Not disclosed to ICAI- proprietor of non CA Firm.
- Not disclosed that director of co. despite letters of ICAI which remained unreplied.
- Continued to Train article though name removed from membership & failed to reply to ICAI as to how he was training.



**PART 4 - Other Misconduct + General**

Common line - CA in practice or not deemed to be guilty of OM if he -

CI 1: guilty - civil/criminal court- offence: imprisonment - upto 6 mth.

CI 2: in opinion of Council, disrepute - profession/Institute, whether/not related to prof. work

## SECOND SCHEDULE -

### Part 1 - Professional Misconduct + Practice

Common line: CA in practice deemed to be guilty of PM if he -

CI 1: Discloses info acquired in prof. eng. to anyone other than client, except

- **SA 200** - Auditor respect confidentiality of info.
- Duty continues even **after completion** of assignment.
- Disclosure allowed if professional duty. Eg, submitting info to exchange control authority.
- In other cases, consent of client given by competent person. Eg, sole proprietor-proprietor/attorney. P/s-Any partner. Co. - MD if BoD powers delegated & if not delegated-BoD Resolution.
- Diff. b/w sharing of working paper & info. Info can be provided to client/regulatory body after obtaining consent of client.
- **Report to CG** within 60 days - Sec 143 (12) of COA 2013: Allowed

CI 2 : Certifies report on examination of FS in his name/firm's name unless examined by :

Himself	partner	employee	Another CA in practice
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CI 3 : Permits

with estimate of earnings contingent on future trans.

to be used

manner - belief - he vouches for accuracy of forecast

- **SAE 3400** - CA can **participate** in preparation of profit/financial **forecast** & can review them, provided he indicates **source** of info, **basis** of forecast, **assumptions** in arriving at forecast & **doesn't vouch** for **accuracy** of forecast.

CI 4 : Express opinion on FS of enterprise in which he/firm/partner has substantial interest (20%)

- FS includes report & certificate.
- Not to permit employee CA to certify FS of employer/concern under same mgt. **Not accept**
  - **Auditorship of college** if part time lecturer in college
  - **Auditorship of trust** if his partner is employee/trustee of trust.
- All **audit/attest** functions but **NA to MCS** like evaluating cost of product mfd.
- Other than co. - Substantial interest
- Member/partner/relative is **DEO** (Director/Employee/Officer) of co.
- Member/partner have security/interest in co.,H/S/A/subsidiary of holding co.
- Relative - Security of FV upto 1 lac allowed.
- Not permissible to undertake assignment if client is relative.
- **Statutory auditor not** to be **internal auditor**.

- **Internal auditor** not to be **tax auditor**.
- **Internal auditor** not to be **GST auditor**.
- Member **shouldn't** accept **audit** of co. for **2 yrs** from completion of **tenure/resignation as director** (Cooling period of 2 yrs)

CI 5 : Fails to disclose material fact known to him 

He is concerned with FS in prof. capacity.

- SA 320
- Co. taken **loan from EPF**. Not reflected in BoA. Auditor ignored info.
- No disclosure of charge against guarantee in favour of group co.

CI 6 : Fails to report material MST known to him in FS he is concerned in prof. capacity

- **Represent** co. before tax authorities & **false info - No PM - CI 5 & 6.**

CI 7 : Doesn't exercise due diligence/grossly negligent in prof. duties

- Includes **non submission on due dates.**

CI 8: Fails to obtain sufficient info                      OR                      Exceptions are sufficiently necessary to express opinion                      material to negate opinion

- CA issued certi of circulation of periodical w/o going into details - CI 7 & 8
- CA didn't state limitations/assumptions in certificate - CI 7 & 8
- Trans. B/w firm & developers entered in books of construction co. - CI 6,7,8
- Issue certificate for exports w/o verifying docs - CI 2,7,8
- Year 2 - **Investment** in B/S 12 lac. Same amt as yr 1. Later actual Invst = 25000 but **value inflated to obtain loan -CI 2,7,8**

CI 9 : Fails to invite attention to material departure from generally accepted procedure of audit

- **Membership no., FRN** in all reports & certificates
- Failure to perform duty not excused by qualification in AR. Eg, give reasons why failed to verify cash.

CI 10 : Fails to keep money of client in separate bank a/c                      OR

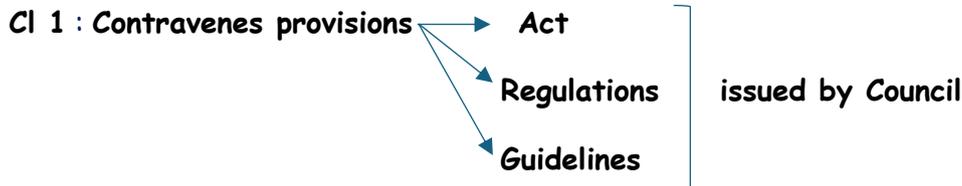
Use for intended purpose within reasonable time

Except 

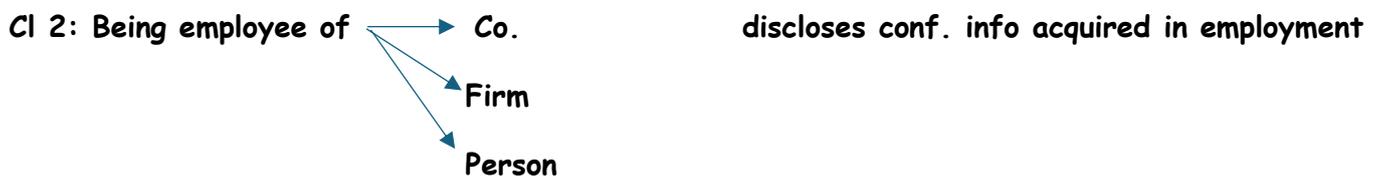
- **Advance recd by CA = Fees = CI 10 NA**
- **Money** meant to be **expended** eg, pyt of fees, stamp paper intended to be spent within reasonably **short time not** to put in **separate bank a/c.**
- **Money** meant to be **expended not** intended to spent in reasonably **short time** put in **separate bank a/c.**
- Money recd by CA in his capacity as **trustee, executor, liquidator** put in separate **bank a/c.**

Part II - Professional Misconduct + General

Common line - CA in practice or not deemed to be guilty of PM if he -



- Council General Guidelines, 2008
- Engagement/Registration/termination/premium from/stipend to **articled assistant**
- Articled assistant not to engage in any other occupation
- Complaint against employer (from articled assistant)
- CA not to engage in any other business/occupation
- Restriction on fees
- Failed to generate **UDIN**
- Audit of listed company **without peer review certificate**
- Issued certificate/report **w/o COP** (eg, raw material consumption)



Except employer & law

- Whole time/part time employee or employee with COP

CI 3 : Includes in info/form/return/statement → particulars submitted to ICC, D3, QRB, AA knowing to be false

- Manager of CA Firm applied for fellow stating he is partner.
- Empanelment application for bank to ICAI - Gives name of CA who isn't partner as partner though he became partner after date of application. (Check as on date of application)

CI 4 : Defalcates/embezzle money recd in prof. capacity

- SA 240

Part III - Other Misconduct + General

Common line - CA in practice or not deemed to be guilty of OM if he -

CI 1: guilty - civil/criminal court - offence: imprisonment > 6 mth.

Q16) Council General Guidelines, 2008

**Chapter V - Maintenance of books of accounts**

- Practicing CA - keep proper BOA - **Cash book & Ledger**

**Chapter VI - Tax audit assignments u/s 44AB of Income Tax Act, 1961**

- Practicing CA shall not accept > than 60 tax audits in FY.
- CA Firm - **60 tax audits** for **each partner**.
- 1 CA is partner of 2 firms/sole proprietor = Together shouldn't exceed 60.
- Audits under 44AD/44ADA/44AE not taken into a/c.
- 10 partners. 10x60=600. **Distribution in any manner.**

- Applicable to joint tax audit also.
- Audit of HO & branch = 1 tax audit
- Audit of 1 or more branch = 1 tax audit
- CA being part time practicing partner of firm not taken to a/c.

### Chapter VII - Appointment of auditor in case of non-payment of undisputed fees

- Practicing CA **not accept** appointment as auditor of entity if **undisputed audit fee** of another CA **not paid**.
- In case of **sick unit**, above prohibition **doesn't apply**.
- Provision for audit fee - signed by both auditor & auditee = undisputed audit fee
- **Sick unit** = unit regd for not less than **5 years**, **accumulated losses equal to or exceeding net worth**.

### Chapter VIII -specified number of audit assignments

- Practicing CA shall not hold at any time >30 audit assignments.
- CA Firm = **30 tax audits** for **each partner**
- 1 CA is partner of 2 firms/sole proprietor = Together shouldn't exceed 30.
- Pvt /other companies with **exception of OPC & dormant companies**.
- Also applicable on Joint audits.
- Audit of HO & branch = 1 audit assignment
- Audit of 1 or more branches = 1 audit assignment
- Number of partners of firm on **date of acceptance** are taken into a/c
- CA in practice in full time/part time employment - not counted.
- Part time Practicing partner not taken to a/c.

### Chapter IX - Appointment as statutory auditor

- Practicing CA **not** to accept statutory **audit** of
  - Public sector undertakings/government co./listed co.
  - Public company with **turnover of ₹ 50 crores** or more in a year

Where he accepts **other work** for same undertaking/co. on **remuneration exceeding** statutory **audit fees**.

- Applies to fees for "other work" payable to statutory auditors & associate concerns put together.
- Other work means **MCS** but **not includes CAR-**
  - **Certification** work done by statutory auditors,
  - **Audit** under any other statute,
  - **Representation** before Authority .
- Associate concern means corporate body/p.s firm rendering MCS where proprietor/partner of statutory audit firm/their relatives are directors/partners & hold substantial interest in corporate body/partnership.

### Chapter X - Appointment of auditor when he is indebted to concern

- Practicing CA /partner/relative not to accept appointment while indebted/given guarantee /provided security for limits fixed in statute & in other cases for **> ₹1,00,000/-**
- COA 2013 - Indebtedness >5 lac, Guarantee & security>1 lac.
- Progressive fees - No indebtedness

### Chapter XI - Directions in Case of unjustified removal of auditors

- Incoming auditor not to accept

### Chapter XIV - Unique Document Identification Number (UDIN) guidelines

- Practicing CA for all certificates, GST & tax audit reports, audit/assurance & attestation functions.

### Chapter XV - Guidelines for Networking

- Firms form larger structures & share common brand name, quality control system, resources, common ownership/control/mgt, business strategy, profit/cost.
- Professional resources = Common system, staff, dept, audit methodology, training courses.

#### Forms of network -

- Network constituted as **mutual entity** (Network won't carry out professional practice )
- Network constituted as **partnership firm (max 20 Partners)**
- Network Constituted as **LLP**.
- Network constituted as **Company (Mgt consultancy services co.)**
- Network firms consist of **proprietor, partnership**.
- Firm is allowed to join only **one network**.
- Firms having **common partners** shall join only **one network**.

- **"& Affiliates"** after name & not "& Co./ & Associates"
  - If network is mutual entity/p.s firm - AB & Affiliates
  - If network is LLP - AB Affiliates LLP
  - If network is Ltd. Company - AB Affiliates P.Ltd / Limited
- Institute **approve/reject name** of network & intimate to Network **within 30 days** from receipt of Form.
- **Change in constitution** due to entry/exit - Network communicate to Institute **within 30 days** from change.

#### Registration of network with entities in India -

- After **name** of network approved, Institute reserve for **3 mth**.
- Network get regd within 3 months. **Failing - name cancelled**.
- Registration of network with Institute is mandatory.

#### Listing of network with entities outside India -

- Authorised **representative of Indian firm** file declaration with Institute **within 30 days** from entering into network.

#### Ethical compliance -

- If one firm = Stat auditor, associate **not** to accept **Sec 144 services**.
- Guidelines of ceiling on non audit fees -
  - **Firm** = stat auditor: **Same**
  - **Other firms collectively: 3 times** stat audit fees
- **Rotation of firms** - no member firm can accept.
- Follow Advertisement guidelines.
- Permitted to use words "Network Firms" on prof. stationery.

#### Framework of Internal Byelaws of network - Clauses on which affiliates - written agreement:

- Appointment of managing committee/Engagement partner/technical director
- Administration of network
- Contribution of membership fees to meet administration cost
- Dispute settlement by arbitration and conciliation
- Development of training materials, Software, database
- Issue of newsletters

- Library
- Determining methodology for drawing resources/compensation for resources drawn
- Peer review of member firms.

### Chapter XVI -Logo Guidelines -

- Letter 'CA' (in blue) with tri colour tick mark (upside down) & white background.
- 'India' added in logo.
- Use logo as it is. Don't change font, spacing, dimensions, design, colours, background.
- Refrain from rotating/tilting. Don't shrink/distort.
- Transition time - 1 year

### Chapter XVII - Guidelines for Corporate Form of Practice -

- Practicing CA holds office of **MD/WTD/Manager of body corporate** provided body corporate is engaged exclusively in rendering **MCS**.
- Member can retain full Time **COP**.
- **No restriction on equity holding** of members, either individually/along with relatives in co.
- Can do **attest** function & **train articled** assistants.
- Name of mgt consultancy co. - approved by Institute & Co. regd with Institute.

### Ethical compliance -

- If CA is stat auditor of entity, then management consultancy company **shouldn't accept Sec 144 services**.
- Ceiling on non audit fees is applicable wrt Mgt consultancy company.
- Mgt consultancy co. comply with Cl 6 & 7 of Part I of First Schedule.

### Q17) Council Guidelines for Advertisement, 2008

**Write up** shall comply with following conditions-

- Honest and truthful
- No exaggerated claims
- No disparaging references
- Shouldn't bring disrepute to profession
- Not contain testimonial/endorsement about members/name of client/fees
- Not contain info of awards (except given by CG/SG/regulatory bodies)
- Monogram not permissible
- Membership number/FRN is mandatory
- **Font size** not exceeding **14**
- Not violative of CA Act, 1949

### Website of CA Firms -

- No standard format
- **"Pull"** model. Not **"Push"** model.
- No info in website be circulated on their own/email except on pull request.
- **No Circular/ad** to solicit people to visit website.
- Permitted to mention website in **professional stationery & email**.
- Info that can be displayed on website -
  - Member/firm name
  - Year of establishment
  - Address, telephone number, fax number, email ID
  - Nature of services (specific pull request)
  - Partners'/Employees' details (Area of experience on pull request)
  - Job vacancies for CA & articles

- No. Of articulated assistants (pull request)
- Nature of assignment (pull request). Name of **client & fee can't be given but Permissible if reqd by regulator**-only to extent of reqt. Mention on website below disclosure that "This disclosure is in terms of reqt of regulator having jurisdiction in"

- **Passport photo allowed. Framed photo not allowed.**
- Articles, educational videos are permissible.
- Chat rooms for CA & b/w firms & client permitted but confidentiality ensured. Document mgt facility to client to access docs.
- Link of page on social networking site. Member shouldn't solicit to visit/like.
- Online advice to client on request (free/paid)
- Secrecy of client data ensured
- No ad
- Befitting CA profession
- **Link to website of ICAI, its regional council, branches & govt website.**
- Website address as near as possible to firm name.
- Website should mention info, not at material variance from ICAI's records.

#### Online third party platforms -

- No other service besides **consultancy & advice**. Contact address/prof. achievements/name of firm not provided. Just statement that they are CA.

#### Publication of firm name in telephone/other directory -

- Entry shouldn't appear in other section, except that of CA.
- Firm should belong to city in respect of which directory is being published.
- Order of entries - alphabetical
- Entry shouldn't be made in prominent manner
- Entry - open to all CA
- Trade/social directory is also allowed

#### Application based service provider aggregator - Not permissible

#### Specialised directories for limited circulation-

- Entries alphabetically. Can mention directorships. Not mention client names.

#### Exemptions -

#### Press ad provided that ad isn't prominent -

- Ad for **recruiting staff**/article in member's own office.
  - Avoid "well known firm". No mention that services are superior to others.
- Ad for **client requiring staff**/wishing to acquire or dispose business/property.
- Ad for sale of business/property by member acting in prof. capacity as trustee, liquidator, receiver.

#### Q18) Recommended Self - Regulatory Measures

<b>Branch audit</b>	Branch audit of co. shouldn't be conducted by stat auditors having 10 or more members but should be conducted by local CA firm having <b>less than 10 members</b> . This restriction is <b>NA</b> - <ul style="list-style-type: none"> <li>• A/cing records of branches maintained at HO of co.</li> <li>• Significant operations of co. are carried out at branch.</li> </ul>
<b>Joint audit</b>	Large co. - CA firm with <b>less than 5 members</b>

<b>Ratio b/w qualified &amp; unqualified staff</b>	Atleast <b>1 member for 5 unqualified</b> members of staff, excluding articled & audit assistant, typist, peon, other persons not engaged directly in prof. work
<b>Disclosure of interest by auditors in other firms</b>	Disclosure of payment received for other services through medium of different firm.
<b>Recommended min. Scale of fees</b>	<p>For <b>non-public interest entities (PIE)</b> -Disclosure needed where for <b>2 consecutive years</b>, gross annual prof. <b>fees</b> from audit Client is <b>more than 40% of total fees</b> of firm.</p> <p>For <b>public interest entities</b> - Disclosure needed where for <b>2 consecutive years</b>, gross annual prof. <b>fees</b> from audit client is <b>more than 20% of total fees</b> of firm.</p> <p><b>Exemption -</b></p> <ul style="list-style-type: none"> <li>total <b>fees</b> received by firm <b>doesn't exceed ₹20 lac.</b></li> <li>Audit of govt co., public undertakings, nationalised banks, public financial institutions, regulators or where appointments of auditors are made by govt.</li> </ul> <p>-Excessive/low fees - Not misconduct</p>

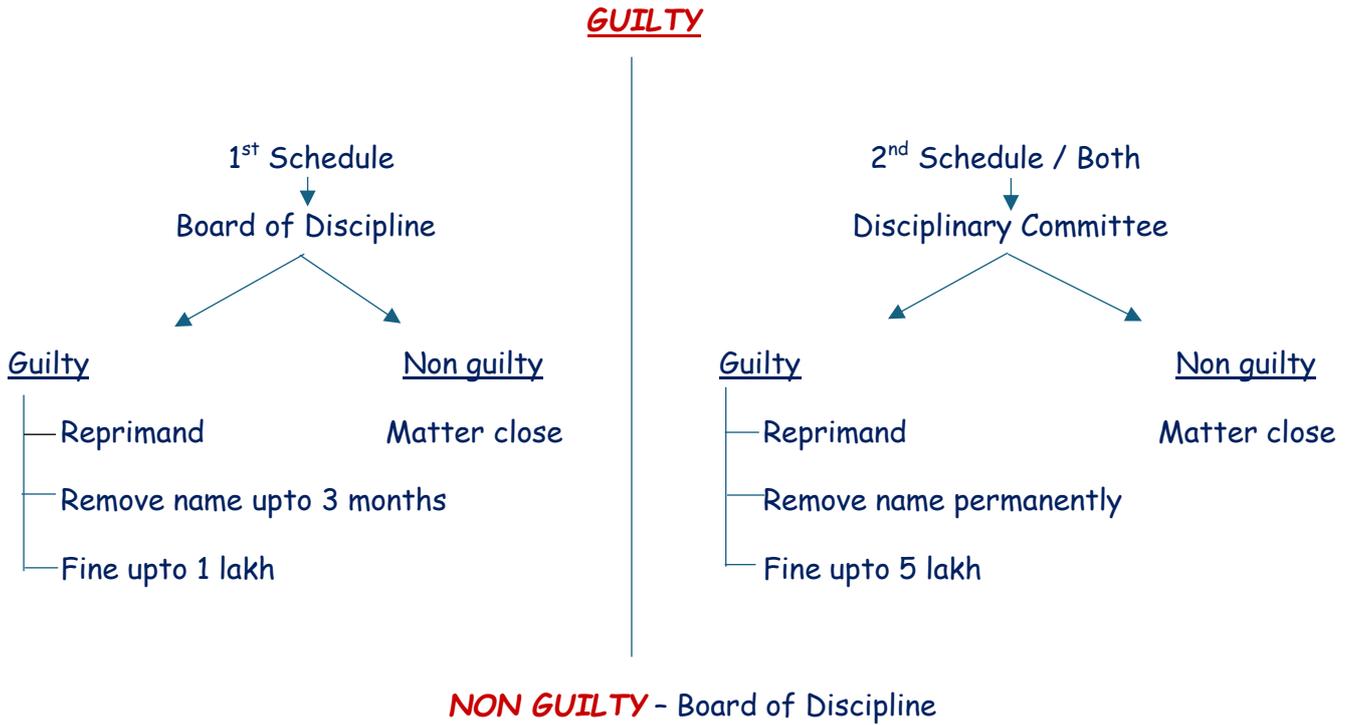
#### Q19) Recent decisions of ethical standards Board.

1. <b>Not permissible</b> for practicing CA being stat auditor to prepare <b>BRSR study</b> to audit clients but can provide advisory services on same. Permissible to be "assurance provider of BRSR core" for same client.
2. Stat auditor <b>not permitted</b> to engage in <b>compilation</b> eng (SRS 4410).
3. <b>Permissible</b> for practicing CA - <b>Services assessment/performance audit</b> of centres of skill development council of Govt of India (MCS).
4. <b>Permissible</b> for practicing CA to accept <b>Mystery audit</b> .
5. <b>Permissible</b> for practicing CA to mention position as <b>promoter/director</b> on portal of co but can't mention prof. attainment/name of firm - No violation of Cl 6 & 7 Part I First Sch.
6. <b>Permissible</b> for practicing CA to become <b>prof. director in Board of mgt</b> of Co-operative bank.
7. <b>Permissible</b> for CA to set up practice in <b>IFSC/GIFT city</b> .
8. <b>Permissible</b> for CA to render prof. <b>service to IFSC units</b> from offices o/s IFSC.
9. <b>Not permitted</b> to publish <b>vision/mission statement on letterhead/visiting card/stationery</b> . It may be printed on firm profile & provided on request.
10. <b>Not permissible</b> for CA being stat auditor of bank to <b>accept ASM of customer of same bank</b> simultaneously. He can accept either of assignments at one time.
11. Practicing CA <b>can't become internal auditor &amp; procurement officer</b> simultaneously.
12. <b>Permissible</b> for practicing CA to <b>charge fee on % of utilization amt of education institute</b> to certify amt (utilization) spent by institute out of grant.
13. Practicing CA can be <b>non-executive/independent director in cooperative bank</b> provided he isn't involved in daily activity of org., nor he/partner are auditor.
14. Permissible for practicing CA to become member of ' <b>Board of Mgt' in primary (urban) cooperative bank</b> . Role similar to Director simplicitor.
15. Practicing CA <b>can't</b> act as <b>trademark/patent attorney</b> . But prof. advice wrt intellectual property rights ( <b>IPR</b> ) is <b>permissible</b> .

16. **Not permissible** to accept **stat audit of society** where immediate family member (**spouse/dependent**) hold honorary **position** of managing committee of **institute** governed by Society.
17. CA firm can register on **Udyog Aadhar**.
18. **No prohibition** for **internal auditor** of co. to purchase **shares** of co.
19. **Not permissible** for CA to **send messages** to make people aware of practice.
20. Practicing CA being **director simplicitor** in a co. **can't sign ROC forms** of co.
21. Practicing CA can act as authorised **representative of foreign co.** provided he is not auditor of the said co.
22. Permissible for practising CAs collectively to have **joint training session** on GST & share fees.
23. Practicing CA can provide services through **kiosk** - only prof. activities.
24. CA in service can take **e-return registration** but can't certify return.
25. If Practicing CA is **non-executive director** in a co., he **shouldn't** accept appointment as **stat auditor** of co., which is **JV of original co.**
26. Practicing CA may be **equity research advisor** but **can't publish retail report** as it amounts to other business.
27. **Member** of trust **can't** become its **auditor**.
28. Practicing CA engage himself as **registration authority (RA)** to obtain digital sign for client.
29. CA can hold **credit card** of bank when he is auditor of bank, provided o/s balance doesn't exceed **₹1 lakh**.
30. Practicing CA can act as **mediator/arbitrator**.
31. Practicing CA **not permitted** to accept **audit of bank** in which he has taken **loan against FD**.
32. Practicing CA **can't become financial advisor & receive fees/commission** from financial institutions like mutual funds, insurance, companies, NBFC.
33. CA **can't exercise lien** over client docs for non payment of fee.
34. **Not permissible** to print **vision & values** behind **visiting cards** - solicitation as per Clause 6 of Part I of First Schedule.
35. **Not permissible** for practicing CA to take **agencies** of UTI, GIC, NSDL.
36. Can become **settlor** of trust.
37. **Can't** hold Customs **Brokers** Licence.
38. CA in service can appear as **tax representative on behalf of employer**, not on behalf of other employees of employer.
39. CA who is stat auditor of bank **can't accept stock/inspection audit** of any branch of **same bank/sister concern** of bank.
40. CA firm - **internal auditor** of PF trust **can't** be appointed as a **stat auditor**.
41. **Concurrent auditor of bank X** **can't** be appointed as **stat auditor of bank Y**, sponsored by X.
42. CA can act as **internal auditor** of co. & **stat auditor of EPF**.
43. Director - COA 2013 - Reside in India for min 182 days (director simplicitor).
44. Law (Income tax) prohibits: stat/tax auditor can't be valuer of unquoted eq shares of same entity. If law doesn't prohibit: Permissible.

**Q20) Disciplinary procedure**

Disciplinary Directorate (DD) received against CA - complaint + fee



Accept

Matter close

Reject

Advice DD for investigation

Proceed (1<sup>st</sup> sch)

Refer to DC  
(2<sup>nd</sup> Sch/both)

