

CA Final Audit Question Bank

DESCRIPTIVE ANSWERS

(of questions where only references were given)

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Chapter 8

SPECIALISED AREAS

ICAI SM - Direct Questions

1. CA P is auditor of a company responsible for auditing complete set of financial statements. He intends to express adverse opinion on complete set of financial statements considering conclusions drawn by him during course of audit. He is also auditing trade receivables of company for the same period in a separate engagement. Can he express unmodified opinion in respect of trade receivables? If so, discuss those circumstances.

Ans.



Forming an Opinion and Reporting Considerations

The auditor shall apply the requirements stated in SA 700 (Revised), when forming an opinion and reporting on special purpose FS.

Description of the applicable financial reporting framework

SA 700 (Revised) requires the auditor to:

- Evaluate whether **the FS adequately refer to or describe the A-FRFW**.
For example, in case FS are prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the FS adequately describe any significant interpretations of the contract on which the FS are based.
- Describe in auditor's report the **purpose for which the financial statements are prepared** and, if necessary, **the intended users**, by giving a note.
- If management has a choice of FRFW in the preparation of such FS, refer the **explanation of management's responsibility for the FS for determining that the A-FRFW is acceptable in the circumstances**.

2. List out few factors affecting auditor's determination of the acceptability of the applied criteria before accepting audit of summary financial statements.

Ans.



CONSIDERATIONS WHEN ACCEPTING THE ENGAGEMENT

How Acceptability of the FRFW is determined?

- Meeting the financial information needs of the intended users** are a key factor in determining the acceptability of the FRFW applied in the preparation of the FS.
- The A-FRFW may encompass the financial reporting standards established by
 - an authorised or recognised organisation;**
 - Law(s) or regulation(s)** which is to be used by management.
Then, in the absence of indications to the contrary, such FRFW is **presumed acceptable** for special purpose FS prepared by such entity.
- If above **financial reporting standards are supplemented by legislative or regulatory requirements**, SA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.
The A-FRFW may encompass the financial reporting provisions of a contract or sources other than those prescribed above.
In that case, the acceptability of FRFW in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by A-FRFW which is a matter of professional judgment.

3. SA 800 deals with special considerations applicable in respect of audit of financial statements prepared in accordance with special purpose framework. Explain, by giving examples, meaning of special purpose framework.

**Chapter
9**

AUDIT – RELATED SERVICES

ICAI SM - Direct Questions

1. List out few intended purposes of a “compilation engagement.”

Ans.



1. Compilation engagement is an engagement in which a **practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information** of an entity in accordance with an A-FRFW and **issues a report**.
2. **Management may request a professional accountant** in public practice **to assist Purpose** with the preparation and presentation of financial information of an entity.
Financial information that is the subject of a compilation engagement may be required for various purpose **including:**
 - To **comply with mandatory periodic financial reporting** requirements established in law or regulation, if any; or
 - For purposes **unrelated to mandatory financial reporting** under relevant law or regulation, including for example:
 - **For management or TCWG**, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
 - **For periodic financial reporting undertaken for external parties** under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
 - **For transactional purposes**, for example, to support a transaction involving changes to the entity’s ownership or financial structure (such as for a merger or acquisition).
3. A compilation engagement is **not an assurance engagement**.
4. A compilation engagement **does not require the practitioner to verify the accuracy or completeness of the information** provided by management for the compilation, **or otherwise to gather evidence** to express an audit opinion or a review conclusion on the preparation of the financial information.

2. A Chartered Accountant is offered appointment for a compilation engagement to be performed under SRS 4410. Is he required to comply with ethical requirements of Code of Ethics? Discuss briefly.

Ans.



Ethical Requirements

1. Practitioner shall **comply with relevant ethical requirements**.
2. Any **threats** to the practitioner’s compliance with relevant ethical requirements are **required to be identified and appropriately addressed**.
3. Being in nature of non-assurance engagement, **independence requirements do not apply to compilation engagements**. However, laws or regulations may specify requirements or disclosure rules pertaining to independence.

3. How do “related services” differ from assurance engagements?

Ans.



1. To **carry out procedures of an audit nature** to which the auditor and the entity and any appropriate third parties **have agreed** and **to report on factual findings**. **No assurance is provided in such a report**. Such engagements are non-assurance engagements.
2. **Report is usually restricted** to those parties that have agreed to the procedures to be performed.

Basis	Audit	AUP
Opinion	An audit expresses an opinion .	AUP does not provide an opinion . Only a report of the factual findings of AUP is provided.

Assurance	Audit provides assurance to users.	No assurance is given to users. Users draw their own conclusions based on factual findings stated in the report.
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4. Discuss main documentation requirements to be taken care of by a practitioner while performing a compilation engagement under SRS 4410.

Ans.



The practitioner shall **include** in the engagement documentation:

1. **Significant matters** arising during the compilation engagement and how those matters were addressed by the practitioner;
2. A **record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information**, provided by management; and
3. A **copy of the final version of the compiled financial information**, for which management or TCWG, as appropriate, has acknowledged their responsibility, and the **practitioner's report**. The practitioner may also consider including in the engagement documentation **a copy of the entity's Trial Balance, summary of significant accounting records or other information** that he used to perform the compilation.

5.



CA. P has been appointed to compile the financial information of X Limited. CA P is confused whether he should apply the same procedures which are required to be applied to conduct an audit or there are some other procedures to discharge the duties under such an engagement. Define the characteristics of Compilation Engagement. What should be the approach of CA P for performing the Engagement ?

Ans.



Performing the Engagement

- Practitioner shall **obtain an understanding** of the following matters sufficient to be able to perform the compilation engagement:
 - a) The **entity's business and operations**, including the entity's **accounting system and accounting records**; and
 - b) The **A-FRFW**, including its application in the entity's industry.
- Practitioner shall **compile the financial information** using the records, documents, explanations and other information, including significant judgments, provided by management.
- Practitioner shall **discuss with management or TCWG** as appropriate, those **significant judgments**, for which the practitioner has provided assistance in the course of compiling the financial information.
- Prior to completion of the compilation engagement, the practitioner shall **read the compiled financial information in light of the practitioner's understanding of the entity's business and operations, and of the A-FRFW**.
- If, in the course of the compilation engagement, the **practitioner becomes aware that the records, documents, explanations or other information, including significant judgments**, provided by management for the compilation engagement **are incomplete, inaccurate** or otherwise **unsatisfactory**, the practitioner **shall bring that to the attention of management and request the additional or corrected information**.
- If the practitioner is **unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments**, as requested, the practitioner shall **withdraw from the engagement and inform management and TCWG of the reasons** for withdrawing.
- If the **practitioner becomes aware** during the course of the engagement that:
 - a) The compiled financial information **does not adequately refer to or describe the A-FRFW**.
 - b) **Amendments** to the compiled financial information are **required for the financial information not to be materially misstated**; or
 - c) The compiled financial information is otherwise **misleading**, the practitioner shall **propose the appropriate amendments to management**.
- **If management declines, or does not permit** the practitioner to make the **proposed amendments** to the

Chapter 10

REVIEW OF FINANCIAL INFORMATION

ICAI SM - Direct Questions

1.	Discuss why “inquiry” is important as an audit procedure in an engagement to review financial statements.
Ans.	 <p>1. Evidence obtained through inquiry is the principal source of evidence about management intent.</p> <p>2. However, information available to support management’s intent may be limited. In that case, understanding:</p> <ul style="list-style-type: none"> • Management’s past history of carrying out its stated intentions. • Management’s stated reasons for choosing a particular course of action. • Management’s ability to pursue a specific course of action may provide relevant information to corroborate evidence obtained through inquiry. <p>3. Professional skepticism helps in evaluating management responses.</p> <p>4. Inquiry procedures assists practitioner in obtaining or updating the practitioner’s understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the FS.</p>
2.	CA. Aditya Jain is auditor of a listed company. He is also required to carry out quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with business of company and has deep understanding of the company. Discuss, any five procedures, by which he can update his understanding of the company for carrying out quarterly review.
Ans.	 <p>i. In obtaining sufficient appropriate evidence as the basis for a conclusion on the FS as a whole, the practitioner shall design and perform inquiry and analytical procedures:</p> <p>(a) To address all material items in the FS, including disclosures; and</p> <p>(b) To focus on addressing areas in the FS where material misstatements are likely to arise.</p> <p>ii. There may be circumstances where practitioner may consider to design and perform other procedures.</p> <p>For example, if in the course of obtaining an understanding of the entity, practitioner becomes aware of a significant contract the practitioner may choose to read the contract.</p> <p>iii. Practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.</p>
3.	What is significance of “date of report” in a review report?
Ans.	<p>Date of practitioner’s report:</p> <p>Not earlier than the date on which practitioner has obtained sufficient appropriate evidence as the basis for conclusion on the FS, including being satisfied that:</p> <p>i. All statements that comprise the FS under the A-FRFW, including the related notes where applicable, have been prepared and</p> <p>ii. Those with the recognised authority have asserted that they have taken responsibility for those FS.</p>
4.	 <p>CA. Pankaj Chaturvedi has issued a review report dated 28.7.2022 for financial results of a company for quarter ending 30.6.2022. Describe his responsibility, if any, for events occurring from 1.7.2022 till date of review report in accordance with SRE 2410</p>
Ans.	The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Chapter 11

PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

ICAI SM - Direct Questions

1. Ayurda Ltd. is a fast-growing and award-winning SaaS software company which is headquartered in Mumbai. It also has offices in the UK and provides cloud-based professional services automation (PSA) software solutions to professional services organizations around the world. They want to engage you to provide an assurance report for one of its major clients over the controls it operates as a service organisation. Can you provide such an assurance report?

Ans.



- This SAE deals with **assurance engagements** undertaken by a professional accountant in public practice to provide a report for use by **user entities** and **their auditors**.
- It **complements SA 402**, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.
- This SAE applies only when the **service organisation is responsible for**, or otherwise able to make an **assertion about, the suitable design of controls**.
- **Non-Applicability: It does not deal with assurance engagements:**
 - ✓ a To **report only on whether controls at a service organisation operated as described**; or
 - ✓ a To **report only on controls at a service organisation** other than those relevant to user entities' IC (for example, controls that affect user entities' production or quality control).

2. Discuss the significance of Pro forma financial information included in prospectus of a company

Ans.



- **Meaning:** It refers to **financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information** as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.
- **Usage:** It is, normally, **used in the offer documents to demonstrate the effect of a transaction on the FS of a company as if those transactions had occurred at an earlier date**.
- **Form:** The Pro forma financial information **may take the form of Statement of Profit and Loss and Balance Sheet** to illustrate how the transactions might have affected the assets, liabilities and earnings of the issuer. **They also include:**
 - ✓ **Notes** in relation to the significant aspects of the transactions
 - ✓ **Assumptions used**
 - ✓ **Adjustments made**
- **Purpose:**
 - ✓ To illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.
 - ✓ This is achieved by applying pro forma adjustments to the unadjusted financial information.

3. Discuss the term "Pro forma adjustment" under SAE 3420.

Ans.



1. Practitioner shall assess whether the **applicable criteria are suitable**, as required by the Framework for Assurance Engagements.
2. When planning and performing the engagement, practitioner shall consider **materiality** with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.
3. An **understanding of how the responsible party has compiled the pro forma financial information** and other engagement circumstances.
4. Practitioner shall obtain **evidence about the appropriateness of the source** from which the unadjusted

financial information has been extracted.

5. **If there is no audit or review report** on the source from which the unadjusted financial information has been extracted, the practitioner shall perform **procedures to be satisfied that the source is appropriate**.
6. Practitioner shall **determine whether the responsible party has appropriately extracted the unadjusted financial information from the source**.
7. Practitioner shall obtain evidence about the **appropriateness of the pro forma adjustments**.
In relation to unadjusted financial information, **Pro forma adjustments include:**
 - a. **Adjustments to unadjusted financial information** that illustrate the impact of a **significant event or transaction** as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
 - b. **Adjustments to unadjusted financial information** that are necessary for the pro forma financial information to be compiled on a **basis consistent with the A-FRFW** of the reporting entity and its accounting policies under that framework.
8. Practitioner shall evaluate the **presentation** of pro forma financial information.
9. Practitioner shall read the **other information** included in the Prospectus containing the pro forma financial information to identify material inconsistencies, if any, with pro forma financial information.

4. Discuss, how, a Chartered Accountant can be associated with prospective financial information without violating relevant provisions of the Chartered Accountants Act, 1949.

Ans.



- Various stakeholders like banks, financial institutions and prospective investors place greater reliance on reports of projected cash flow and profitability statements examined and signed by Chartered accountants.
- **Clause 3 of the Second Schedule to the Chartered Accountants Act, 1949** states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.
- However, **above clause does not preclude** Chartered accountant from associating his name with PFS. A **chartered accountant can participate** in the preparation of profit or financial forecasts and can review them, **provided he indicates clearly in his report:**
 - ✓ a **sources** of information,
 - ✓ a **basis** of forecasts
 - ✓ a **major assumptions** made in arriving at forecasts and so long as he **does not vouch for the accuracy of the forecasts**.
- **Same also applies to projections made on the basis of hypothetical assumptions** about future events and management actions which are not necessarily expected to take place so long as vouching for the accuracy of the projection is not made.

Notes



ICAI SM - Direct Questions

1. Briefly describe the advantages and challenges of Auditing digitally

Ans.


Advantages

- **Enhanced Effectiveness & Efficiency:** With the use of tools and automation techniques, auditee can **standardise the processes and routine tasks** like automating a reconciliation process that previously involved hours, and thus increases the efficiency and saves time and costs.
- **Better Audit Quality:** Technology can correctly **evaluate massive volumes of data quickly**. This assist auditor in determining the areas that require more testing, lowering the chance that serious misstatements or other problems would go unnoticed.
- **Lower Costs:** By automating processes the cost of auditing and **the time needed to complete an audit**, is reduced.
- **Better Analytics: Aid management and auditors in seeing trends and patterns** that may be challenging to spot manually. For instance, AI can examine a lot of financial data to spot possible fraud, which is hard for auditors to spot manually.
- **Improved Risk Assessment:** Creating a **number of automations to assist with the audit process and streamlined testing** improves the risk assessment procedure. Management and auditors put their testing efforts on sites with a higher risk of material misstatement and make informed decisions.

Consideration and Challenges

1. **Considerations that organisation should keep in mind while using digital techniques & automation:**
 - ✓ Know what **business benefits** the organization wants to achieve with automation.
 - ✓ Think **people first** and do not underestimate **change is difficult**.
 - ✓ Target the **right processes** – this is a key for successful automation.
 - ✓ Automation is not a standalone solution and should be part of a **broader digitalization strategy**.
 - ✓ Ensure the **process works** and it is **standardized** before automating. Bots do not easily adapt to process change.
 - ✓ Automation introduces new challenges for organisation. Don't forget about **governance and data security in the risk framework**.
2. **Auditors will obtain an understanding of management's implementation and oversight of new technologies, and perform procedures:** To understand the changes to the company's business, including any changes to the information technology environment.

Areas of focus include understanding of the following:

- **New activities or changes to existing processes due to new technology** (e.g., new revenue streams, changes in the roles and responsibilities of entity personnel, automation of manual tasks, changes in staffing levels that affect an entity's IC environment).
- **Changes in the way the entity's systems are developed and maintained and whether these changes introduce new risks and require new controls** to respond to those risks.
- **Impact of new technology** on how to obtain or generates use relevant information on the functioning of internal control.

2. What are the stages involved in understanding the IT environment and what key considerations auditor should consider?

Ans.

Key Areas for an Auditor to Understand IT Environment

- **Understand the flow of transaction:** Auditor's understanding of the IT environment may focus on



identifying and understanding the nature and number of the specific IT environment that are relevant to the flows of transactions and processing of information in the information system. **Changes in the flow of transactions, or information** within the information system may **result from program changes to IT applications**, or direct **changes to data in databases** involved in processing or storing those transactions or information.

- **Identification of Significant Systems:** Auditor may identify the **IT applications and supporting IT infrastructure** concurrently with the auditor’s understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through and out the entity’s information system.
- **Identification of Manual and Automated Controls:**
 - ✓ Entity’s system of IC contains manual elements and automated elements (i.e., manual and automated controls and other resources used in the entity’s system of IC).
 - ✓ An entity’s mix of manual and automated elements **varies with the nature and complexity** of the entity’s use of IT.
 - ✓ The characteristics of manual or automated elements are **relevant to the auditor’s identification and assessment of the risks of material misstatement**.
- **Identification of the technologies used:**
 - ✓ The need to **understand the emerging technologies implemented, role they play (in the entity’s information processing or other financial reporting activities)**, and consider whether there are **risks arising from their** use.
 - ✓ Given the potential complexities of these technologies, the engagement team may decide to **engage specialists and/or auditor’s experts** to help understand whether and how their use impacts the entity’s financial reporting processes and may give rise to risks from the use of IT.
 - ✓ Examples of **emerging technologies** are:
 - Blockchain, including cryptocurrency businesses (e.g., token issuers, custodial services, exchanges, miners, investors)
 - Robotics
 - Artificial Intelligence
 - Internet of Things
 - Biometrics
 - Drone
- **Assessing the complexity of the IT environment:**
The level of complexity for individual characteristics differs across applications. Complexity is based on the following factors –
 - ✓ **Automation** used in the organisation,
 - ✓ Entity’s **reliance on system generated reports**,
 - ✓ **Customisation** in IT applications,
 - ✓ **Business model** of the entity,
 - ✓ Any **significant changes** done during the year; and
 - ✓ **Implementation** of emerging technologies.
After considering the above factors for each application the over complexity is assessed of the IT environment.

3.



Auditor should scope in ITGCs to tests when there are IT dependencies identified in the system. Briefly describe the types of IT dependencies.

Ans.

1. Automated Controls

- Automated controls are designed into the IT environment to **enforce business rules**.

- For example, Purchase order approval via workflow or format checks (e.g., only a particular date format is accepted), existence checks (e.g., Duplicate customer number cannot exist), and/or reasonableness checks (e.g., maximum payment amount) when a transaction is entered.

2. Reports

- System generated reports are information generated by IT systems.
- These reports are often **used in an entity's execution of a manual control**, including business **performance reviews**, or may be the source of entity information used **by auditors** when selecting items for testing, performing substantive tests of details or performing a substantive analytical procedure.
E.g. (Vendor master report, customer ageing report).

3. Calculations

- Calculations are accounting **procedures that are performed by an IT system instead of a person**.
- For example, the system will apply the 'straight-line' depreciation formula to calculate depreciation of an asset (i.e., cost of the asset, less the residual value of the asset at the end of its useful life divided by the useful life of the asset) or the system will calculate the value of the amount invoiced to a customer by multiplying the item price times the quantity shipped.

4. Security

- Security including segregation of duties is enabled by the IT environment **to restrict access to information** and to determine the separation of roles and responsibilities that could allow an employee to perpetrate and conceal errors or fraud, or to process errors that go undetected.

5. Interfaces

- Interfaces are programmed logic that **transfer data from one IT system to another**.
- For example, an interface may be programmed to transfer data from a payroll sub- ledger to the general ledger.

4. What does cyber risk explain it with some examples.

Ans.



A cyber-attack is an **attempt to gain unauthorised access** to a computing system or network with the **intent to cause damage, steal, expose, alter, disable, or destroy data**.

Types of Cyber Attacks

(a) Malware

- Ransomware
- Fileless
- Malware
- Trojan
- Mobile
- Malware

(b) Denial-of- Service (Dos)

(c) Phishing

- Spear
- Phishing
- Whaling
- Smishing
- Vishing

(d) Spoofing

- Domain Spoofing
- Email Spoofing

(e) Identity-Based Attacks

(f) Insider Threats

(g) DNS Tunneling

(h) IoT Attacks

5. Briefly describe the cyber security Framework

Ans. **Cybersecurity framework includes:**



- i. how management is
 - **identifying the risk.**
 - **protecting and safeguarding its assets** (including electronic assets) from the risk.
- ii. **Management preparedness to detect the attacks, anomalies and responsiveness** to the adverse event.
 1. **Identify the risk** - Develop the organizational understanding to manage cybersecurity risk to systems, assets, data, and capabilities
 - Asset Management
 - Business Environment
 - Governance
 - Risk Assessment & Management Strategy
 2. **Protect from risk** - Develop and implement the appropriate safeguards to ensure delivery of critical infrastructure services
 - Access Control
 - Awareness and Training
 - Data Security
 - Information Protection Processes and Procedures
 3. **Detect the risk** - Develop and implement the appropriate activities to identify the occurrence of a cyber security event
 - Anomalies and Events
 - Security Continuous Monitoring &
 - Detection Processes
 4. **Respond to the risk** - Develop and implement the appropriate activities to take action regarding a detected cybersecurity event
 - Response Planning (incident response plan)
 - Communications
 - Analysis
 - Mitigation & Improvements
 5. **Recover from risk** - Develop and implement the appropriate activities to maintain plans for resilience and to restore any capabilities or services that were impaired due to a cybersecurity event
 - Recovery Planning
 - Improvements &
 - Communications

6. What are the advantages and disadvantages of remote audit?



Advantages	Disadvantages
Cost and time effective: No travel time and travel costs involved.	Due to network issues , interviews and meetings can be interrupted.
Comfort and flexibility to the audit team as they would be working from home environment.	Limited or no ability to visualise facility culture of the organisation , and the body language of the auditees. Time zone issues could also affect the efficiency of remote audit session.
Time required to gather evidence can spread over several weeks , instead of concentrated into a small period that takes personnel from their daily activities.	The opportunity to present doctored documents and to omit relevant information is increased . This may call for additional planning, some additional/different audit procedures, Security and confidentiality violation.
Auditor can get first-hand evidence directly from the IT system as direct	Remote access to sensitive IT systems may not be allowed. Security aspects related to remote access and privacy needs

access may be provided.	to be assessed.
Widens the selection of auditors from global network of experts.	Cultural challenges for the auditor. Lack of knowledge for local laws and regulations could impact audit. Audit procedures like physical verification of assets and stock taking cannot be performed.

7. In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of management information system (MIS) reports and electronic dashboards that give a highlevel snapshot of business performance. In view of above you are required to briefly discuss the meaning of data analytics and example of such data analytics techniques.

Ans.



Data Analytic Techniques

- **Generating and preparing meaningful information from raw system data** using processes, tools, and techniques is known as Data Analytics.
- Audit analytics or audit data analytics involves **analysing large sets of data to find actionable insights, trends, draw conclusions and for informed decision making.**
- The use of audit analytics enables **greater efficiencies and more accurate findings** from the review process.
- As a result, businesses will be able to create **strategies based on verifiable data and professional assumptions and** auditors can **improve the audit quality.** It allows auditors to **more effectively audit the large amounts of data held and processed in IT systems** in larger clients.
- Audit analytics helps:
 - ✓ To **discover and analyse patterns**
 - ✓ **Identifying anomalies**
 - ✓ **Extract other useful information** in data
- The data analytics methods used in an audit are known as **Computer Assisted Auditing Techniques (CAATs).**
 - ✓ It involves **use of multiple data analytical tool or visualization tools** that can help the auditor to deep dive into the problem statement and hence increase the audit quality.
 - ✓ This also **minimises the scope of missing out on key attributes** that might be of a higher risk to the organisation and its respective business.

8. Enterprises are adopting emerging technologies at a rapid pace to create synergies and harness the latest technologies. Give 3 examples of automated tools used as a part of emerging technologies along with the risk and audit considerations associated with these tools.

Ans.



AUTOMATED TOOLS IN AUDIT

- Automation and use of technology often requiring auditors to understand and perform procedures on a larger group of systems that produce information relevant to the production of FS.
- Based on management’s and auditors’ independent risk assessment procedures, the audit’s scope may need to include peripheral systems, as well as testing general IT and application controls relative to those systems due to the increased use of technology that is relevant to financial reporting.
- **Robotic Process Automation (RPA), blockchain, machine learning, Internet of Things (IOT) and Artificial Intelligence (AI)** are some prime examples of automation.

Internet of Things	Artificial Intelligence (AI)	Blockchain	Robotic Process Automation (RPA)
Description			
• IoT is the concept of connecting any device (cell phones,	• It refers to a system or a machine that can think and learn.	• It is based on a decentralized and distributed	• It is the automation of the repetitive processes performed

<p>coffee makers, washing machines, and so on) to the internet.</p> <ul style="list-style-type: none"> • Key components of IoT are data collection, analytics, connectivity, and people and process. • IoT not only changes the business model, but also affects the strategic objectives of the organisation. • The risk profile of the entity changes with exposure to new laws & regulations. 	<ul style="list-style-type: none"> • It utilises data analysis and algorithms to make decisions based on predictive methods. • Complex algorithms are developed to propose decisions based on a pattern or behavior learned over time. • The self-deploying robots can determine how much vacuuming there is to do based on a room's size, uses AI to scan room size, identify obstacles and remember the most efficient routes for cleaning. • Siri to help find your Air Pods or told Amazon Alexa to turn off the lights, quick commands to open a phone camera or start a particular playlist, AI to predict when to book the lowest prices for flights, hotels, car and vacation home rentals. 	<p>ledger that is secured through encryption.</p> <ul style="list-style-type: none"> • Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. • All blocks are sequenced so that any modification or deletion of a block disqualifies the information. 	<p>by users.</p> <ul style="list-style-type: none"> • It is a software technology that emulate humans' actions interacting with digital systems and software. • Process efficiency, customer experience and control effectiveness contributed to RPA. • RPA software bots can interact with any application or system the same way people do except that RPA bots can operate around the clock, nonstop, much faster and with 100% reliability and precision.
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9.

Emerging technologies can bring great benefits, but they also come with a varied set of substantial risks. Give some examples of technology risks of digital system and the control considerations to consider while assessing technology risk.

Ans.



CONTROL CONSIDERATIONS OR OBJECTIVES OF AUDITING DIGITALLY

(Holistic approach, New Tech Risk, Upskill)

Auditors should focus on the following control considerations:

- Auditors should gain a **holistic understanding of changes** in the industry and the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
- Auditors should **consider risks resulting from** the implementation of **new technologies** and how **those risks may differ from those that arise from more traditional**, legacy systems.
- Auditors should consider whether **digital upskilling or specialists** are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team, etc.

Some examples of technology risks where auditors should test the appropriate controls for relying on the digital systems:

- Reliance on systems or programs that are **inaccurately processing data, processing inaccurate data, or both.**
- **Unauthorised access to data** that might result in destruction of data or improper changes to data, including the recording of unauthorised or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database)
- Possibility of IT personnel **gaining access privileges beyond those necessary** to perform their assigned duties, thereby leading to insufficient segregation of duties.
- **Unauthorised or erroneous changes to data in master files.**
- **Unauthorised changes to systems or programs.**

Chapter 17

DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING

17.1 - ICAI SM - Direct Questions (Refer Brahmastra for detailed answers or scan QR Code)

1. Sri Rajan is above 80 years old and wishes to sell his proprietary business of manufacture of specialty chemicals. Ceta Ltd. wants to buy the business and appoints you to carry out a due diligence audit to decide whether it would be worthwhile to acquire the business. What procedures you would adopt before you could render any advice to Ceta Ltd.?

Ans.



- Brief description of the history of the business.
- The background and standing of promoters.
- Accounting policies & practices followed by the organisation.
- Management information systems.
- Details of management structure.
- Trading results both past and the recent past.
- Assets & liabilities as per latest B/S.
- Current status of IT assessments including appeals pending against tax liabilities assessed by tax authority.
- Cash flow patterns.
- Brief description of commercial and / or carried out by the organisation.
- The projection of future profitability.

2. An American Company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of more than 65% of the industrial gas business in India. It requests you to conduct a "Due Diligence" of this Indian Company and submit your Report. List out the contents of your Due Diligence Review Report that you will submit to your USA based Client.

Ans.



The contents of due diligence report will always vary with individual circumstances.

Examples of headings of a due diligence report –

- **Executive summary**
- **Introduction**
- **Background** of Target Company
- **Objective** of due diligence
- **Terms** of reference and scope of verification
- **Brief history** of the company
- **Share holding pattern**
- **Observations** on the review
- **Assessment of management structure.**
- **Assessment of financial liabilities.**
- Assessment of **valuation of assets.**
- **Comments** on properties, terms of leases, lien & encumbrances.
- **Assessment of operating results.**
- Assessment of **taxation & statutory liabilities.**
- Assessment of **possible liabilities on account of litigation & legal proceedings against the company.**
- Assessment of **net worth.**
- **SWOT analysis.**
- Comments on future **projections.**
- **Status of charges, liens, mortgages, assets and properties** of the company.
- **Interlocking investments** and financial obligations with group / associates companies, amount receivables subject to litigation, any other likely liability which is not provided for in the BOA.

- **Suggestions** on ways and means including affidavits, indemnities, to be executed to cover **unforeseen and undetected contingent liabilities**.
- Suggestions on various aspects to be taken care of **before & after the proposed merger/acquisition**.

3. KDK Bank Ltd., received an application from a pharmaceutical company for takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. KDK Bank Ltd., requires you to make a due diligence audit in the areas of assets of pharmaceutical company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at overvalued amounts.

Ans.



Trade Rec. - Uncollected / uncollectable receivables.

Inventory - Obsolete, slow non-moving inventories or inventories valued above NRV; huge inventories of packing materials etc. with name of company.

PPE - Under-used or obsolete plant & machinery and their spares, sudden impairments in assets.

Revenue Vs Capital-

- Assets carried at much more than current market value due to capitalisation of expenditure/foreign exchange fluctuation, or capitalisation of expenditure mainly in the nature of revenue.
- Litigated assets & property.

Investment -

- Investments carried at cost though realisable value is much lower.
- Investments carrying a very low rate of income / return.

CWIP/DRE- Infertuous project expenditure/deferred revenue expenditure, etc.

Inter Co. Balances - Group Company balances under reconciliation, etc.

IA - Intangible assets of no value.

4. "Due diligence is different from audit" – Explain the difference between due diligence and audit.

Ans.



Audit	Due Diligence
It is an independent examination & evaluation of the FS of an organisation with a view to express an opinion thereon.	<ul style="list-style-type: none"> • It refers to an examination of potential investment to confirm all material facts of the prospective business opportunity. • It involves review of financial & non-financial records as deemed relevant and material. • It aims to take care that a reasonable person should take before entering into an agreement or transaction with another party.

5. **DD : Liquidity**
PB Ltd. entered into a deal with SV Ltd. for buying its business of manufacturing wooden products/ goods. PB Ltd. has appointed your firm for conducting due diligence review and they want to know the cash generating abilities of SV Ltd. What points will you check in order to ensure that the manufacturing unit of SV Ltd. will be able to meet the cash requirements internally?

Ans.



In order to ensure that the manufacturing unit of SV Ltd. will be able to meet the cash requirements internally, one is required to verify:

- Is the company able to **honor its commitments to its trade payables**, to the **banks**, to the **government and other stakeholders**?
 - How well is the company able to **convert its trade receivables and inventories**?
 - How well the Company **deploys its funds**?
 - Are there any **funds lying idle** or is the company able to reap **maximum benefits out of the available funds**?
 - What is the investment pattern of the company and are they **easily realizable**?
- Refer All points of CLASSIFICATION OF DUE-DILIGENCE

6. **DD : Scope**
CA. Sanjana is acting as Credit manager in branch of DFC Bank Limited. A company has approached the branch

for a request to sanction credit facilities worth ₹10 crore for meeting usual business requirements. It is a prospective new client. She checks past history of the company, back ground of promoters & directors, shareholding pattern and nature of business. Assessment of financial results of past years and future projections is also undertaken. She also carries out SWOT analysis of the company.

Besides, assessment of net worth of directors is also undertaken. Status of CIBIL score and position of name of promoters/directors in RBI defaulter list is also verified.

She also makes discreet inquiries from few clients of the branch engaged in similar line of activity regarding credit worthiness of company, its promoters and directors.

Based on above-

- Identify activity being performed by CA Sanjana and discuss its nature.
- Would your answer be different if this activity was to be performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.
- Name any three other areas where identified activity can be undertaken.

Ans.



- a. The activity described in the situation is **Due diligence**. Due diligence is a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measured by any absolute standard but depending upon the relative facts of the case. It involves a careful study of financial and non-financial possibilities. It implies a general duty to take care in any transaction.

Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans.

Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit.

- b. There would be **no difference in answer** if above activity was to be performed by a person who is not a Chartered Accountant. The activity would remain due diligence. Due diligence can be performed by any person. It is not necessary that due diligence can only be carried out by a Chartered Accountant. As due diligence involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person.
- c. The areas where **due diligence may be undertaken are:-**
- i. **Corporate restructuring**
 - ii. **Venture capital financing**
 - iii. **Public offerings**

7. A nationalised bank received an application from an export company seeking sanction of a term loan to expand the existing sea food processing plant. In this connection, the General Manager, who is in charge of Advances, approaches you to conduct a thorough investigation of this limited company and submit a confidential report based on which he will decide whether to sanction this loan or not.
List out the points you will cover in your investigation before submitting your report to the General Manager.

Ans.



1. Purpose for which the loan is required and the manner in which the borrower proposes to invest the amount of the loan.
2. Schedule of repayment of loan submitted by the borrower, particularly, assumptions made therein as regarding amounts of profits that will be earned in cash and amount of cash that would be available for the repayment of loan to confirm that they are reasonable and valid in the circumstances of the case.
3. Institutional lenders rely more, for repayment of loans, on the annual profits and loss, and on the values of

assets mortgaged to them.

4. Financial standing and reputation for business integrity enjoyed by directors and officers of the company.
5. Whether the company is authorised by the Memorandum or the Articles of Association to borrow money for the purpose for which the loan will be used.
6. History of growth and development of the company and its performance during the past 5 years.
7. How the economic position of the company would be affected by economic, political and social changes that are likely to take place during the period of loan.
8. Whether any loan application to any other Bank or Financial Institution was made, and if so, the reasons for rejection thereof.

8. What are the important steps involved while conducting Investigation on behalf of an Incoming Partner?

Ans.



- (a) Ascertainment of history of inception and growth of the firm.
- (b) Study provisions of the partnership deed for composition of partners, their capital contribution, drawing rights, retirement benefits, job allocation, financial management, goodwill, etc.
- (c) Scrutiny of record of profitability of the firm's business over number of years, with usual adjustments, that are necessary in ascertaining the true record of business profits.
- (d) Particular attention should be paid to the nature of partners' remuneration, which may be excessive or inadequate in relation to the nature and profitability of the business, qualification and expertise of the partners and such other factors as may be relevant.
- (e) Examination of asset and liability position to determine the tangible asset backing for the partner's investment, appraisal of the value of intangibles like goodwill, know how, patents, etc. impending liabilities including contingent liabilities and those pending for tax assessment.
- (f) In case of firms rendering services, the question of tangible asset backing usually is not important, provided the firm's profit record, business coverage and standing of the partners are of the acceptable order.
- (g) Position of orders at hand and range and quality of clientele should be thoroughly examined.
- (h) Position and terms of loan finance would call for careful scrutiny to assess its usefulness and implication for the overall financial position; reason for its absence or negative impact should be studied.
- (i) Study the composition and quality of key personnel employed by the firm and any likelihood of their leaving the organisation in the near future.
- (j)
 - (i) Ascertain various important contractual & legal obligations and study their nature.
 - (ii) The firm may have a standing agreement with the employees as regards salary and wages, bonus, gratuity and other incidental benefits. Full impact of such standing agreements would be gauged before a final decision is reached.
- (k)
 - (i) Ascertain the reasons for the offer of admission to a new partner.
 - (ii) Determine whether the same synchronises with the retirement of any senior partner whose association may have had considerable bearing on the firm's success.
- (l) Appraisal of the record of capital employed and the rate of return.
- (m) It is necessary to have a comparison with alternative business avenues for investments and evaluation of possible results on a changed capital and organisation structure, if any, envisaged along with the admission of the partner.
- (n) Knowledge about the specialisation, if any, attained by the firm in any of its activities.
- (o) Ascertain the manner of computation of goodwill on admission and on retirement, if any.
- (p) Whether any special clause exists in partnership deeds to allow admission in future of a new partner, who may be specified, on concessional terms.
- (q) Whether the incomplete contracts which will be transferred to the reconstituted firm will be a liability or a loss.

9. Mr. Clean who proposes to buy the proprietary business of Mr. Perfect, engages you as investigating accountant. Specify the areas which you will cover in your investigation.

Ans.



Investigation on behalf of an Individual or Firm proposing to buy a business

Scope of investigation

- Objective: Collect info. to enable the purchaser to decide whether the business is worth buying & if so, for what amount.
- Investigation: On same lines as for valuation of shares.
- Consider additional matters.

In case of proprietary concerns or partnerships:

- **Reason** for sale of business, effect on turnover, profit.
- **Length of lease** under which premises are held. Prospect of its renewal or extension.
- Unexpired period of any **patents** owned by vendors.
- **Age** of present **managerial staff** & prospects of continuing in service under the new proprietorship and possible liability.
- If **bulk sales** made to customers whose **number** is small, profitability of business would be greatly shaken withdrawing their support. Its' an element of weakness.
- Valuation that could be placed on **goodwill** to determine – whether it is undervalued/overvalued.

10.

In a Company, it is suspected that there has been embezzlement in cash receipts. As an investigator, what are the areas that you would verify?

Ans.



Holding back cash sales, collections by traveling salesman, V.P.P receipts, or casual receipts, e.g. sales of scrap, recoveries out of debts written off earlier etc., can be covered up by the perpetrator by adopting following devices:

- Issuing a **receipt to payee for the full amount** collected and entering only a part of amount on the counterfoils.
- Showing **large cash discounts** than actually allowed.
- Adjusting a **fictitious credit** in account of customer for goods returned.
- Adjusting **cash sales as credit sales.**
- **Writing-off good debts** as bad & irrecoverable.
- Short **debiting customer's account** in ledger.
- **Under casting** receipt side of cash book/over casting payment side.
- **C/F shorter total of receipts** from one page of the Cash Book to the next.
- **Over-carrying** the total of the **payment** from one page of the Cash Book to the next.
- To cover up misappropriation; either:
 - **Short banking of cash collection,** or
 - Part of the amount of **withdrawal from the bank.**

11.

FMT

J Ltd. is interested in acquiring S Ltd. The valuation of S Ltd. is dependent on future maintainable sales. As the person entrusted to value S Ltd., what factors would you consider in assessing the future maintainable turnover?

Ans.



In assessing the turnover which the business would be able to maintain in the future, the following factors should be taken into account:

- Trend:** Whether in the past, sales have been increasing consistently or they have been fluctuating. A proper study of this phenomenon should be made.
- Marketability:** Is it possible to extend the sales into new markets or that these have been fully exploited? Product wise estimation should be made.
- Political and economic considerations:** Are the policies pursued by the Government likely to promote the extension of the market for goods to other countries? Whether the sales in the home market are likely to increase or decrease as a result of various emerging economic trends?
- Competition:** What is the likely effect on the business if other manufacturers enter the same field or if products which would sell in competition are placed on the market at cheaper price? Is the demand for competing products increasing? Is the company's share in the total trade constant or has it been

fluctuating?

12.

MF. Ltd., engaged in the manufacturing of various products in its factory, is concerned with shortage in production and there arose suspicion of inventory fraud. You are appointed by MF Ltd. To evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory?

Ans.

**Inventory Frauds****Mainly concerned with misappropriation of goods and their concealment.****(a) Instances: Employees** may remove goods.

- Theft concealed by writing them off as **damaged goods**, etc.
- **Manipulating inventory records.**
- **Inflating the quantities issued** for production.
- **Stocks actually dispatched but not** entered in sales/ debtor's a/c.

(b) Verification Procedure for Defalcation of inventory

- **It may be of-**
 - Trading stock,
 - RM,
 - Manufacturing stores,
 - Tools, or
 - Other similar items (readily) capable of conversion into cash.
- Loss may be due to a theft by an employee (once or repeatedly over a long period), when not detected.
For detection, review:
 - Entire system of receipts,
 - Storage,
 - Dispatch of all goods, etc. to localize weakness in system.
- **Determination of factors responsible for theft & establishment of guilt would be difficult in the absence of:**
 - System of IC & existence of detailed record of movement of inventory, or
 - Availability of sufficient data.

(c) Steps involved under investigation are as follows:

- Establish **different items of inventory** defalcated & their quantities through physical verification of inventory held with those shown in books.
- Ascertain **duties of persons** handling stocks received in and issued for production/ sale or any other purpose.
- Identify the **excessive control** in the hands of a single person, without any supervision.
- Inventory receipts/ issues – **cross tallied** with – **Goods Inward & Outward Registers** and **Purchases & Sales.**
This would reveal the particulars of inventory:
 - not received but paid for, as well as
 - that issued but not charged to customers.
- **Inward & Outward Returns entries** in financial books – cross tallied with – Inventory books.
- Check **total** of inventory book.
- **Shortages** observed on physical verification of inventory to be reconciled with discrepancies observed.
- Verify **issue of RM, stores and tools** to the factory and receipts of manufactured goods in the

godown with source documents.

- Diversion of production & consequently adjusting shortages by inflating wastage in production or by inflating quantities issued for production.
- **Consider:**
 - **Assistance of an engineer** to correctly determine the extent to which the shortage in production has been inflated.
 - Past **records** showing extent of past wastage in production.
 - Whether the **material issued** for production **was excessive** and, if so to what extent.
- **Per hour capacity** of the M/C and the time required to complete one cycle of production, also would show excess issues.

13.

In a Public Limited Company, it is suspected by the Management that there has been embezzlement in supplier's ledger. As an auditor of the Company, you have been asked to investigate the matter. What are the major areas that you would verify in this regard?

Ans.



Frauds through suppliers' ledger

- Tally purchase journal with Goods Inward Book & Supplier's invoices.
- **Confirm:**
 - Amount credited to supplier - only in respect of goods actually received.
 - Allowances & rebates given by suppliers – correctly adjusted & duly authorized.
- **Examine IC system w.r.t**
 - Purchase orders issued &
 - Identify possibilities of collusion with suppliers.

14.

General objective of an audit is to find out whether the financial statements show true and fair view. On the other hand, investigation implies systematic, critical and special examination of the records of a business for a specific purpose. In view of the above, you are required to brief out the difference between Audit and Investigation.

Ans.



S.N.	BASIS	INVESTIGATION	AUDIT
1	Objective	Aims at establishing a fact or a happening or at assessing a particular situation.	Aim is to verify whether the FS display a true & fair view of the state of affairs & working results of an entity.
2	Scope	Scope of investigation may be governed by statute or may be non-statutory .	Scope of audit is wide & in case of statutory audit the scope of work is determined by provisions of relevant laws .
3	Periodicity	Work is not limited by rigid time frame. It may cover several years , as the outcome of the same is not certain.	Audit is carried on either quarterly, half yearly, or yearly .
4	Nature	Requires a detailed study & examination of facts & figures. Investigation is voluntary in nature .	Involves test checking/sample techniques to draw evidences for forming a judgement & expression of opinion. It is mandatory for companies .
5	Inherent limitations	No inherent limitation owing to its nature of engagement.	Audit suffers from inherent limitation .
6	Evidence	Seeks conclusive evidence.	Mainly concerned with prima-facie evidence .

7	Observance of Accounting principles	It is analytical in nature , requires a through mind, capable of observing, collecting & evaluating facts.	Governed by compliance with generally accepted accounting principles, audit procedures & disclosure requirements.
8	Appointing Agency	Even third party can appoint Investigator.	Auditor is appointed by owner/ shareholders of company/enterprise.
9	Reporting	Outcome reported to the person(s) on whose behalf investigation is carried out.	Outcome is reported to the owners of business entity.
10	Facts/Figures	An investigator does not accept a stated fact as correct until it is substantiated.	An auditor, in absence of suspicious circumstances, relies on stated facts or figures.
11	Approach	An investigator approaches the work with a mind frame to suspect, verify and satisfy.	An auditor does not suspect unless circumstances arouse suspicion.

15. Enumerate the steps to be undertaken in case of forensic accounting process.

Ans.



Each Forensic Accounting assignment is unique. Accordingly, the actual approach adopted and the procedures performed will be specific to it. However, in general, it includes the following steps:

Step 1 – Initialisation

- It is vital to **clarify and remove all doubts** as to the real motive, purpose and utility of the assignment.
- It is helpful to **meet the client** to obtain an **understanding of the important facts, players and issues** at hand.

Step 2 – Develop the plan

- This plan will take into account the **knowledge gained** by meeting with the client and **carrying out the initial investigation** and will **set out the objectives** to be achieved **and the methodology** to be utilised to accomplish them.

Step 3 – Obtain relevant evidence

- Depending on the nature of the case, this may involve **locating documents, economic information, assets, a person or company, another expert or proof of the occurrence of an event.**
- In order to gather detailed evidence, the investigator must **understand the specific type of fraud** that has been carried out, **and how the fraud has been committed.**
- The evidence should be **sufficient to ultimately prove the identity of the fraudster(s), the mechanics of the fraud scheme, and the amount of financial loss suffered.**

Step 4 – Perform the Analysis

The actual analysis performed will be dependent upon the nature of the assignment and may involve:

- calculating **economic damages**;
- **summarising a large number of transactions**;
- performing a **tracing of assets**;
- performing **present value calculations** utilising appropriate discount rates;
- performing a **regression or sensitivity analysis**;
- utilising a **computerised application** such as a spread sheet, data base or computer model; and
- utilising **charts and graphics** to explain the analysis.

Step 5 – Reporting

Accountants / Investigators will include **information detailing the fraudulent activity**, if any has been found.

The client will expect a report containing the **findings of the investigation**, including a **summary of evidence**, a conclusion as to the **amount of loss suffered** as a result of the fraud and to **identify those**

involved in fraud.

Step 6 – Court Proceedings

- The investigation is likely to lead to legal proceedings against the suspect, and members of the investigative team will probably be involved in any resultant court case.
- The **evidence gathered** during the investigation will need to be **presented at court**, and **team members may be called to court to describe** the evidence they have gathered and to **explain how the suspect was identified**.

16.

Briefly discuss the key content of Forensic Accounting and Investigation Report.

Ans.



FORENSIC ACCOUNTING AND INVESTIGATION REPORT

- This Forensic Accounting and Investigation Standard (FAIS or “Standard”) 510 deals with the responsibility of the **professional to issue a written report to the stakeholders** at the conclusion of the assignment.
- Since one engagement may include multiple assignments, multiple reports may have to be issued; **one for each assignment**.

(i) Written Report

- The Professional shall issue a written report which **conveys the results of the assignment clearly and accurately**.
- The findings reported shall be **based on evidence gathered** which are reliable and relevant.
- Thus, the professional shall issue a written report which is **precise and unambiguous**.

(ii) Report addressee and distribution

- The report shall be **addressed to the primary stakeholders** and shared with other stakeholder(s), if required or otherwise permissible.

(iii) Format or Content of Report

- **Where form and content of the report is not mandated by this standard**
Report shall include certain key elements to enable the recipient to understand the:
 - purpose of the assignment,
 - extent and scope of work performed by the Professional,
 - any limitations, assumptions or disclaimers,
 - facts and evidence gathered; and
 - conclusions drawn.
- **Where form and content of the report is mandated by the stakeholders, or specified by the statutory or regulatory requirements**,
 - Professional shall report in line with those requirements, while keeping in mind the key elements.

(iv) Key elements of the Report

- Title, addressee and distribution list (if any)
- Scope and objectives of the assignment
- Approach and broad work procedures undertaken
- An Executive Summary of the results, covering all important aspects and the essence of the findings
- Reference to use of an expert, where applicable
- The fact that the assignment has been conducted in accordance with FAIS, or any material departures therefrom
- List of findings supported by key evidences, sources of evidences, and other relevant matter;
- Assumptions, limitations and disclaimers of the assignment
- Conclusions (if any) drawn from the assessment undertaken

(v) Discussion of Draft Report

- Where the engagement mandate requires a discussion of the findings with the subject party prior to finalization, a **summary of the responses** received from them shall be included in the report.
- Further, the **Principles of Natural Justice** requires a discussion of the observations with the subject party. This is done by the Primary Stakeholders through their own internal processes (e.g., disciplinary committee, show-cause notice, etc.).

- At times, the **professional is requested to incorporate** the discussion of draft findings **as part of the interview process** with the subject.

(vi) Assumptions and Limitations

- The Professional shall **list** any relevant **assumptions** made during the assignment having a **significant bearing on the subject matter**.
- The professional may encounter limitations that restrict the methodologies or procedures applied in carrying out the assignment. Such limitations can be in the form of:
 - Lack of (or limited) management support,**
 - Restricted (or denied) access** to required records, information or people, due to any reason such as court orders, short timelines, etc.

These disclaimers would be covered in the report as a key element of the report.

- The report shall **not express an opinion or pass any judgment** on the guilt or innocence.
- Determination of **culpability is either a disciplinary process internal to the organisation under review, or a judicial process** depending on the specific situation under review.
- The report can, at best, highlight the **circumstances and facts that may aid a stakeholder decision** or further a civil or criminal investigation.

(vii) Reporting Timelines

- The report shall be **issued within reasonable time frame** as per the engagement terms.
- The professional may be required to provide interim reports which can be given to the extent practicable without compromising the progress of the investigation

17.



ABC Ltd. is a listed company having turnover of ₹ 50 crores & plans expansion by installation of new machines at new building-having total additional project cost of ₹ 20 crore.

Rupees (In crore)	Purpose
10.0	for Building
8.5	for Machinery
1.5	for Working Capital
20 Crore	Total

Project gets implemented in 2022-23 and one of the accountants report to the Managing Director that some suspicious transactions are noticed in the purchase of building material. But the Management is confused as to whether they should get an audit or Forensic Accounting done for the same. Advise Management about the difference in forensic accounting and audit.

Ans.

FORENSIC ACCOUNTING ANALYSIS VS. AUDIT

Forensic accounting and Audit differ in specific ways as shown below:

Basis	Statutory Audit	Forensic Accounting
Objective	True and Fair Picture	Discover Facts and Evidence
Focus	Very General – An Overall Review of the Books of Account	Narrow – Validate Transactions and Balances
Approach	Control Tests of Transactions and Substantive Tests of Balances	Focused Testing to Confirm Suspicion / Allegation
Target	Identify Material Misstatements in FS	Identify / Confirm Nature of Violation
Skills	Testing & Checking, Analysis, Inquiry & Observation	Scrutiny & Analysis, Fact – Finding, Interviews
Presumption	Professional Skepticism, Due Professional Care	Neutrality
Outcome	Audit Report Opinion (Qualification – Subject To/Except For)	Present Evidence to a Court of Law – They Shall Judge)
Nature	A Legal Mandate and designed to provide an overall assurance to the shareholders of true	A separate mandate altogether and designed to provide support to legal

Chapter 18

SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ASSURANCE

ICAI SM - Direct Questions (Refer Brahmastra for detailed answers or scan QR Code)

1. What type of companies are required to mandatorily furnish the Business Responsibility and Sustainability Report (BRSR) as per the SEBI circular with effect from FY 2022-23?

Ans.



Assurance in BRSR

- SEBI has currently started with the top 1,000 listed companies. But very soon, remaining listed companies would also need to comply with the provisions of BRSR.
- The overarching importance of sustainability reporting **continues to gain momentum** globally with demands from various stakeholders and substantial research and developments toward a uniform set of sustainability standards.

Applicability:

- (a) From FY 2023-2024, **top 1000 listed entities** (by market capitalization) shall make disclosures as per the **updated BRSR format**, as part of their Annual Reports.
- (b) Listed entities shall **mandatorily undertake reasonable assurance** of the BRSR Core, as per the glide path specified in the following table by SEBI/MCA:

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalization)
2023-24	Top 150 listed entities
2024-25	Top 250 listed entities
2025-26	Top 500 listed entities
2026-27	Top 1000 listed entities

2. What are the nine principles of BRSR? How are the nine principles of BRSR linked with the 17 UN Sustainable Development Goals?

Ans.



Nine Principles of BRSR

The nine principles in BRSR are categorised into the ESG components of Environment, Social and Governance -with 2 of the nine in environment, - 3 in social; and - 4 in governance.

Even though they are separate, they are interlinked to each other in some way. For example, the environmental protection is closely linked to the stakeholder engagement and inclusive growth.

Principle 1: Ethics, Transparency and Accountability	Principle 2: Safe and Sustainable Goals and Service	Principle 3: Promote well-being of all employees including those in the value chain
Principle 4: Respect for stakeholders' interests and responsiveness	Principle 5: Respect and Promote human rights	Principle 6: Protection and Restoration of environment
Principle 7: Influence on Public and Regulatory policy	Principle 8: Promote inclusive Growth and Equitable development.	Principle 9: Provide value to the consumers in a responsible manner.

Alignment of BRSR Principles with SDGs

Principles/SDGs	P1	P2	P3	P4	P5	P6	P7	P8	P9

SDG 1			✓	✓				✓	
SDG 2		✓				✓	✓	✓	✓
SDG 3			✓					✓	
SDG 4			✓					✓	✓
SDG 5			✓	✓	✓			✓	
SDG 6		✓				✓		✓	
SDG 7		✓				✓	✓		
SDG 8		✓	✓		✓			✓	
SDG 9		✓					✓		
SDG 10		✓					✓		
SDG 11			✓	✓			✓	✓	
SDG 12		✓				✓			✓
SDG 13		✓				✓	✓	✓	
SDG 14		✓				✓	✓	✓	✓
SDG 15		✓				✓	✓	✓	✓
SDG 16	✓		✓	✓	✓			✓	
SDG 17	✓						✓	✓	

3. What are the global trends in sustainable reporting?

Ans.



GLOBAL TRENDS IN SUSTAINABLE REPORTING

- **Mandatory for:** public sector or government- run companies, large corporations, multinational business conglomerates, and listed companies in stock exchanges.
- **Reporting provisions:** sector-specific, and thematic reporting provisions.
- **Framework used:** Global Reporting Initiative (GRI) Sustainability Reporting Standards, having 93% of the world’s largest 250 corporations report on their sustainability performance through GRI.
- **GRI Sustainability Reporting Standards** are developed with true multi-stakeholder contributions and rooted in the public interest.

Global Reporting Initiative (GRI)	Carbon Disclosure Project (CDP)	International Integrated Reporting Framework (IIRC)
<ul style="list-style-type: none"> ○ Helps the organisations to report on economic, environmental, and social impacts. ○ General disclosures which are required to be reported are Economic, Environment and Social. ○ This report is addressed to all the stakeholders of the entity. 	<ul style="list-style-type: none"> ○ Captures the environmental performance data which is related to GHG emissions, water, forests, and supply chain. ○ Major details required to be reported are climate change, Forest, and Water security. ○ This report is addressed to all the investors, buyers, and other stakeholders of the entity. 	<ul style="list-style-type: none"> ○ Established guiding principles and content elements in order to allow the companies to produce integrated reports. ○ This report consists of Organisational overview, Governance structure, Business model, risks and opportunities, strategy, performance, outlook etc.

- **Comprehensive Corporate Reporting System**
- In September 2020, these frameworks & standard setting institutions came together to show a commitment

to working towards a comprehensive corporate reporting system.

The intent of the collaboration was:

- ✓ **Joint market guidance** on how the frameworks & standards can be applied in complementary and additive way.
- ✓ **Joint vision** of how these elements could complement Financial GAAP and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system.
- ✓ **Joint commitment** to drive towards this goal, through an ongoing programme of deeper collaboration between the 5 institutions and stated willingness to engage closely with other interested stakeholders.
- In **November 2021**, the IFRS Foundation Trustees published a revised **Constitution and a Feedback Statement** that responds to the feedback from Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.
- International investors with global investment portfolios are increasingly calling for high quality, transparent, reliable, and comparable reporting by companies on climate and other Environmental, Social and Governance (ESG) matters.
- **On 3 November 2021**, the IFRS Foundation Trustees announced the creation of a new standard-setting board—the **International Sustainability Standards Board (ISSB)** to help meet this demand.
- The intention is for the ISSB to deliver a **comprehensive global baseline of sustainability-related disclosure standards** that provide investors and other capital market participants with information about companies sustainability-related risks and opportunities to help them make informed decisions.
- Further, the ISSB has taken the technical guidance for developing IFRS Sustainability Disclosure Standards.
- **Task Force on Climate-Related Financial Disclosures (TCFD)**
 - ✓ It was created in 2015 by the Financial Stability Board (FSB)
 - ✓ The goal is to help companies to create consistent climate-related disclosures.
 - ✓ Unlike GRI, which works on a wide range of organizations, TCFD is targeted at companies that predominantly handle financial-related interests, such as banks and insurance firms.
- **Climate Disclosure Standards Board (CDSB)**
 - ✓ An international group of business which is committed to making climate-related disclosures in the mainstream global corporate reporting.
 - ✓ CDSB framework was formed to help organizations to disclose climate related risks and opportunities. The CDSB framework has also set out an approach for reporting environmental information.
- **Value Reporting Foundation (VRF)**

VRF is a non-profit organisation which was a result of the merger between SASB Foundation and the International Integrated Reporting Council (IIRC). The International Accounting Standards Board (IASB) and the ISSB has agreed to work together in order to build an Integrated Reporting Framework.
- **International Sustainability Standards Board (ISSB)** in March 2022 launched a consultation on its first **two proposed standards—one on climate-related disclosures and one on general sustainability-related disclosures**.
- The proposed standards, when finalised, would form a comprehensive global baseline of sustainability-related disclosures designed to meet the information needs of investors in assess ing enterprise value.
- **IFRS S1:** The proposed requirements in the Exposure Draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft) build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from the Sustainability Accounting Standards Board (SASB) Standards.

4. What are the 6 C's of Integrated reporting?

Ans. INTEGRATED REPORTING

There are **6Cs of Integrated Reporting**-also known as 6 capitals:

1. Financial Capital:



- **Pool of funds that is available to the organization** for use in the production of goods or provision of services.
 - **Obtained through financing**, such as debt, equity, or grants, or generated through operations or investments.
- 2. Manufactured Capital**
- Seen as **human-created, production-oriented equipment and tools**.
 - Available to the organisation for **use in the production of goods or the provision of services, including buildings, equipment, infrastructure** (such as roads, ports, bridges & waste, and water treatment plants).
- 3. Natural Capital**
- Is an **input to the production of goods or the provision of services**.
 - An **organisation's activities** also impact, positively or negatively, on natural capital.
 - Includes **water, land, minerals and forests, biodiversity, and ecosystem health**.
- 4. Human Capital**
- **People's skills and experience, their capacity, and motivations to innovate**, including their:
 - **Alignment with and support of the organisation's governance framework & ethical values** such as its recognition of human rights.
 - Ability to **understand and implement an organisation's strategy**.
 - **Loyalties and motivations** for improving processes, goods, and services, including their ability to lead and to collaborate.
- 5. Social Capital**
- **Institutions and relationships established within and between each community, group of stakeholders and other networks** to enhance individual and collective well-being.
 - Includes:
 - ✓ Common **values and behaviour**.
 - ✓ **Key relationships**, the **trust and loyalty** that an organization has developed and strives to build and protect with customers, suppliers, and business partners.
 - ✓ An organization's **social license** to operate.
- 6. Intellectual Capital**
- **Key element in an organization's future earning potential**, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organisation's competitive advantage.

5. What is the methodology of providing assurance in BRSR?

Ans.



Methodology to provide assurance on BRSR

- **Preliminary** Review of ESG report, parameters
- **On-Site** Assessment / verification of ESG Report
- Issuance of **Assessment Report** and Assessment Statement
- **Review of the responses** & clarifications on the findings
- **Submission** of findings of the **onsite assessment and document review**
- Preparation of Assessment/ Verification report including **final results** of Assessment/ Recommendation

6. What is the auditor's role on ESG aspects in an audit of financial statements of the Company?

Ans.



ROLE OF AUDITOR: CONSIDERATION OF CLIMATE RELATED RISKS IN AN AUDIT OF FINANCIAL STATEMENTS

- **Auditor's Objective:** The role of the auditor is to obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the FS are prepared and presented fairly, in all material respects, in accordance with the A-FRFW.
- **Obtain understanding of the entity:** In developing the understanding of an entity, the auditor should include the consideration of climate related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance,

