

1. CA P is auditor of Master Data Ltd. for year 2021-22. Co. requests auditor to undertake an exercise involving only verification of trade receivables for half year ending 30.09.21. Co. wants to be satisfied that trade receivables are properly confirmed and reconciled. In this regard, CA P has to verify arithmetical accuracy of trade receivables, obtain confirmation of trade receivables and ensure verification of proper reconciliations with confirmations. He is in a dilemma as to whether he can give a report providing assurance to Co. in this respect. Guide CA P with reasoning. Assume that above exercise can be undertaken and there is no legal bar.

In given case, auditor has to verify trade receivables for half year ending 30th Sep-21. Such a process/exercise is only a **fact finding and reporting exercise**.

- Auditor has to **report facts** as these are.
- He would have to state whether confirmation from a particular debtor has been received or not.
- Auditor can issue an **assurance report in case of audit and review engagements**.
- By providing assurance, auditor **provides comfort** to users of F.S. Assurance refers to auditor's satisfaction as to reliability of an assertion made by one party for use by another.
- To provide such assurance, auditor **assesses the evidence collected** as a result of **procedures conducted** and expresses a **conclusion**.
- Degree of satisfaction achieved and, therefore, level of assurance which may be provided is determined by procedures performed and their results.

However, types of services described in given situation falls in **related services domain**. These are, in nature, of **agreed-upon procedures** to be carried out by auditor. Auditor **can't issue an assurance report** while providing such kind of services. He can only issue a **report stating facts** as they are without providing any sort of assurance. He can report only facts.

He can only **issue a factual report**.

2. BOT Ltd is enjoying cash credit facility sanctioned from Nariman Point, Mumbai branch of KNB Bank for ₹250 Cr. However, for practical considerations, various sub-limits have been fixed for borrower Co. for operation at Solapur, Pune and Nashik branches of same bank. Manager of Solapur branch notices that there are no credit transactions in sub - limit a/c being operated at Solapur branch for more than 90 days as on 31.3.22. Discuss approach of CA. Muni, stat. branch auditor of Nariman Point branch, Mumbai of KNB Bank, in matter of asset classification of above borrower account. Also discuss considerations for classifying said account at Solapur branch.

Sometimes, a customer is sanctioned a cash credit limit at one branch but is authorised to utilise such overall limit at several other branches also, for each of which a sub-limit is fixed.

In such a case, determination of status of account as NPA or otherwise should be **determined at limit-sanctioning branch** w.r.t overall sanctioned limit/drawing power and not by each of other branches where a sub-limit has been fixed.

Auditor of limit-sanctioning branch should examine whether

- it **receives particulars of all transactions** in the account at sub-limit branches and
- status of account has been determined **considering total position** of operation of a/c at all concerned branches.

Standalone matter of no credit transactions for more than 90 days as on 31.3.2022 at Solapur branch is **irrelevant**.

Hence, keeping in view above, CA. Muni should consider asset classification **considering total position of operation of the account at all concerned branches**.

Regarding sub-limit at branches, **classification adopted by limit-sanctioning branch should be followed**. Hence, Solapur branch has to follow asset classification made by the limit-sanctioning branch.

3. CA. Gunjan is conducting tax audit of a company. The client is engaged in business of manufacturing and export of carpets (Turnover ₹100 crore in year 2021-22). The financial statements of the company show amount of ₹4 crore credited in Statement of Profit and Loss on account of "Duty Drawback".

(a) How should she perform audit procedures to comply with specific reporting requirements under Form 3CD in this respect?

(b) It was noticed that amount of ₹ 5 lac of duty drawback pertaining to few export shipments has not been credited in Statement of Profit and loss. The above noted amount was admitted by customs authorities in month of March 2022. However, it was electronically transferred to bank account of the company in next financial year. How should she deal with the matter?

Under **Clause 16(b)** of Form 3CD, proforma credits, drawbacks, refund of duty of customs or excise or service tax, or sales tax or VAT, where such credits, drawbacks or refunds are admitted as due by authorities concerned and not credited to p&l a/c are to be reported.

Details of following claims, if admitted as due by concerned authorities but not credited to p&l a/c, are to be stated under clause 16(b).

- (i) Pro forma credits
- (ii) Drawback
- (iii) Refund of duty of customs
- (iv) Refund of excise duty
- (v) Refund of service tax
- (vi) Refund of sales tax or value added tax or GST

All **relevant correspondence, records and evidence** should be examined to determine whether any refund/claim has been admitted as due and accepted during relevant FY.

Words' admitted by concerned authorities' would mean 'admitted by authorities within relevant PY'.

Therefore, tax auditor may need to **scrutinise relevant files or subsequent records**, including copies of shipping bills, etc., relating to such refunds while verifying the particulars.

Besides, appropriate **management representation** should also be obtained.

A drawback of ₹5 lac is noticed as admitted by customs authorities, which hasn't been credited to Statement of P&L. A company has to maintain accounts on **accrual basis** in accordance with Sec 128 of Companies Act, 2013. As admitted drawback has **not been credited in statement of P&L**, same **should be reported** under **clause 16(b) of Form 3CD**.

4. CA. Sanjana is acting as Credit manager in branch of DFC Bank Ltd. A Co. has approached 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 Co., 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 Co. 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 branch engaged in similar line of activity regarding credit worthiness of company, its promoters and directors.

Based on above-

- (a) Identify activity being performed by CA Sanjana and discuss its nature.
- (b) 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.
- (c) Name any three other areas where identified activity can be undertaken.

(a) The activity described in situation is **Due diligence**.

Due diligence is a **measure of prudence activity**, or assiduity,

- as expected from, & ordinarily exercised by,
- a reasonable and prudent person under particular circumstance,
- **not measured by any absolute standard** but depending upon relative facts of case.
- 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 **verification of material facts**.
- It entails **conducting inquiries** for purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may **influence outcome** of transaction.

- DD involves a careful study of financial as well as non-financial possibilities for successful implementation of restructuring plans.
- DD involves an analysis carried out before acquiring a controlling interest in a Co. to determine that the conditions of business conform with what has been presented about 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 CA. The activity would remain DD. It can be performed by any person. It isn't necessary that DD can only be carried out by a CA. As it involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person.

(c) The areas where DD may be undertaken are: -

- (i) Corporate restructuring
- (ii) Venture capital financing
- (iii) Public offerings

5. Mr. S is a practising CA based out of Chennai. During weekends, he involved himself in equity research and used to advise his friends, relatives and other known people who are not his clients.

Apart from this, he was also involved as a paper - setter for Accountancy subject in the school in which he studied.

He also owned agricultural land and was doing agriculture during his free time. During the year 20X1, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent.

After a few court hearings, finally, in the year 20X3, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part.

You are required to comment on the above situation with reference to CA Act, 1949 and Schedules thereto, (especially from the point of section 8: Entry of name in Register of Members).

Given situation can be visualised in following parts:

(A) Mr S used to involve himself in equity research and advise his friends, relatives and other known people: As per recent decisions of Ethical Standards Board of ICAI, a CAiP may be an equity research adviser, but he can't publish a retail report, as it would amount to other business or occupation.

In given case, though Mr S is involved in doing equity research and in advising people, it is clear that he does not publish any retail report of his research. Hence, this act of Mr S shall not make him guilty of professional misconduct.

(B) Mr S is involved in paper-setting for the Accountancy subject in the school where he studied. He also owns agricultural land and does agriculture activities: As per Clause 11 of Part I of First Schedule of CAs Act and regulation 190A of CAs Regulations, a CAIP is deemed to be guilty of professional misconduct if he engages in any business or occupation other than profession of CA unless permitted by Council to engage.

Further, Regulation 190A mentions 'Permissions granted Generally' to engage in a certain category of occupations, for which no specific permission of Council is required which includes:

- Valuation of papers, acting as paper-setter, head examiner or a moderator, for any examination.
- Owning agricultural land and carrying out agricultural activities.

Therefore, in given case, activities of Mr S as a paper-setter and involvement in agricultural activities do not make him guilty of professional misconduct.

(C) Mr. S was discharged insolvent: Disabilities for Purpose of Membership : Sec 8 of CAs Act, 1949 enumerates circumstances under which a person is debarred from having his name entered in or borne on Register of Members, If he, being a discharged insolvent, has not obtained from court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in Register until the expiry of such period.

In addition, failure on part of a person to disclose the fact that he suffers from any one of aforementioned disabilities would constitute professional misconduct. Name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by Council.

In given case, it is clearly stated that Mr S was discharged insolvent, and has also obtained from court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Hence, Mr S has not violated provisions of Sec 8, and he isn't debarred from having his name entered in Register of Members.

6. Secretarial staff of Quality Review Board (QRB) is in process of preparing a panel for submission to Board to enable it to initiate reviews of quality of audit services provided by members of ICAI. The draft panel has been prepared by Mr. P, a junior staff in QRB secretariat and it has moved up in hierarchy for vetting by a senior staff, Mr. R, before being put up in upcoming meeting of QRB for its consideration. Draft panel contains details of following entities audited by different audit firms:

Name of entity	Listing status	Sector	Paid up capital*	Annual Turnover*	Outstanding loans & deposits*	Name of audit firm
XYZ Ltd	Unlisted Public	Ed. Tech	450	1200	450	BB & Co

PQR Ltd	Listed in BSE, NSE, NYSE	Manufacturing	1000	5000	750	GPR & Co
X Insurance Ltd	Unlisted	Health Insurance	250	1500	400	DS & Co.
AAZ Ltd	Unlisted	Manufacturing	200	800	200	CT & Co.

* Figures are of immediately preceding year and are in ₹ Crore.

Is inclusion of names of audit firms of corresponding entities in the draft panel to be put up before QRB appropriate? Guide Mr. R. [RTP May-23]

NFRA Applicability to Companies:

a) Listed Companies

b) Unlisted public companies

➤ Paid up capital \geq 500 Cr or

➤ T/o \geq 1000 Cr or

➤ Loans/Deposits/Debentures \geq 500 Cr

as on 31st March of preceding FY

c) Insurance, banking companies, cos. engaged in generating electricity,

d) Any BC or Co. or person referred to NFRA by CG in public interest

e) A BC incorporated or regd o/s India which is sub/sy/associate of Companies referred in (a) to (d), if Income/NW $>$ 20% of Consol Income/NW of such Co.

QRB can review audits of companies/bodies corporate governed by NFRA Rules only in case a reference is so made to QRB by NFRA, and not otherwise.

Considering the above, in case of auditors of XYZ Ltd., PQR Ltd. and X Insurance Ltd., NFRA has power to oversee quality of services of these audit firms.

However, QRB can undertake review of quality of services of auditors of AAZ Ltd.

Therefore, inclusion of names of auditors of XYZ Ltd, PQR Ltd and X insurance Ltd. in draft panel for consideration by QRB is not proper. Only inclusion of the name of the auditor of AAZ Ltd in the draft panel is proper.

7. LIU Pvt Ltd is a Co. based out of Mumbai. Co. had an authorised capital of ₹ 200 lakh and paid-up capital plus reserves of ₹ 95 lakh as of 31st March. During audit for year ended 31st March 202X, auditor M/s Y&S Associates noted following points:

(i) On 15th December, Co. had total bank borrowings of ₹ 75 lakh. On said date, company received a new loan of ₹ 30 lakh for a new project that was to be developed. However, project was shelved on 17th December due to technical reasons, and whole loan was paid on same date.

(ii) During FY, a new proceeding was initiated against Co. for holding a benami property worth ₹ 2.5 crore. However, company's legal team had advised that case would not withstand the law and would be dismissed during the hearing in April of next financial year.

(iii) The company had incurred a cash loss of ₹ 39 lakh during the financial year compared to a cash profit of ₹ 15 lakh in the previous financial year. Total turnover of Co. for FY was ₹ 45 Crore.

During the year, Y&S Associates had offered to resign from acting as company's auditors. However, they later decided to postpone their resignation to the following year. At the conclusion of audit, there was a difference of opinion between two articled assistants (Jack & Jill), who were assigned to the engagement, concerning disclosing points mentioned above in the Companies (Auditor's Report) Order 2020.

Jack was of opinion that proceeding initiated under Benami Property Act need not be disclosed since expert legal team had informed them that case would not withstand the law. However, he insisted that cash loss shall be disclosed along with the amount. Jill was of the opinion that CARO is not at all applicable to the company, hence nothing needs to be reported.

They both approached firm's partners (Mr. Y & Mr. S) to resolve their argument. Mr Y supported Jack's viewpoint & Mr S supported Jill's viewpoint. Now, both partners approached their Senior Partner to get clarification. As a Senior Partner, kindly clarify correct disclosure requirement.

CARO 2020 is applicable to every Co., including a foreign company, as defined Sec 2(42) of the Companies Act 2013, **except**,

- (i) a **banking company** as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an **insurance company** as defined under the Insurance Act, 1938 (4 of 1938);
- (iii) a company licensed to operate under **section 8** of the Companies Act;
- (iv) a **One Person Company** as defined u/s 2(62) of Companies Act and a **small company** as defined under sec 2(85) of the Companies Act; and
- (v) a **private limited company, not being a subsidiary or holding company of a public company**, having
 - paid up capital and reserves and surplus \leq ₹1 Cr as on balance sheet date &
 - total borrowings \leq ₹1 Cr from any bank or financial institution at any point of time during FY &
 - total revenue (including revenue from discontinuing operations) \leq ₹10 Cr during FY as per F.S.

In given case, though LIU is a pvt company, and its paid-up capital $<$ ₹ 1 crore as on B.S. date, it is to be noted that for period 15th December to 17th December, total **borrowings of the company had exceeded ₹ 1 crore** (75 lakh + 30 lakh). Borrowings are less than ₹ 1 crore as of B.S. date and authorised capital is ₹ 200 lakh, are irrelevant to current scenario. Also, turnover of Co. was greater than ₹ 40 crore.

Hence, **CARO 2020 is applicable** to LIU Private Limited.

(i) As per **clause (i) (e) of para 3 of CARO 2020**, auditor shall include a statement on: whether any **proceedings have been initiated or pending against the Co.** for holding any benami property under the **Benami Transactions (Prohibition) Act, 1988**(45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its F.S.

In given situation, a new proceeding was initiated against Co. for holding a benami property worth ₹2.5 Cr during the FY. However, company's legal team had advised that case would not withstand the law and would be dismissed during the hearing, which would be held in April of next FY.

Therefore, above observation of a new proceeding initiated against the company for holding a benami property worth ₹ 2.5 crores **need to be disclosed** as per clause (i) (e) of para 3 of CARO 2020.

(ii) As per **clause (xvii) of para 3 of CARO 2020**, auditor shall include a statement on whether the company has **incurred cash losses in the FY and in immediately preceding FY**, if so, state amount of cash losses. In given situation, Co. incurred a cash loss of ₹ 39 lakh during the FY. Hence, a cash loss of ₹ 39 lakh during the FY **need to be reported** as per clause (xvii) of para 3 of CARO 2020.

(iii) As per **clause (xviii) of para 3 of CARO 2020**, auditor shall include a statement on whether there has been any **resignation of statutory auditors during the year**, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

In the instant case, there has been no resignation made by the statutory auditors during the financial year. The mere fact that Y&S Associates were thinking of resigning does not matter in the current scenario, and hence this **clause shall not be applicable** in the given situation.

8. Write a short note on Categorisation of NBFCs carrying out specific activity.

Categorisation of NBFCs carrying out specific activity: As regulatory structure envisages scale based as well as activity-based regulation, following prescriptions shall apply in respect of the NBFCs

(i) NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in **Base Layer** of regulatory structure.

(ii) NBFC-D, CIC, IFC and HFC will be included in **Middle Layer or the Upper Layer** (and not in Base layer), as case may be. SPD and IDF-NBFC will always remain in the Middle Layer.

(iii) The **remaining NBFCs**, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) **could lie in any of the layers** of regulatory structure depending on parameters of scale based regulatory framework.

(iv) **Government owned NBFCs** shall be placed in the Base Layer or Middle Layer, as case may be. They **will not be placed in the Upper Layer till further notice**.

“Done Dona’ Done Done”