

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

Answer any **four** out of the remaining five questions.

Question 1

Answer the following :

- (a) As an auditor of a listed company for the year ended 31st March, 2019, how would you determine the 'Key Audit Matters'? **(5 Marks)**
- (b) As the auditor appointed under the GST Act, 2017, how would you verify 'Unbilled transactions at the beginning of the financial year'? **(5 Marks)**
- (c) Enumerate the Operating conditions of an entity that may cast significant doubt on the entity's ability to continue as a "Going Concern". **(4 Marks)**

Answer

- (a) **Determining Key Audit Matters: As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report"**, the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- (i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
- (ii) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- (iii) The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the matters determined above were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

- (b) **Verification of Unbilled revenue at the beginning of Financial Year:** To comprehend the scope of these Sl. Nos, there is need to understand the concept of 'Unbilled revenue'. In simple terms, unbilled revenue is the revenue recognized in the books of accounts before the issue of an invoice at the end of a particular period. Accounting Standard- 9 / IND AS 115 provides for recognition of revenue on full completion / partial completion of the services though the due date for issuing invoice as per the contract would be on a later date.

Clause 5B requires the addition of unbilled revenue at the beginning of a Financial Year. Unbilled revenue which was recorded in the books of accounts on the basis of accrual system of accounting in the earlier financial year for which the invoice is issued under the GST law is required to be declared here. In other words, when GST is payable during the financial year on such revenue (which was recognized as income in the earlier year), the value of such revenue is to be declared here.

Unbilled revenue would appear in the profit and loss account of the previous year. For information of unbilled revenue at the beginning of a Financial Year, reference may be made to previous year's audited financial statements. However, as the GST was introduced from 1st July 2017 one needs to be careful to exclude invoices raised during the period April 2017 to June 2017 from the computation.

- (c) **Operating Conditions:** As per **SA 570 Going Concern**, operating conditions of an entity that may cast significant doubt on the entity's ability to continue as a going concern are:
- Management intentions to liquidate the entity or to cease operations.
 - Loss of key management without replacement.
 - Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
 - Labor difficulties.
 - Shortages of important supplies.
 - Emergence of a highly successful competitor.

Question 2

Answer the following:

- (a) *You have been appointed as an auditor of M/s Excellent Hotels Ltd. As a senior partner, you want to use analytical procedures in respect of room rentals as well as payroll expenses. Discuss. (5 Marks)*
- (b) *The Directors and senior management of a listed company of which you are the statutory auditor, want to know their obligations under the SEBI Regulations in regard to Board or Non-Executive Directors. (mention any five) (5 Marks)*
- (c) *A Chartered Accountant in practice, empanelled as an Insolvency Professional (IP) has mentioned the same on his visiting cards, letter heads and other communications also. A person residing in his neighbourhood, has filed a complaint for professional misconduct against the said member for such mention of IP. You are required to examine the same with reference to the Chartered Accountants Act, 1949. (4 Marks)*

Answer

- (a) **Analytical Procedures:** As per SA 520 on "Analytical Procedures", in some cases, even an unsophisticated predictive model may be effective as an analytical procedure.

Analytical Procedures in case of Payroll cost- Where an entity has a known number of employees at fixed rates of pay throughout the period, it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the financial statements and reducing the need to perform tests of details on the payroll.

Analytical Procedures in case of Room Rental Income of Hotel- Different types of analytical procedures provide different levels of assurance. Analytical procedures involving the prediction of total rental income in case of Hotel taking the room tariff rates, the number of rooms and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.

(b) Obligations of Director and Senior Management:

- (i) The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.
- (ii) A director shall not be a member in more than ten committees or act as Chairperson of more than five committees across all listed entities in which he is a director. Furthermore, every director shall inform the listed entity about the committee positions he occupies in other listed entities and notify changes as and when they take place.

It may be noted that for the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 shall be excluded and for the purpose of reckoning the limit under this sub-clause, Chairpersonship/membership of the Audit Committee and the Stakeholders' Relationship Committee alone shall be considered.

- (iii) The Board shall periodically review compliance reports of all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.
- (iv) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.
- (v) An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently with respect of the provisions contained in the LODR Regulations.

- (vi) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)
- (vii) An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent director at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later.

It may be noted that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.

- (viii) The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.

- (c) Using Designation of Insolvency Professional:** As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he (i) advertises his professional attainments or services or (ii) uses any designation or expressions other than 'Chartered Accountant' on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the Central Government or a title indicating membership of the ICAI or of any other institution that has been recognized by the Central Government or may be recognized by the council.

Here, a Chartered Accountant empaneled as IP (Insolvency Professional) can mention "Insolvency Professional" on his visiting cards, letter heads and other communication, as this is a title recognised by the Central Government in terms of Clause 7 of Part 1 of First Schedule to the Chartered Accountants Act, 1949. Thus, complaint of neighbor is not enforceable/ valid.

Question 3

Answer the following:

- (a) *M/s ABC & Co, LLP are appointed auditors of Sharp Company Ltd. for the year ended 31st March, 2019. As part of the audit process, they want to use confirmation procedures as audit evidence during the course of audit. In view of the fact that positive confirmations are not responded favourably, the firm also intends to use negative confirmation requests. What are the factors to be considered for the same? (7 Marks)*
- (b) *M/s LMP Associates, Chartered Accountants, while conducting the audit of PQR Ltd want to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Guide*

M/s LMP Associates with the matters where specific enquiry may be conducted to evaluate subsequent events. (7 Marks)

Answer

(a) **As per SA 505, “External Confirmation”, factors to be considered when designing confirmation requests include:**

- (i) The assertions being addressed.
- (ii) Specific identified risks of material misstatement, including fraud risks.
- (iii) The layout and presentation of the confirmation request.
- (iv) Prior experience on the audit or similar engagements.
- (v) The method of communication (for example, in paper form, or by electronic or other medium).
- (vi) Management’s authorisation or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management’s authorisation.
- (vii) The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).

Factors to be considered for Negative Confirmation requests: A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present:

- (1) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate evidence regarding the operating effectiveness of controls relevant to the assertion;
- (2) The population of items subject to negative confirmation procedures comprises a large number of small, homogenous, account balances, transactions or conditions;
- (3) A very low exception rate is expected; and
- (4) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.

Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request.

Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.

(b) Specific Inquiries to Evaluate Subsequent Events: As per SA 560, "Subsequent Events", in inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- (i) Whether new commitments, borrowings or guarantees have been entered into.
- (ii) Whether sales or acquisitions of assets have occurred or are planned.
- (iii) Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- (iv) Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- (v) Whether there have been any developments regarding contingencies.
- (vi) Whether any unusual accounting adjustments have been made or are contemplated.
- (vii) Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- (viii) Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- (ix) Whether any events have occurred that are relevant to the recoverability of assets.

Question 4

Answer the following:

- (a) *Mr. Y, a practising Chartered Accountant, has been appointed as an auditor of M/s Z Ltd on 12th June, 2018 for the year ended 31st March, 2019. The following persons have done following transactions in securities of M/s Z Ltd.:*
- *Daughter of Mr. Y: Purchase of Securities on 10th September, 2018 of face value of ₹ 45,000 (market value ₹ 90,000)*

- Husband of daughter of Mr. Y: Purchase of Securities on 10th December, 2018 of face value of ₹ 90,000 (market value ₹ 1,90,000).

All the above securities were sold on 10th March, 2019 for ₹ 3,00,000. Discuss the implications of the above on the appointment of Mr. Y. **(5 Marks)**

- (b) Webcom Ltd, a public company with a paid-up share capital of ₹ 20 crores has a turnover for the financial year 2018-19 of ₹ 220 crores. X, a recently qualified Chartered Accountant, has been appointed for conducting internal audit. He seeks your advice in drafting a good quality internal audit report. Please guide him by elaborating (in brief) the essential features of a good internal audit report. **(5 Marks)**
- (c) R Ltd. owns 51% voting power in S Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its financial statements since the shares are held exclusively with a view to their subsequent disposal in the near future. R Ltd. represents that while preparing Consolidated Financial Statements, S Ltd. can be excluded from the consolidation. As the Statutory Auditor of R Ltd, how would you deal when the consolidated financial statements are to be drawn up in compliance with Ind AS? **(4 Marks)**

Answer

- (a) **Implications of relatives' securities holding on the Appointment of the Auditor:** According to Section 141(3)(d)(i) of the Companies Act, 2013, read with Rule 10, an auditor is disqualified to be appointed as an auditor if the auditor or his relative holds securities or interest in the company of face value exceeding ₹ 100,000.

Further the definition of relative also includes daughter and a daughter's husband. Both are covered in the definition of relative as defined by the Companies Act 2013.

Thus, the disqualifications will be applicable as the relative/s are holding securities of face value of more than ₹ 100,000 and market value is not important.

It is also to note that in the event of acquiring any security or interest by a relative above the threshold prescribed, the corrective action to maintain the limits as specified above can be taken by the auditor within 60 days of such acquisition or interest. The same has however not been done.

In the instant case, Daughter of Mr. Y purchased the securities on 10th September 2018 of face value of rupees 45,000 and husband of daughter of Mr. Y purchased the securities on 10th of December, 2018 of face value of rupees 90,000. Aggregating the value of holding of securities exceeds the limits mentioned in proviso to section 141(3)(d)(i) i.e. rupees 1,00,000.

Further, corrective action taken by Husband of Daughter of Mr. Y on 10th March, is also not in accordance with prescribed grace period of 60 days.

Therefore, CA. Y will be disqualified for appointment as an auditor of M/s. Z Ltd. as per section 141(3)(d)(i) and he shall vacate his office.

- (b) **Essential features of a good internal audit report:** The contents of an internal audit report are influenced by various factors such as the nature of internal auditing function in the organisation, level of reporting, degree of management support and capabilities of internal audit staff. However, for preparing a good internal audit report, the following general rules may be observed.
- (i) **Objectivity** - To maintain the credibility of internal audit function the comments and opinions expressed in the report should be as objective and unbiased as possible.
 - (ii) **Clarity** - The language used should be simple and straight-forward. As far as practicable use of technical terms and jargon should be avoided. Each draft of the report should be reviewed by a senior who should attempt to read it from the point of view of the users of the report.
 - (iii) **Accuracy** - The information contained in the report, whether quantified or otherwise, should be accurate. Where approximation or assumptions have been made the fact should be clearly stated along with reasons, if material.
 - (iv) **Conciseness** - Brevity is vital subject, of course, to the condition that important information should not be omitted.
 - (v) **Constructiveness** - Destructive criticism should carefully be avoided in the report. The report should clearly demonstrate that the internal auditor is trying to assist the auditor in an effective discharge of his responsibilities.
 - (vi) **Readability** - The reader's interest should be captured and retained throughout. For this, appropriate paragraph heading may be used.
 - (vii) **Timeliness** - The report should be submitted promptly because if the time lag between the occurrence of an event and its reporting is considerable, the opportunity for taking action may be lost or a wrong decision may be taken in the absence of the information.
 - (viii) **Findings and conclusions** - These may be given either department-wise or in the order of importance. All the facts and data pertaining to the situation should be assembled, classified and analysed. Each conclusion and opinion should normally follow the findings. Tables or graphs may be used for the presentation of statistical data in appendices.
 - (ix) **Recommendations** - An internal audit report usually includes recommendations for potential improvements. In order to enable the management to accept and implement the recommendations, the internal auditor should be able to convince the management that the conclusions are logical and valid and the recommendations represent effective and feasible ways of taking action.

- (x) **Auditee's views** - The auditee's views about audit conclusions or recommendations may also be included in the audit report in appropriate circumstances.
 - (xi) **Summary** - A summary of conclusions and recommendations may be given at the end. This is particularly useful in long reports.
 - (xii) **Supporting information** - The internal auditor should supplement his report by such documents and data which adequately and convincingly support the conclusions. Supporting information may include the relevant standards or regulations.
 - (xiii) **Draft Report** - Before writing the final report, the internal auditor should prepare a draft report. This would help him in finding out the most effective manner of presenting his reports. It would also indicate whether there is any superfluous information or a gap in reasoning.
 - (xiv) **Writing and issuing the Final Report** - The final report should be written only when the auditor is completely satisfied with the draft report. The head of the internal auditing department, may review and approve the final report. Before issuing the final report, the auditor should discuss conclusions and recommendations at appropriate levels of management. The report should be duly signed.
- (c) **Consolidation of Financial Statement:** As per Ind AS 110, there is no exemption for temporary control where the shares are held as stock in trade, even though there is an exemption under AS 21. Hence consolidation is mandatory for Ind AS compliant financial statement in this case.

Therefore, R Ltd. is required to prepare Consolidated Financial Statements including S Ltd. as a subsidiary company in accordance with Ind AS 110. The auditor is required to ensure the compliance of the same. In case the management does not agreed for the same the auditor may modify the report accordingly.

Question 5

Answer the following:

- (a) Discuss the types of Margins under stock exchange trading regulations. **(5 Marks)**
- (b) M/s Sri & Co., Chartered Accountants, have been allotted the branch audit of a nationalized bank for the year ended 31st March, 2019. You are part of audit team and have been instructed by your partner to verify the following areas:
 - (i) Fulfilment of the criteria prescribed for NPA norms for the advances given for agricultural purposes.
 - (ii) Drawing power calculation from stock statements in respect of working capital accounts.What may be your areas of concern as regards matters specified above? **(5 Marks)**
- (c) Discuss Solvency Margin in case of an Insurer carrying on General Insurance Business. **(4 Marks)**

Answer

- (a) **Types of Margins:** A member is required to pay or deposit different margins such as Gross Exposure Margin, Mark to Market (MTM) Margin, Volatility Margin (VM), Additional Volatility Margin (AVM), Special Margin and Ad-hoc Margin.
- (i) **Mark to Market Margin:** MTM margin is the notional loss, which a member or his client would incur, if the net cumulative outstanding positions in all securities were closed out at the closing price of the relevant trading day, which is different from the price at which the transaction had been entered into. For each security, this is worked out by multiplying the difference between the closing price and the price at which the trade was executed by the cumulative buy and sell open position (for buy position the close price being lower than actual trade price and for sell position the close price being higher than actual trade price). The aggregate amount computed across all securities is MTM margin payable by a member. The mark-to-market margin is payable with reference to net position at client's level.
- (ii) **Volatility Margin:** Volatility margin is imposed to curb excessive volatility in the market and to act as a deterrent to building up of excessive outstanding positions. Price variations on account of calls, bonuses, rights, mergers, amalgamations and schemes of arrangements are adjusted for determining volatile securities and adjustments in prices is made for the purpose of computation of volatility, when securities are traded ex-benefits. Securities that attract volatility margin and the applicable margin rates are announced on the last day of the trading cycle and are applicable from the first day of the succeeding trading cycle. The volatility margin is levied on the net outstanding positions of the member, in each security, based on the respective margin rates.
- (iii) **Gross Exposure Margin:** Gross exposure margin is computed on the aggregate of the net cumulative outstanding positions (purchases or sales) in each security. Each Exchange determines its own rates of Gross Exposure Margin and Additional Volatility Margin based on its own risk perception of the market and other risk containment measures such as deposits and collaterals in its possession.
- (iv) **Special Margin:** Special Margin is collected in securities where price manipulation is suspected.
- (v) **Adhoc Margin:** Adhoc Margin is collected where it is felt that the margin cover vis-à-vis the exposure of the member is inadequate or a member has a concentrated position in some securities or has common clients along with other members.
- (b) (i) **Fulfilment of the Criteria prescribed for NPA Norms for the Advances given for Agricultural Purposes:** A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. For the purpose of these guidelines, "long duration" crops would be crops with crop

season longer than one year and crops, which are not “long duration” crops, would be treated as “short duration” crops. The crop season for each crop, which means the period up to harvesting of the crops raised would be as determined by the State Level Bankers’ Committee in each State. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him. The above norms should be made applicable to all direct agricultural advances listed in Master Circular on lending to priority sector. In respect of agricultural loans, other than those specified in the circular, identification of NPAs would be done on the same basis as non-agricultural advances, which, at present, is the 90 days delinquency norm.

- (ii) **Drawing Power calculation from stock statements in respect of working capital accounts:** In case of working capital borrowal account, drawing power calculated from stock statement older than 3 months has to be considered as “irregular” (overdue). If such “irregular” account continues for 90 days, account has to be classified as NPA, even though the account is otherwise operated regularly.

The stock statements, quarterly returns and other statements submitted by the borrower to the bank should be scrutinised in detail.

The audited Annual Report submitted by the borrower should be scrutinised properly. The monthly stock statement of the month for which the audited accounts are prepared and submitted should be compared and the reasons for deviations, if any, should be ascertained.

It needs to be ensured that the drawing power is calculated as per the extant guidelines formulated by the Board of Directors of the respective bank and agreed upon by the concerned statutory auditors. Special consideration should be given to proper reporting of sundry creditors for the purposes of calculating drawing power.

The stock audit should be carried out by the bank for all accounts having funded exposure of more than ₹ 5 crores. Auditors can also advise for stock audit in other cases if the situation warrants the same. Branches should obtain the stock audit reports from lead bank in the cases where the Bank is not leader of the consortium of working capital. The report submitted by the stock auditors should be reviewed during the course of the audit and special focus should be given to the comments made by the stock auditors on valuation of security and calculation of drawing power.

The drawing power needs to be calculated carefully in case of working capital advances to companies engaged in construction business. The valuation of work in progress should be ensured in consistent and proper manner. It also needs to be ensured that mobilization advance being received by the contractors is reduced while calculating drawing power.

- (c) **Solvency Margin:** Section 64VA of the Insurance Act requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the Regulations.

The Authority, by way of regulation, shall specify a level of solvency margin known as 'control level of solvency'. However, in certain special circumstances, the authority may direct application of this provision with some modifications provided this shall not result in the control level of solvency being less than what is stipulated in above para.

If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Maintenance of solvency margin has a great importance for an insurance company considering their size and nature of business and also involvement of public money. Sub-section (2) of section 64VA states that if an insurer or re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall deemed to be insolvent and may be wound up by the Court on an application made by the authority.

Question 6

Answer the following :

- (a) *While conducting GST audit of PQR Ltd, you have observed the following:*

PQR Limited has exported goods to a Company located in USA. The value of goods is \$100,000. The exchange rate on the date of filing Shipping Bill is : CBEC notified ₹ 65 and RBI Reference rate ₹ 68.

At the time of receiving money, the bank exchanged the foreign currency at ₹ 70.

How would you report the adjustments in turnover due to foreign exchange fluctuations in Reconciliation statement in Form GSTR 9C prescribed in terms of Rule 80(3) of CGST Rules, 2017. (5 Marks)

- (b) *The reports of the Comptroller and Auditor General of India on the audit of PSUs are presented to the Parliament and to various state legislatures to facilitate a proper consideration. Enumerate the contents of Audit Report presented by C&AG. (5 Marks)*

- (c) *Mr. A, Chartered Accountant in practice as a sole proprietor at Mumbai has an office in the suburbs of Mumbai. Due to increase in the income tax assessment work, he opens another office near the income tax office, which is within the city and at a distance of 30 kms from his office in the suburbs. For running the new office, he has employed a retired Income Tax Commissioner who is not a Chartered Accountant. (4 Marks)*

Examine the above with respect to the Chartered Accountants Act, 1949.

OR

What is the eligibility to be a 'Peer Reviewer'? (4 Marks)

Answer

- (a) **Reporting of Adjustment in Turnover due to Foreign Exchange Fluctuations in Reconciliation Statement:** Any difference between the turnover reported in the Annual Return (GSTR9) and turnover reported in the audited Annual Financial Statement due to foreign exchange fluctuations shall be declared in Sl. No. 5N. Adjustments in turnover due to foreign exchange fluctuations.

For the purpose of GST Returns, the exchange rate would be ₹ 65 and the exports to be disclosed in the GST Returns would be ₹ 65,00,000. For the purpose of accounting records, the exchange rate would be ₹ 68 and the exports recorded in the books would be ₹ 68,00,000. The difference in revenue being ₹ 300,000 would have to be **reduced** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

Additionally, difference in the amount booked in the accounts and actual amount received being ₹ 70 – ₹ 68 = ₹ 2 x \$100,000 = ₹ 200,000 would be credited to the Profit and Loss Account as Forex Gain which again needs to be **reduced** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

- (b) **Contents of Audit Report of the Comptroller and Auditor General:** For facility of consideration, the reports of the Comptroller and Auditor General on the public sector undertakings of the Central Government are presented to the Parliament in several parts consisting of the following:
- (i) Introduction containing a general review of the working results of Government companies, deemed Government companies and corporations.
 - (ii) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board.
 - (iii) Resume of the company auditors' reports submitted by them under the directions issued by the Comptroller and Auditor General and that of comments on the accounts of the Government companies.
 - (iv) Significant results of audit of the undertakings not taken up for appraisal by the Audit Board.

For certain specified states, the Comptroller and Auditor General submit a separate audit report (commercial) to the legislature, while for other States/Union Territories with legislature, there is a commercial chapter in the main audit report. The State audit reports, contains both the results of audit appraisal of performance of selected companies/corporations as well as important individual instances of financial irregularities, wasteful expenditure, system deficiencies noticed by the statutory auditors, comments noticed in Government audit in the audit functions of certification of accounts and a general review of the working results of Government companies and corporations.

- (c) **Maintenance of Branch Office in the Same City:** As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the

Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 Kilometres from the municipal limits of a city, in which the first office is located.

In the given case, Mr. A, Chartered Accountant in practice as a sole proprietor at Mumbai has an office in suburbs of Mumbai and due to increase in the work he opened another branch within the city near the income tax office. He also employed a retired income tax commissioner to run the new office and the second office is situated within a distance of 30 kilometers from his office in the suburb.

Conclusion: In view of above provisions, there will be no misconduct if Mr. A will be in-charge of both the offices. However, he is bound to declare which of the two offices is the main office.

OR

(c) Eligibility to be a Reviewer:

1. A Peer Reviewer shall:
 - (a) Be a member with at least 10 years of experience in practice.
 - (b) Is in Practice as per the Chartered Accountants Act, 1949.
 - (c) Should have undergone the requisite training as prescribed by the Board.
 - (d) Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.
 - (e) Should have signed the Declaration of Confidentiality as prescribed by the Board.
 - (f) Should have conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.
2. For being a Reviewer a member should not have:
 - (i) Disciplinary action / proceedings pending against him.
 - (ii) been found guilty by the Council or the Disciplinary Board or Committee at any time.
 - (iii) been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.
 - (iv) any Obligation or conflict of interest in the Practice Unit or its Partners/ Personnel.
3. A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.