MOCK TEST PAPER - II

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

SUGGESTED ANSWERS/HINTS

DIVISION A - MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. (c)
2. (b)
3. (c)
4. (d)
5. (b)
6. (c)
7. (b)
8. (c)
9. (a)
10. (d)
11. (c)
12. (d)
13. (a)
14. (b)
15. (a)
16. (d)
17. (a)
18. (b)
19. (c)
20. (d)

DIVISION B - DESCRIPTIVE QUESTIONS (70 Marks)

1. (a) **Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement:** As per SA 705, Modification to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

   If management refuses to remove the prescribed limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(i) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(ii) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

1. Withdraw from the audit, where practicable and possible under applicable law or regulation; or

2. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor withdraws as discussed above, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

(b) **Specific Inquiries to Evaluate Subsequent Events:** As per SA 560, "Subsequent Events", **i**n 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.

(c) As per SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the auditor is required:-

"To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework."

Reasonable assurance is a high level of assurance and is less than absolute assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

2. (a) (i) As per Regulation 16(c) of the SEBI (LODR) Regulations, 2015, "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds ten percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year. [Explanation- The listed entity shall formulate a policy for determining 'material' subsidiary.]

Regulation 24(1) of the SEBI (LODR) Regulations, 2015, provides that at least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.

[Explanation- For the purposes of Regulation 24(1), notwithstanding anything to the contrary contained in regulation 16, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year]

On the basis of above provisions, following information is tabulated as below:

Particulars	Share in Consolidated Income	Share in Consolidated Net Worth
Component 'A'	11.67%	5%
Component 'B'	3.33%	2.5%
Component 'C'	23.33%	17.5%
Component 'D'	21.67%	22.5%
Component 'E'	6.67%	6.25%

It can be observed that Component 'A', Component 'C' and Component 'D', respectively, can be termed as "material subsidiary" as their shares in either consolidated Income or net worth exceeds 10%.

Further, at least one independent director from the board of directors of Moksh Ltd. shall be appointed or would have been appointed on the board of Component 'C' and Component 'D', respectively, as their shares in either consolidated income or net worth exceeds 20%.

(ii) Generally, the financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components' auditor.

Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor (or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

In the given situation, two out of seven components of Moksh Ltd. have remained unaudited where Component 'F' is material and Component 'G' is not material to the consolidated financial statements.

Thus, in case of Component 'F', the Principal Auditor needs to consider its impact on the auditor's opinion on the consolidated financial statements of the group, in terms of the principles laid down in SA 705, Modifications to the Opinion in the Independent Auditor's Report. Whereas in case of Component 'G', the principal auditor should make appropriate reporting under the "Other Matters" paragraph, pursuant to SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs, in the Independent Auditor's Report.

(b) Procedure for understanding and evaluation of whistle-blower policy - Auditors are required to understand, evaluate and validate the entity level controls as a part of an audit engagement. The results of testing entity level controls could have an impact on the nature, timing and extent of other audit procedures including testing of controls. For example, when the entity level controls at a company are effective, the auditor may consider reducing the number of samples in the test of controls and where the auditor finds the entity level controls ineffective, the auditor may consider to increase the rigour of testing by increasing sample sizes. In small and less complex companies, the entity level controls may not formally defined or documented. In such situations, the auditor should design audit procedures accordingly to obtain evidence of the existence and effectiveness of entity level controls.

The following example shows how the auditor performs an understanding and evaluation of the whistle-blower policy in a company:

(i) Does the company have a whistle-blower policy?

(ii) Is this policy documented and approved?

(iii) Has the whistle-blower policy been communicated to all the employees?

(iv) Are employees aware of this policy and understand its purpose and their obligations?

(v) Has the company taken measures viz., training, to make the employees understand the contents and purpose of the policy?

(vi) Does the company monitor effectiveness of the policy from time-to-time?

(vii) How does the company deal with deviations and non-compliance?

3. (a) Basic Requirements of a Trade Credit Insurance Product: An insurer shall offer trade credit insurance product only if all requirements mentioned below are met -

(i) Policyholder's loss is non-receipt of trade receivable arising out of a trade of goods or services.

(ii) Policyholder is a supplier of goods or services in consideration for a fair market value.

(iii) Policyholder's trade receivable does not arise out of factoring or reverse factoring arrangement or any other similar arrangement.

(iv) Policyholder has a customer (i.e. Buyer) who is liable to pay a trade receivable to the policyholder in return for the goods and services received by him from the policyholder, in accordance with a policy document filed with the insurer.

(v) Policyholder undertakes to pay premium for the entire Policy Period.

(vi) Any other requirement that may be specified by the Authority from time to time.

(b) As per Clause 34 (b) of the Form 3CD, the auditor has to report whether the assessee is required to furnish the statement of tax deducted or tax collected. If yes, please furnish the details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported	If not, please furnish list of details/transactions which are not reported

Accordingly, clause 34 (b) requires, a list of details/transactions which are not reported in the statement of tax deducted at source and statement of tax collected at source are required to be furnished. The reporting requirement is notwithstanding the fact that the assessee has furnished the statements of tax deducted at source and tax collected at source within the prescribed time.

In the given situation, RRR Ltd., has timely filed ETDS return for TDS deducted on Salary under section 192 of the Income Tax Act in Form 24Q in respect of 4th quarter. The company has not furnished list of details which are not reported in the statement of tax deducted at source under the pretext that TDS Statements are furnished within the prescribed time. Therefore, in view of above, RRR Ltd. is required to furnish list of details which are not reported in the statement of tax deducted at source.

(c) Engaging into Agricultural Activity: As per Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In this case, CA. Sanyam is owner of 3 agriculture lands, and he is carrying out agricultural activities which is covered under the general permission.

Therefore, CA Sanyam is not guilty of professional misconduct under Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949 and complain of neighbor to the Institute is not correct.

4. (a) Following are broad areas that should be mandatorily part of the audit procedure for conducting the audit of NBFC:

(1) Ascertaining the Business of the Company - The first step in carrying out the audit of a NBFC is to scan through the Memorandum and Articles of Association of the company, so as to acquaint oneself with the type of business that the company is engaged into. The task of ascertaining the principal business activity of any NBFC is of paramount importance since the very classification of a company as a NBFC and its further classification would all depend upon its principal business activity. Based on the classification of a company, it will be required to comply with the provisions relating to limits on acceptance of public deposits as contained in the NBFC Public Deposit Directions.

(2) Evaluation of Internal Control System - An auditor should gain an understanding of the accounting system and related internal controls adopted by the NBFC to determine the nature, timing and extent of his audit procedures. An auditor should also ascertain whether the internal controls put in place by the NBFC are adequate and are being effectively followed. In particular, an auditor should review the effectiveness of the system of recovery prevalent at the NBFC. He should ascertain whether the NBFC has an effective system of periodical review of advances in place which would facilitate effective monitoring and follow up. The absence of a periodical review system could result in non-detection of sticky advances at their very inception which may ultimately result in the NBFC having an alarmingly high level of NPAs.

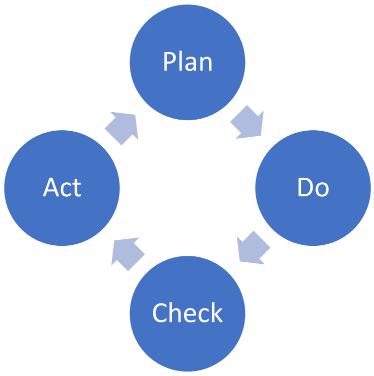
(3) Registration with the RBI - Section 45-IA of the RBI Act, 1934, has made it incumbent on the part of all NBFCs to comply with registration requirements and have minimum net owned funds. An auditor should obtain a copy of the certificate of registration granted by the RBI or in case the certificate of registration has not been granted, a copy of the application form filed with the RBI for registration. It may particularly be noted that NBFCs incorporated after 9th January, 1997 are not entitled to commence business without first obtaining a registration certificate from the RBI. An auditor should, therefore, verify whether the dual conditions relating to registration with the RBI and maintenance of minimum net owned funds have been duly complied with by the concerned NBFC. The auditor should ascertain whether investment in prescribed liquid assets have been made and whether quarterly returns as mentioned above have been regularly filed with the RBI by the concerned NBFC.

(4) The auditors must ascertain whether the company properly classified as per the requirements of various regulations. In case, the NBFC has not been classified by the RBI, the classification of a company will have to be determined after a careful consideration of various factors such as particulars of earlier registration granted, if any, particulars furnished in the application form for registration, company's Memorandum of Association and its financial results.

(5) NBFC Prudential Norms Directions - Check compliance with prudential norms encompassing income recognition, income from investments, accounting standards, accounting for investments, asset classification, provisioning for bad and doubtful debts, capital adequacy norms, prohibition on granting of loans by a NBFC against its own shares, prohibition on loans and investments for failure to repay public deposits and norms for concentration of credit/investments.

In the given situation, OM & Co., is the statutory auditor of OTAPS NBFC Ltd. While planning the audit procedures to be done during the audit of entity, there was difference of opinion between O and his partner M regarding evaluation of internal control and verification of registration with RBI. As discussed above NBFCs are not entitled to commence business without first obtaining a registration certificate from the RBI. An auditor should, therefore, verify whether the dual conditions relating to registration with the RBI and maintenance of minimum net owned funds have been duly complied with by the concerned NBFC. Further, auditor should gain an understanding of the accounting system and related internal controls adopted by the NBFC to determine the nature, timing and extent of his audit procedures. An auditor should also ascertain whether the internal controls put in place by the NBFC are adequate and are being effectively followed. Accordingly, contention of Mr. O regarding evaluation of internal control system and verification of registration with RBI should not be part of the audit procedure as it is part of internal audits only, is not correct.

(b) The Operational Audit is not one-time activity. It should be viewed as a continuous improvement cycle:



The continuous improvement cycle of Operational Audit can be depicted through **Plan, Do, Check and Act** diagram.

All the significant operations must be subjected to the scrutiny of operational audit, at least, once in three years. Therefore, the operational audit should be done in the current scenario. However, to deal with the employee hostility the participative approach of the audit should be adopted:

In this approach the auditor discusses the ideas for improvements with those managers that have to implement them and make them feel that they have participated in the recommendations made for improvements. By soliciting the views of the operating personnel, the operational audit becomes a co-operative enterprise.

This participative approach encourages the auditee to develop a friendly attitude towards the auditors and look forward to their guidance in a more receptive fashion. When the participative method is adopted then the resistance to change becomes minimal, feelings of hostility disappear and gives room for feelings of mutual trust. Team spirit is developed. The auditors and the auditee together try to achieve the common goal. The proposed recommendations are discussed with the auditee and modifications as may be agreed upon are incorporated in the operational audit report. With this attitude of the auditor, it becomes absolutely easy to implement the proposed suggestions as the auditee themselves take initiative for implementing and the auditor does not have to force any change on the auditee.

(c) Disclosure of Information to third Party: Clause (1) of Part I 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 discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force.

SA 200 on " Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that, "the auditor should respect the confidentiality of information acquired during his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose".

In the instant case, Mr. Shreyansh is a Chartered Accountant in practice and he was invited to deliver a seminar on Amendments in Schedule III and CARO 2020 which was attended by professional as well as by representatives of various industries. During his session, a query was raised on particular issue and Mr. Shreyansh used the actual data of one of his clients with full identification of client details displayed to explain and elaborate such query. Applying the above provision, the auditor cannot disclose the information in his possession without specific permission of the client.

Thus, CA. Shreyansh will be liable for professional misconduct under clause 1 of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

5. (a) As per section 134 of the Companies Act, 2013, the financial statements, including consolidated financial statements, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the Chairperson of the Company where he is authorized by the Board or by two directors out of which one shall be Managing Director, if any, and the Chief Executive Officer, the Chief Financial Officer and the Company Secretary of the Company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

The Board's report shall be signed by its chairperson of the company if he is authorised by the Board and where he is not so authorised, shall be signed by at least two directors, one of whom shall be a Managing Director.

Here, Dharam and Karam Company Ltd. had prepared its financial statements for the financial year 2021-22 which were approved by the Board of Directors of the company and thereafter they were signed by the Chairperson of the company as authorised by the Board, as well as by its CEO, CFO and CS, respectively. Also, its board report was signed by its Managing Director as well as by an Executive Director.

Hence, it can be said that the financial statements and the Board's report of the Dharam and Karam Company Ltd. have been signed are in accordance with section 134 of the Companies Act, 2013.

(b) Audit Plan to locate the Abnormal Wastage of Raw Material: To locate the reasons for the abnormal wastage, the auditor of Darshan Ltd. should first assess the general requirements as under:

(i) Procure a list of raw materials, showing the names and detailed characteristics of each raw material.

(ii) Obtain the standard consumption figures, and ascertain the basis according to which normal wastage figures have been worked out. Examine the break-up of a normal wastage into that in process, storage and handling stages. Also obtain control reports, if any, in respect of manufacturing costs with reference to predetermined standards.

(iii) Examine the various records maintained for recording separately the various lots purchased and identification of each lot with actual material consumption and for ascertaining actual wastage figures therein.

(iv) Obtain reports of Preventive Maintenance Programme of machinery to ensure that the quality of goods manufacture is not of sub-standard nature or leads to high scrappage work.

(v) Assess whether personnel employed are properly trained and working efficiently.

(vi) See whether quality control techniques have been consistent or have undergone any change.

(vii) Examine inventory plans and procedures in report of transportation storage efficiency, deterioration, pilferage and whether the same are audited regularly.

(viii) Examine whether the basis adopted for calculating wastage for September is the same as was adopted for the other three months.

(ix) Obtain a statement showing break up of wastage figures in storage, handling and process for the four months under reference and compare the results of the analysis for each of the four months.

In addition, some specific reasons for abnormal wastage in process may be considered by the auditor are as under:

(i) Examine laboratory reports and inspection reports to find out if raw materials purchased were of a poor quality or were of sub-standard quality. This will be most useful if it is possible to identify the wastage out of each lot that has been purchased.

(ii) Machine breakdown, power failure, etc. may also result into loss of materials in process. Check the machine utilisation statements.

(iii) A high rate of rejections in the finished lots may also be responsible for abnormal wastage; therefore, examine the inspectors' reports in respect of inspection carried out on the completion of each stage of work or process.

(iv) It is possible that the wastage may have occurred because the particular lot out of which issues were made was lying in the store for a long time, leading to deterioration in quality or because of a change in the weather which may have led to the deterioration. Compare the wastage figures.

(v) Abnormal wastage in storage and handling may arise due to the following reasons:

(1) Write offs on account of reconciliation of physical and book inventories: In case of periodical physical inventory taking, such write offs will be reflected only in the month such reconciliation takes place.

(2) Accidental, theft or fire losses in storage: The auditor should examine the possibility of these for the purpose.

(vi) Examine whether any new production line was taken up during the month in respect of which standard input-output ratio is yet to be set-up.

(c) A Forensic Auditor is often retained to analyze, interpret, summarize and present complex financial and business-related issues in a manner which is both understandable and properly supported. Forensic Accountants are trained to look beyond the numbers and deal with the business reality of the situation. Forensic auditor needs to have an understanding on various frauds that can be carried off and how evidence need to be collected.

While appointing a forensic auditor, the Management of BR Construction must initially consider whether the firm has the necessary skills and experience to accept the work. In view of above, Management of BR Construction should ensure that the forensic auditor should necessarily possess the following characteristics and skills:

- Crafting questions to be posed.
- Responding to questions posed.
- Identifying documents to be requested and/or subpoenaed.
- Identifying individuals to be most knowledgeable of facts.
- Conducting research relevant to facts of the case.
- Identifying and preserving key evidence.
- Evaluating produced documentation and information for completeness.
- Analysing produced records and other information for facts.
- Identifying alternative means to obtain key facts and information.
- Providing questions for deposition and cross examination of fact and expert witnesses.

6. (a) A CA Firm has been appointed to conduct comprehensive audit of Tram Company Limited, which is a listed Govt Company handling the Metro project. CA firm has observed the shortcomings as stated in internal audit report regarding understatement of Current liabilities and CWIP by ₹ 95.39 crore.

Matters to be undertaken by the CA Firm while conducting the comprehensive audit of Tram Company Limited are:

(i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?

(ii) Have the accepted production or operational outputs been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?

(iii) Has the planned rate of return been achieved?

(iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?

(v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?

(vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?

(vii) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?

(viii) If the enterprise has an adequate system of repairs and maintenance?

(ix) Are procedures effective and economical?

(x) Is there any poor or insufficient or inefficient project planning?

(b) The general condition pertaining to the internal check system may be summarized as under:

(i) no single person should have complete control over any important aspect of the business operation. Every employee's action should come under the review of another person.

(ii) Staff duties should be rotated from time to time so that members do not perform the same function for a considerable length of time.

(iii) Every member of the staff should be encouraged to go on leave at least once a year.

(iv) Persons having physical custody of assets must not be permitted to have access to the books of accounts.

(v) There should exist an accounting control in respect of each class of assets, in addition, there should be periodical inspection so as to establish their physical condition.

(vi) Mechanical devices should be used, wherever practicable to prevent loss or misappropriation of cash.

(vii) Budgetary control should be exercised and wide deviations observed should be reconciled.

(viii) For inventory taking, at the close of the year, trading activities should, if possible be suspended, and it should be done by staff belonging to several sections of the organization.

(ix) The financial and administrative powers should be distributed very judiciously among different officers and the manner in which those are actually exercised should be reviewed periodically.

(x) Procedures should be laid down for periodical verification and testing of different sections of accounting records to ensure that they are accurate.

In the given scenario, Samyak Limited has not done proper division of work as:

(i) the receipts of cash should not be handled by the official handling sales ledger and

(ii) delivery challans should be verified by an authorised official other than the officer handling despatch of goods.

(c) Banks may book income from dividend on shares of corporate bodies on accrual basis, provided dividend on the shares has been declared by the corporate body in its annual general meeting and the owner's right to receive payment is established. This is also in accordance with AS 9. In this case the dividends have been declared after the financial year end. Therefore, the recognition of income by the bank on accrual basis is not in order.

In respect of income from government securities and bonds and debentures of corporate bodies, where interest rates on these instruments are pre-determined, income could be booked on accrual basis, provided interest is serviced regularly and as such is not in arrears. It was further, however, clarified that banks may book income on accrual basis on securities of corporate bodies/public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government.

OR

(c) **Selection of Assurance Service Engagements for Review:** The Statement on Peer Review defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. The entire peer review process is directed at the assurance services.

Assurance Services means assurance engagements services as specified in the "Framework for Assurance Engagements" issued by the Institute of Chartered Accountants of India and as may be amended from time to time. Assurance engagements does not include engagements for the compilation of financial statements or engagements solely to assist the client in preparing, compiling or collating information other than financial statements; or engagement for Due diligence.

In the given situation, CA. Sita is appointed as a peer reviewer for M/s Ram Associates, has asked for all the compilations and the due diligence engagements carried out by M/s Ram Associates for her peer review. In view of above, Peer Review of compilation and due diligence at the time of execution step by CA. Sita is not correct as due diligence and compilation engagements are not covered in the scope of Assurance engagement and Peer Review is directed at assurance engagement only.