CA Final AUDIT DESCRIPTIVE
RTP-Sept-2025

1.	**Quality Control** **SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.** **In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards?**
Ans.	As per SQC 1, "Quality Control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the capabilities, competence, time and resources to undertake an engagement, following matters have to be taken into consideration: - • Firm personnel have knowledge of relevant industries or subject matters; • Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively; • The firm has sufficient personnel with the necessary capabilities and competence; • Experts are available, if needed; • Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and • The firm would be able to complete the engagement within the reporting deadline. Under SA 220, "Quality Control for an audit of financial statements", the responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information like integrity of principal owners, competence of engagement team and consideration of necessary capabilities including time and resources, compliance with relevant ethical requirements and significant matters arisen during current or previous audit engagement and their implications assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. In the given case: • SDC & Associates lacks experience in pharmaceutical R&D audits, a highly regulated and technical field. • The previous auditor's withdrawal citing scope limitations is a warning sign that must be evaluated. • The engagement team lacks relevant expertise, and there is pressure from the managing partner to proceed regardless. • Proceeding without addressing these issues would violate the requirements of SQC 1 and SA 220. CA Rashi must not proceed with the engagement unless satisfied that all conditions under SQC 1 and SA 220 are met. She should:

	• Assess the firm's capability and consider engaging external experts. • Understand the reason for previous auditor's withdrawal. • Ensure that a qualified EQCR reviewer is appointed and review is completed before issuing the audit report. This will help maintain audit quality, ensure compliance with professional standards, and protect the firm from regulatory repercussions.
2.	**Materiality, Risk Assessment and Internal Control** **CA Kavya has been appointed as the statutory auditor of XYR InfraTech Ltd. for the financial year 2024-25. The company operates in two business segments: (i) a consumer electronics division that manufactures smart televisions and earns stable profits; and (ii) an infrastructure development division engaged in metro rail projects under government contracts. The infrastructure division has reported operating losses in the past two years due to delays and cost overruns.** **While planning the audit, CA Kavya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division.**
Ans.	As per SA 320, determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following: • The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses); • Whether there are items on which the attention of the users of the PER particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets); • The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates; • The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and • The relative volatility of the benchmark. Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. In the case of XYR InfraTech Ltd.: (i) **Consumer Electronics Division:** Since Consumer Electronics division earns stable and regular profits, CA Kavya may consider using profit before tax (PBT) or earnings as the benchmark. (ii) **Infrastructure Development Division (Loss-making):** The Infrastructure Development Division has reported losses due to external factors (delays, overruns). In such cases, profit-related benchmarks may not be appropriate. Instead revenue or gross profit may be used as benchmarks. Alternatively, considering its public utility nature, benchmarks like total cost or net cost (expenses less revenues) may be suitable. Where significant assets are involved, total assets may also be relevant.
3.	**Reporting** **Harsh Electronics Ltd., a manufacturing company, planned to set up a new R&D centre at its existing industrial premises in Pune to mark its 25th anniversary in the financial year 2024–25. To expand the premises, the company decided to acquire an adjacent plot of land owned by Ms. Reena, an executive director of the company.** **The company offered to exchange one of its underutilised land parcels, located in another industrial area rather than having a cash transaction. Though the company's land was nearly twice the size of Ms.**

	Reena's land, it was considered less commercially useful. The exchange was approved by the Board and a registered agreement was executed in January 2023. **As an audit engagement partner for Harsh Electronics Ltd., what additional audit procedures would you perform in respect of this land exchange transaction, and what would be your responsibilities from a reporting perspective?**
Ans.	In the given case, Harsh Electronics Ltd. has entered into a non-cash transaction during the financial year involving a land exchange with a director, Ms. Reena, who is also a member of the company's Board. The company transferred a land parcel, located in a different industrial zone, to Ms. Reena, and in return, acquired a strategically located plot adjacent to its main manufacturing facility in Pune, which was owned by her. The transaction was approved by the Board of Directors and was executed through a formally registered agreement in January 2023. This arrangement was entered into without any cash consideration and instead relied on the relative value and strategic importance of the properties being exchanged. As this transaction involves a director and is non-cash in nature, it attracts specific attention from an audit perspective under the Companies Act, 2013 and the CARO, 2020. Accordingly, the auditor must evaluate the appropriateness of the transaction, ensure compliance with statutory provisions, and consider following reporting implications. The auditor is required to report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020 which states whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act, 2013 have been complied with. In addition, this is a transaction with a related party. The provisions of section 188 of the Companies Act, 2013 as regards Related Party Transactions are to be checked for compliance. Section 189 of the Companies Act, 2013 requires a register to be maintained wherein the contract with related parties is to be entered. The compliance with section 177 and section 188 has to be reported under Clause (xiii) of Paragraph 3 of the CARO, 2020.
4.	**Kuber Tech Solutions Ltd. is in the process of finalising its financial statements for the year ended 31st March 2025. The company is required to present comparative financial statements, including figures for the year ended 31st March 2024. Roshan & Co., Chartered Accountants, has been appointed as the statutory auditor for the current year.** **During the audit, CA Roshan, the engagement partner, notes the following:**

Particulars	FY 2023–24	FY 2024–25
Auditor	**Gupta & Mehra LLP, Chartered Accountants**	**Roshan & Co., Chartered Accountants**
Audit Opinion	**Adverse**	**Audit in progress**
Reason for Modified Opinion	**Material misstatement in valuation and disclosure of trade receivables**	**Misstatement remains uncorrected**
Presentation of Financial Statements	**Figures presented as comparatives in FY 2024–25 audit**	**Comparative financial statements (current + previous year)**

(a) What are the duties of CA Roshan while reporting on the current year's financial statements, considering the prior year's adverse opinion?

(b) What modifications or disclosures are required in the current year's audit report in accordance with the relevant Standards on Auditing?

Ans.	(a) In the given case, CA Roshan noticed that the previous year's financial statements contained an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the trade receivables. As per SA 710, "Comparative Information-Corresponding Figures and Comparative Financial Statements", if the auditor's report on the prior period, as previously issued, included an

	adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either: (i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or (ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. In the present case, the matter leading to the prior year's adverse opinion i.e., material misstatement in trade receivables from the prior year remains uncorrected in the current year's financial statements, CA Roshan must modify the current year's audit opinion, in accordance with SA 710. (b) When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph: (i) That the financial statements of the prior period were audited by a predecessor auditor; (ii) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and (iii) The date of that report. In the given case, the previous year's audit was conducted by Gupta & Mehra LLP, who issued an adverse opinion due to a misstatement in trade receivables. Accordingly, CA Roshan should include an Other Matter paragraph in the current year's auditor's report, disclosing that the prior year financials were audited by Gupta & Mehra LLP; an adverse opinion was expressed due to material misstatement in trade receivables; and the date of the prior auditor's report.
5.	**Review of Financial Information** **Amar Projects Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Amar Projects' interim financial statements for the six-month period ending 30th September 2024, instead of a full audit. To comply with this request, the management appoints CA Tanvi, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Tanvi is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report.** **(i) What kind of assurance is given in a review engagement? How is it different from an audit?** **(ii) What are the key elements that must be included in the written review report as per SRE 2410? Also, explain whether a UDIN is required for such an engagement.**
Ans.	(i) A review engagement under SRE 2410 provides limited assurance, which is lower in scope than the reasonable assurance obtained in an audit. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Overview of distinctive areas between Audit and Review

Audit	***Review***
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion. The language of assurance opinion is positively worded.	It provides an assurance conclusion. The language of assurance conclusion is negatively worded.

(ii) The auditor should issue a written report that contains the following: -

(a) An appropriate title.

(b) An addressee, as required by the circumstances of the engagement.

(c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.

(d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

(e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.

(f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.

(g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and

6. **Digital Auditing and Assurance**

Sujal is appointed as the auditor of Kashish Ltd., a company heavily dependent on digital platforms for its core business operations and financial reporting. During the preliminary discussions with management, Sujal observes following gaps in the company's IT risk management framework:

- **No recent risk assessment of the IT environment has been conducted.**
- **No documented strategy for managing cybersecurity threats such as unauthorised access, system failures, or potential data breaches.**

	• **The company has not classified its information assets or reviewed the systems connected to its digital infrastructure.** • **No defined roles such as Chief Information Security Officer (CISO) or Chief Information Officer (CIO) exist to manage cybersecurity responsibilities.** • **There has been no discussion with those charged with governance on how cybersecurity risks may impact internal controls, especially over financial reporting and revenue recognition.** **As an auditor, what should Sujal's first step be in response to the above- mentioned observations?**
Ans.	**Sujal's first step in response to the above observations should be to Identify the risk in following manner:** • The auditor has to determine whether the entity's risk assessment process considers cybersecurity risks. • Entity should conduct a periodic risk assessment & develop a management strategy which identifies cybersecurity risks around IT system failure affecting the entity's primary business or potential loss of data or inability to access data as required, Risk of unauthorized access to the IT network. • The entity should maintain and periodically review an inventory of their information assets, i.e., Asset Management (e.g., intellectual property, patents, copyrighted material, trade secrets and other intangibles). • The entity should classify and prioritise protection of their information assets based on sensitivity and business value and periodically review the systems connected to the network on which digital assets reside. • From the governance perspective management should review how cybersecurity risks affect internal controls over financial reporting. In case of adverse attack how management is going to assess the impact on the recoverability of financial data and impact on revenue recognition. • Management needs to identify if any established a risk-based cybersecurity program can be leveraged e.g. (NIST, ISO etc.) • To determine overall responsibility for cybersecurity in the business environment entity should establish roles and responsibilities over cybersecurity (CISO, CIO). Further, the risk assessment should be discussed with those charged with governance (e.g., the Audit Committee or Board of Directors).
7.	**Group Audits** **CA Rajul has been appointed as the statutory auditor of the consolidated financial statements of Nemi Limited for the financial year 2024–25. The consolidated financial statements include the financial statements and financial information of 9 subsidiaries, all of which have been audited by other auditors. The management of Nemi Limited has provided CA Rajul with the audited financial statements, financial information, and audit reports of these subsidiaries. The following summary information pertains to these subsidiaries for the financial year 2024–25:**

Particulars	**Amount**
Total Assets	**₹ 2,200 crore**
Total Revenue	**₹ 1,400 crore**
Net Cash Outflows	**₹ 25 crore**

Out of the 9 subsidiaries, three are located outside India. Their financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) of their respective countries and audited in accordance with the auditing standards applicable in those jurisdictions.

How should CA Rajul report this matter in the Independent Auditor's Report on the consolidated financial statements of NEMI Limited for the year 2024–25, in accordance with the applicable

	Standards on Auditing? Also, draft a suitable paragraph to be included in the auditor's report, making necessary assumptions.
Ans.	In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor. In the given situation, CA Rajul, the statutory auditor of the consolidated financial statements, is not the auditor of all components included in the consolidation and intends to refer to the work of other auditors, such reference must be made through an Other Matter paragraph in the auditor's report. The draft "Other Matter Paragraph" is as under: - **Other Matter Paragraph** We did not audit the financial statements and other financial information, in respect of nine (9) subsidiaries, whose financial statements include total assets of ₹ 2,200 crores as at March 31, 2025, and total revenues of ₹ 1,400 crores and net cash outflow of ₹ 25 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company. Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and joint ventures, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the reports of such other auditors. Three of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.
8.	**Special Features of Audit of Banks & Non-Banking Financial Companies** **You are auditing the branch operations of XS Bank, a scheduled commercial bank, for the year ending 31st March 2025. During the audit of the loans and advances portfolio, you observed the following:** • **Advances were sanctioned without proper credit appraisal in some cases.** • **Certain loans were sanctioned without adequate documentation like demand promissory notes and hypothecation letters and others where post-disbursement monitoring was weak.** • **In several branches, securities were being held by a single officer instead of under joint custody.** • **A few loan accounts had exceeded the sanctioned limit and drawing power, but no intimation was given to the Head Office.**

	On pointing out the above, branch manager replied that they rely on their internal control framework to mitigate such risks. Based on the above situation, explain the internal controls that bank is expected to implement in the area of loans and advances.
Ans.	**Banks are expected to implement the following internal controls in loans and advances are:** • The bank should make advances only after satisfying itself as to the creditworthiness of the borrowers and after obtaining sanction from the proper authorities of the bank. • All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made. • Sufficient margin should be kept against securities taken to cover any decline in the value thereof and to comply with Reserve Bank directives. Such margins should be determined by the proper authorities of the bank as a general policy or after detailed scrutiny for specific accounts. • All the securities should be received and returned by responsible officer. They should be kept in the Joint custody of two such officers. • All securities requiring registration should be registered in the name of the bank or otherwise accompanied by the documents sufficient to give the title of the bank. • All accounts should be kept within both the drawing power and the sanctioned limit as per prescribed norms. Additional temporary limit may be sanctioned, for a maximum of 20% of existing limit and 90 days maximum tenure. • All the accounts which exceed the sanctioned limit or drawing power or are against unapproved securities or are otherwise irregular should be brought to the notice of the Management/Head Office regularly. • The operation (in each advance account) should be reviewed at least once every year). In the given case, the observations made during the audit indicate serious lapses in adherence to internal control procedures relating to credit appraisal, documentation, custody of securities, and monitoring of advance accounts. The branch's reliance on the internal control framework is not substantiated by its execution in practice. The bank must ensure strict compliance with its internal controls and regulatory guidelines to mitigate credit risk and safeguard its interest.
9.	**Internal Audit** **Jeneva Technologies Pvt. Ltd., a private limited company engaged in the manufacturing of automation equipment, having turnover of ₹ 210 crores during the financial year 2023-24. Additionally, the company had taken a loan of ₹ 95 crores from a consortium of banks during the same year, which remained outstanding as of the balance sheet date.** **Meanwhile, Cross Buildcon Ltd., an unlisted public company involved in real estate development, had the following financial details for the year 2023-24:**

Particulars	Amount
Paid-up share capital	**₹ 48 crores**
Turnover	**₹ 198 crores**
Outstanding borrowings from a bank	**₹ 110 crores**
Outstanding deposits	**₹ 30 crores**

The management of both companies has approached their respective consultants seeking clarity on whether they are required to appoint an internal auditor under the Companies Act, 2013.

As a professional consultant, you are required to advise:

(a) Whether Jeneva Technologies Pvt. Ltd. is required to appoint an internal auditor for the financial year 2024-25.

(b) Whether Cross Buildcon Ltd. is required to appoint an internal auditor for the financial year 2024 25.

(c) State who can be appointed as internal auditors under the Companies Act, 2013.

Ans.	As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely- (A) every listed company; (B) every unlisted public company having- (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or (ii) turnover of two hundred crore rupees or more during the preceding financial year; or (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or (iv) outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year; and (C) every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year. (a) In the case of Jeneva Technologies Pvt. Ltd., the company recorded a turnover of ₹ 210 crores during the financial year 2023–24 and had obtained a loan of ₹ 95 crores from a consortium of banks during the same period. As the turnover exceeds the prescribed threshold of ₹ 200 crores, the company falls within the criteria specified under Rule 13 of the Companies (Accounts) Rules, 2014. Hence, it is mandatorily required to appoint an internal auditor for the financial year 2024–25. (b) In the case of Cross Buildcon Ltd., the company has a paid-up share capital of ₹ 48 crores, a turnover of ₹ 198 crores, outstanding borrowings from a bank amounting to ₹ 110 crores, and outstanding deposits of ₹ 30 crores as per the financial year 2023–24. Although the paid-up capital and turnover are below the prescribed thresholds, the outstanding borrowings and deposits exceed the specified limits under Rule 13 of the Companies (Accounts) Rules, 2014. Therefore, Cross Buildcon Ltd. is mandatorily required to appoint an internal auditor for the financial year 2024–25. (c) As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company. • The internal auditor may or may not be an employee of the company. • To be effective, the internal auditor must be regarded as a part of the management and not merely as an assistant thereto.
10.	**Due Diligence, Investigation & Forensic Accounting** **Navyam Limited is into the business of construction for the past 20 years. Management of the Company came to know that building material sent to construction sites is of substandard quality whereas the payment released by the accounts department of the Company is on the higher side. Forensic Accountant was asked to carry out detailed investigation. Forensic Accountant completed his investigation and now preparing his report. What are the broad areas of information that needs to be incorporated in the report of forensic accountant?**
Ans.	**Broad areas of information to be incorporated in the report of Forensic accountant -** Issuing an report is the final step of a forensic accounting. Accountant / Investigators will include information detailing the fraudulent activity, if any has been found. The client will expect a report containing the findings

	of the investigation, including a summary of evidence, a conclusion as to the amount of loss suffered as a result of the fraud and to identify those involved in fraud. The report may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions. The report will include schedules and graphics necessary to properly support and explain the findings. The report will also discuss how the fraudster set up the fraud scheme, and which controls, if any, were circumvented. It is also likely that the investigative team will recommend improvements to controls within the organization to prevent any similar fraud occurring in the future.
11.	**Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance** **SkinGlow Ltd., an e-commerce company dealing in skincare products, promotes its newly launched cream on its official website as "100% natural and chemical-free." However, a review of the product label reveals the presence of artificial fragrance and preservatives. A customer who noticed the same tried to complain, but there was no proper complaint form or helpline available on the website. Additionally, the company's website states that its primary business objective is to offer useful products and services to customers in exchange of reasonable profits. With reference to the principles of the Business Responsibility and Sustainability Reporting (BRSR) framework, identify which principle is being referred to in this case. Also, state the core elements of this principle.**
Ans.	In the case of SkinGlow Ltd., the misrepresentation of product contents and lack of a proper grievance mechanism are in direct conflict with Principle 9 of the BRSR framework. The company should take corrective measures to ensure alignment of its operations with responsible consumer practices as outlined in the BRSR principles 9 given below. **Principle 9 – Provide Value to the Consumers in a Responsible Manner:** The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits. The core elements associated with the principle are: (a) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large. (b) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition. (c) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products. (d) When handling customer data, the right to privacy of the customer needs to be maintained. (e) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption. (f) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage. (g) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications. (h) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
12.	**Professional Ethics & Liabilities of Auditors (New)** **Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto:**

	(a) CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core. **(b) M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months.**
Ans.	(a) As per the recent decisions taken by the Ethical Standards Board of ICAI, it is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" for the same client. In the given case, Greenway Ltd., a listed entity, is required to submit a BRSR as per SEBI regulations. The company approached CA Sahil to prepare the BRSR study and to provide assurance on the BRSR Core for regulatory submission. CA Sahil accepted both assignments. In view of the above guidance issued by the ESB, it can be concluded that CA Sahil's acceptance of the assignment to prepare the BRSR study for his audit client Greenway Ltd. is not permissible. However, his role as an assurance provider for BRSR Core is permissible. Hence, CA Sahil would be held guilty of professional misconduct for accepting the assignment to prepare the BRSR study. (b) If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949. In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client. However, an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule. In the given case by depositing the client's money of ₹ 10 lakh i.e., for the specific purpose of investment in designated securities, by M/s R & Co., a firm of Chartered Accountants, in their own savings bank account, the auditors have committed professional misconduct. Hence in the given case, M/s R & Co. will be held guilty of professional misconduct under Clause (10) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

CA Final AUDIT
MTP1-Sept-2025

1(a)	**CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Kamlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report.** **In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation?**
Ans.	As per SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. As per SA 580, "Written Representations", if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist. In the instant case, the auditor observed that there was an investigation conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for investigation report which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent. It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report. Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed. The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020, (a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; (b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government; If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall: (i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;

	(ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and (iii) If the auditor withdraws: (1) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.
(b)	**HAM Ltd. is engaged in the business of manufacturing electronic components, including sensors, microchips, and lithium-ion battery cells. The production process requires raw materials such as rare earth metals, semiconductor wafers, and chemical electrolytes. The company maintains a large stock of raw materials, the nature of which is technically complex and requires expert knowledge for physical verification. Therefore, management hired their experts to assist in the stock verification process. Simultaneously, auditors also hired their own expert to evaluate the inventory.** **During the audit, auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes, and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.** **Though the auditor was aware that he has not obtained sufficient appropriate audit evidence and it would be right to express a modified opinion in the auditor's report. However, he was reluctant in doing so, thus, expressed an unmodified opinion and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to the relevant Standard on Auditing relating to the action of the auditor of issuing unmodified audit report.**
Ans.	As per SA 620, "Using the work of an Auditor's Expert", if the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained sufficient appropriate audit evidence. In addition, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. In such circumstances, the auditor may need the permission of the auditor's expert before making such a reference. In the given case, the auditor cannot reduce his responsibility by referring the name of auditor's expert and thereby issuing a unmodified report. The auditor should have issued a modified report and could have given reference to the work of an auditor's expert in that report if such reference was relevant to understanding of a modification to the auditor's opinion but even in that case the auditor should have indicated in his report that such reference of an auditor's expert does not reduce his responsibility for that opinion.
(c)	**CA. Zora has recently accepted engagement of the statutory audit of Segment Ltd. for the financial year 2024–25. While reviewing the trial balance and financial records, Zora identifies that the Opening Balances as on 1st April 2024 are carried forward from the previous year and were audited by another auditor, CA. Rohan. Zora wants to be satisfied regarding the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements.** **(i) Briefly mention the audit procedures Zora should perform to obtain sufficient and appropriate audit evidence regarding the Opening Balances, considering it is an initial audit engagement?** **(ii) Also suggest the approach to be followed by Zora if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein.**

Ans.	**(i) Audit Procedures to be followed in case of initial audit engagement:** As per SA 510, "Initial Audit Engagements – Opening Balances", the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by: • Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss; • Determining whether the opening balances reflect the application of appropriate accounting policies; and • Performing one or more of the following: o Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements; o Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or • Performing specific audit procedures to obtain evidence regarding the opening balances. **(ii) Approach to be followed if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein:** If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate. Further, If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion.
2(c)	**Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services. Comment.**
Ans.	As per the recent decisions taken by the Ethical Standards Board of ICAI, a member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949. In the given case, CA. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Thus, it can be concluded that the senior partner of CA. Rohan is correct as CA. Rohan's action of agreeing to act as a Trademark Attorney before the Registrar of Trademarks would amount to professional misconduct under the Chartered Accountants Act, 1949.
3(a)	**Mr. Ramesh, a practicing Chartered Accountant and partner at RR & Associates, recently ordered a new set of visiting cards and letterheads for his firm. He made following changes in the CA India logo to make the cards attractive:** • **Changed the background from white to grey to match the firm's colour theme;** • **Reduced the size of the logo to fit it in a smaller area on the top-right corner.** • **Replaced the word "India" in the logo with his firm's initials.** • **Added a gradient effect to the blue colour in the letters "CA".** **He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto.**
Ans.	As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he advertises his professional attainments or services, or uses any designation or expressions other than the 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 Institute of Chartered

	Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council. **Further, Chapter XVI for Logo of Council General Guidelines, 2008 prescribes the following guidelines for CA members:** • There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions. • Do not change the design and colours including the white background. • Refrain from rotating or tilting the logo clockwise and anti-clockwise. • The logo should not be shrunk or distorted changing the original proportion. In the given case, CA. Ramesh made changes in the CA India logo to make the cards attractive. He changed the background colour from white to grey to match the firm's theme, reduced the size of the logo to fit into a smaller space on the top- right corner of his cards, replaced the word "India" in the logo with his firm's initials, and added a gradient effect to the blue colour in the letters "CA". Hence, CA. Ramesh will be held guilty of professional misconduct due to violation of the Council General Guidelines and Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.
3(b)	**Vishnu & Co. is in process to issue a prospectus containing projected financial statements to provide information about future expectations of the Company to potential investors. You are hired by Vishnu & Co. to examine the projected financial statements and give reports thereon. Briefly mention the factors you will consider before accepting the audit engagement. Also, under what circumstances the engagement should not be accepted or should be withdrawn?**
Ans.	**Projected Financial Statements:** As per SAE 3400, "The Examination of Prospective Financial Information", before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things: • the intended use of the information; • whether the information will be for general or limited distribution; • the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions; • the elements to be included in the information; and • the period covered by the information. Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified. Like in other engagements, it is necessary that terms of engagements should be agreed with client by sending an engagement letter.
3(c)	**KLM Industries Ltd., a mid-sized company engaged in consumer electronics manufacturing, has recently undergone a major digital transformation by implementation of a fully automated production tracking system, cloud-based accounting software, and a blockchain-based vendor payment system. These changes were introduced during the financial year 2024-25. The management believes that these technologies will increase the efficiency and reduce the chances of errors, and hence, have revised the risk assessment accordingly. As an auditor, what steps should you take to evaluate the impact of such technology changes on the company's internal controls and financial reporting?**
Ans.	**Steps that the auditor should take to evaluate the impact of technology- driven changes on the company's internal controls and financial reporting include the following:** • Maintain sufficient professional skepticism when reviewing management's risk assessment for new systems. • Understand the direct and indirect effects of new technology and determine how its use by the entity impacts the auditor's overall risk assessment. • Understand how the technologies impact the flow of transactions, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.

	• Assess the appropriateness of management's processes to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.
4(b)	**XYZ Ltd., a listed entity, is preparing its Annual Report for the financial year 2024-25. The company has operations in many countries and has implemented policies on ethics, diversity, and environmental sustainability. The management has taken steps to align its reporting with the National Guidelines on Responsible Business Conduct (NGRBC).** **As part of its BRSR submission, the company provides information on its workforce strength, gender diversity, number of subsidiaries, and policies on human rights. It also discloses data on energy consumption, carbon emissions, and the number of employees trained in sustainability practices. However, it does not include life cycle assessments or details of its biodiversity conservation initiatives. Identify which sections of the BRSR reporting framework are covered by XYZ Ltd. based on the disclosures mentioned. Also, comment whether XYZ Ltd. has complied with the minimum mandatory disclosures required under BRSR.**
Ans.	**Sections of BRSR covered by XYZ Ltd.:** In the given case, XYZ Ltd., a listed entity, has made disclosures that fall under the following sections of the BRSR framework: **(i) Section A –** General Disclosures: This section contains the details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc. **(ii) Section B –** Management Process and disclosures: It contains questions related to policy and management processes, governance, leadership, and oversight. **(iii) Section C –** Principle-wise performance disclosures: Companies are required to report upon Key performance indicators (KPIs) in alignment with the nine principles of the NGRBC. The section classifies KPIs into two categories that companies are required to report upon: - **Essential indicators (Mandatory disclosures):** This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc. - **Leadership indicators (Optional disclosures):** It would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumption, supply chain managements etc. In the given situation, XYZ Ltd. has disclosed information related to its workforce strength, gender diversity, and number of subsidiaries, which aligns with Section A - General Disclosures about employee details and corporate structure. Further, disclosure of policies on ethics, diversity, human rights, and environmental sustainability initiatives indicates coverage of Governance and Policy are in compliance with Section B - Management Process and disclosures. Furthermore, XYZ Ltd. has disclosed data on energy consumption, carbon emissions, and sustainability-related training for employees, which are part of the Mandatory Essential Indicators under Section C - Principle-wise performance disclosures. **Compliance with Minimum Mandatory Disclosures:** XYZ Ltd. has disclosed essential indicators such as environmental data (energy, emissions), employee training, and policy-related disclosures, which are the core components of mandatory requirements. However, XYZ Ltd., has not disclosed life cycle assessments, details of its biodiversity conservation initiative which are leadership indicators. Since, disclosure of Leadership indications is optional, therefore, their exclusion does not violate compliance with mandatory BRSR requirements. Thus, it can be concluded that XYZ Ltd. appears to have complied with the minimum mandatory disclosures required under BRSR.
4(c)	**All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this**

	management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation?
Ans.	**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. In the given case, management imposed limitation on audit opinion. Thus, CA. Kabir should take above mentioned actions in response to such limitations.
5(a)	**CA. Garvit has been appointed as the auditor of Liv Bank, a nationalised bank. During the audit, he observes that the bank has recently expanded its credit card division and is witnessing a significant rise in the number of credit card applications. He also comes to know about an incident where a few unissued credit cards went missing from a branch, raising concerns about the effectiveness of the bank's internal controls. Liv Bank is aware that there should be strict control over the storage and issuance of credit cards to prevent misuse and fraud.** **In the given situation, how will CA. Garvit evaluate the internal control system in the area of credit card operations of the bank?**
Ans.	**Evaluation of the Internal Control System in the area of credit card operations of the bank:** • There should be effective screening of applications with reasonably good credit assessments. • There should be strict control over storage and issue of cards. • There should be a system whereby a merchant confirms the status of unutilised limit of a credit-card holder from the bank before accepting the settlement, in case the amount to be settled exceeds a specified percentage of the total limit of the card holder. • There should be a system of prompt reporting by the merchants of all settlements accepted by them through credit cards. • Reimbursement to merchants should be made only after verification of the validity of merchant's acceptance of cards. • All the reimbursement (gross of commission) should be immediately charged to the customer's account. • There should be a system to ensure that statements are sent regularly and promptly to the customer. • There should be a system to monitor and follow-up customers' payments. • Payments overdue beyond a reasonable period should be identified and attended to carefully. For defaulting customers, credit should be stopped by informing the merchants through periodic bulletins, as early as possible, to avoid increased losses.

	• There should be a system of periodic review of credit card holders' accounts. On this basis, the limits of customers may be revised, if necessary. The review should also include determination of doubtful amounts and the provisioning in respect thereof.
6(a).	**CA. Jayesh has recently been appointed Chief Internal auditor of a listed company. The internal audit charter inter alia includes long term view of internal audit function, purpose and objectives of internal audit, reporting structure, scope & approach, accountability for certain deliverables like reducing risk ratings, improving control environment etc. & authority attached. Given his sharp insight, he realizes that a proper plan needs to be put in place for reviewing performance/ training of professional staff constituting in-house teams and acquisition of fresh professional talent. Does the above fall within purview of critical activities to be performed by Chief Internal Auditor to achieve objectives of Internal audit function? Comment on the above with regards to critical activities intended to achieve objectives of internal audit function outlined in internal audit charter.**
Ans.	As per Standard on Internal Audit (SIA) 210, "Managing the Internal Audit Function", the Internal Audit Function performs a number of activities to achieve its objectives as outlined in its Charter (or Terms of Engagement). A few of the critical activities are as follows: (i) Define the overall plan, scope and methodology of the Internal Audit Function on a periodic basis. (ii) Oversee and monitor various audit assignments, their proper planning, execution, reporting of findings and subsequent closure of reported observations. (iii) Plan, acquire, engage and review the performance, training and development of professional staff, talent and other resources to achieve its objectives. (iv) Identify, source, engage and manage external experts and technical solutions, if required. (v) Communicate and engage with all key stakeholders regarding progress and achievement of objectives. (vi) Develop and maintain a quality evaluation and improvement program. Therefore, planning, acquiring and review of performance, training and development of professional staff is one of the critical activities for achievement of internal audit objectives. Without performance of this critical activity, it would be difficult to achieve objectives of internal audit function as outlined in internal audit charter. Hence, it falls within purview of critical activities to be performed by Chief Internal auditor to achieve objectives as outlined in internal audit charter.

CA Final AUDIT
MTP2-Sept-2025

1.(a)	**CA Pawan has been appointed as the statutory auditor of Vij Pvt. Ltd. for the financial year 2024–25. During the course of the audit, he obtained sufficient and appropriate audit evidence for items shown in the Statement of Profit and Loss. However, while auditing the Balance Sheet items, he left obtaining appropriate audit evidence, say, external confirmations, for outstanding accounts receivable amounting to ₹ 135 lakhs.** **He continued as it is from last year, on the affirmation of management that there are no receipts and further credits during the year. CA Pawan, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor.** **What measures need to be taken by the auditor CA Pawan? Also, suggest the correct audit procedure in this regard.**
Ans.	As per SA 510, "Initial Audit Engagements – Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether - (i) Opening balances contain misstatements that materially affect the current period's financial statements; and (ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated. For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable, (like external confirmations) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period. In addition, according to SA 505, "External confirmations" the auditor can use external confirmation procedures to obtain audit evidence. Further, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion. In the given case, the management of Vij Pvt. Ltd. has restrained CA Pawan, its auditor, from obtaining appropriate audit evidence for balances of accounts receivable outstanding as it is from the preceding year. CA Pawan, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

	Thus, CA Pawan should have requested the management to provide written representation for their views and expressions and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme.
1(c)	**Mohan Ltd. having a net worth of ₹ 1,750 crore, is mandatorily required to comply with Ind AS. The company had various complex derivative contracts – options such as forward contracts, interest rate swaps etc. which were required to be fair valued as per IND AS 109 and for which company got the fair valuation done through an external third party. Considering the complex nature of these valuations, the statutory auditor CA Paras decided to involve an auditor's expert to assess the appropriateness and accuracy of the valuation methodology and results.** **CA Paras engaged expert Mr. Sohan as an auditor's expert for valuation of derivatives. CA Paras and Mr. Sohan were new to each other i.e., they were working for the first time together but developed a good bonding during the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.**
Ans.	As per SA 620, "Using the work of an Auditor's Expert", the nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert. In certain situations, the need for a detailed agreement in writing is required like - • The auditor's expert will have access to sensitive or confidential entity information. • The matter to which the auditor's expert's work relates is highly complex. • The auditor has not previously used work performed by that expert. • The greater the extent of the auditor's expert's work, and its significance in the context of the audit. In the given case, Mohan Ltd. is mandatorily required to comply with Ind AS as it had complex derivative contracts requiring fair valuation under Ind AS 109. The company obtained valuations from a third party, and statutory auditor CA Paras engaged Mr. Sohan as an auditor's expert to assess their appropriateness and accuracy of the valuation methodology and results. Though it was their first time that they were working together and developed good bonding, no formal written agreement was made with the expert. Thus, as per SA 620 considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him.
2(a)	**CA Chirag is the statutory auditor of Electric Corporation Limited, a Government Company for the year ended on 31st March 2025. The turnover of the Company for the period was ₹ 10,000 crores from sales of electricity. During the audit, Chirag found that the Company had procured spares for Transmitters for ₹ 700 crores from abroad through a Corporation by name PCDC India Limited which is also owned and controlled by Government of India. The Financial Statements of the Electric Corporation Limited, prepared in compliance with Ind AS for the year ended on 31st March, 2025 did not contain any additional disclosure regarding the procurement of spares as referred to above. Chirag had query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises.** **Analyse this issue faced during finalising the Audit Report.**
Ans.	As per Ind AS 24, "Related Party Disclosures", a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (i) a government that has control or joint control of, or significant influence over, the reporting entity; and (ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

	If a reporting entity applies the above exemption, it shall disclose the following about the transactions and related outstanding balances referred to: (1) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence); (2) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements: (i) the nature and amount of each individually significant transaction; and (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Further, as per SA 550, "Related Parties", in forming an opinion on the financial statements in accordance with SA 700, the auditor shall evaluate whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. In the instant case, Electric Corporation Limited, a Government Company has procured spares for transmitters for ₹ 700 crore from abroad through a corporation namely PCDC India Limited which is also owned and controlled by Government of India. Even after applying the exemption of Ind AS 24, Electric Corporation Limited has to disclose the matters specified above (i.e.name of Government, nature of its relationship with reporting entity, the nature and amount of transaction etc.). Contention of Management of Corporation regarding no requirement of disclosure for transactions between State Controlled Enterprise is not tenable.
2(b)	**While planning the audit of a company that heavily relies on automated processes, the auditor notices that several key financial reports used for decision-making are system-generated, and data is transferred across multiple IT applications through automated interfaces. Given this scenario, how do such IT dependencies arising from system-generated reports and interfaces develop within an entity's operations? Why is it important for the auditor to identify and understand these IT dependencies in order to design an effective and efficient audit approach?**
Ans.	IT dependencies are created when IT is used to initiate, authorize, record, process, or report transactions or other financial data for inclusion in the financial statements. System generated reports are the information generated by the IT systems. These reports are often used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for the testing, performing substantive tests of details or performing a substantive analytical procedure. e.g. (Vendor master report, customer ageing report). Interfaces are programmed logic that transfer the data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll subledger to the general ledger. In this manner, IT dependencies arise due to "system generated reports" and "interfaces". Identifying and documenting the entity's IT dependencies in a consistent, clear manner helps to identify the entity's reliance upon IT, understand how IT is integrated into the entity's business model, identify potential risks arising from the use of IT, identify related IT General Controls and enables us to develop an effective and efficient audit approach.
2(c)	**TP and Associates were statutory auditors of Deepa Ltd. The audit for the financial years 2023-24 and 2024-25 is still pending due to a dispute between the auditor and the company regarding certain remarks proposed to be included in the audit report for the financial year 2023-24. Subsequently, in a shareholders' meeting held on 06.05.2024, the company removed TP and Associates as auditors after complying with all applicable legal formalities. TP and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. Deepa Ltd. complained to ICAI against TP and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto.**

Ans.	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 so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force. An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. In the given situation, TP & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. TP & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same. Thus, the concerned responsible partner of TP & Associates, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for voluntary disclosure made by him.
4(b)	**CA Purva is working as Credit manager in branch of ADC Bank Limited. A company has approached the branch for a request to sanction credit facilities worth ₹12 crore for meeting usual business requirements. As part of the appraisal process, CA Purva undertakes a comprehensive review which includes:** • **Examining the past history of the company and background check of its promoters and directors.** • **Review of the shareholding structure and understanding the nature of company's business.** • **Analysis of the company's past financial statements along with its future financial projections.** • **SWOT analysis to evaluate the company's internal and external position.** • **Assessing the net worth of the directors, reviewing their CIBIL scores, and verifying if their names appear in the RBI's defaulter list.** • **Discreet inquiries from existing clients of the branch engaged in a similar line of business to assess the creditworthiness of the company its promoters and directors.** **(i) What is the nature of the activity being performed by CA Purva? Discuss its nature.** **(ii) Would your answer be different if the same activity was performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.** **(iii) Name any three other areas where identified activity can be undertaken.**
Ans.	**(i) The activity described in the situation is Due diligence. Due diligence is a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measured by any absolute standard but depending upon the relative facts of the case. It involves a careful study of financial and non-financial possibilities. It implies a general duty to take care in any transaction.** **Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans.** **Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit.** **(ii) There would be no difference in answer if above activity was to be performed by a person who is not a Chartered Accountant. The activity would remain due diligence. Due diligence can be**

	performed by any person. It is not necessary that due diligence can only be carried out by a Chartered Accountant. As due diligence involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person. **(iii) The areas where due diligence may be undertaken are: -** • **Corporate restructuring** • **Venture capital financing** • **Public offerings**
4(c)	**CA Subhadra, an engagement partner in SRT & Associates, is conducting the statutory audit of MBI Ltd., an unlisted manufacturing company with 96 production and sales units spread across the country. These units are audited by different branch auditors. In respect of one major unit audited by a branch auditor, there were significant inventory valuation errors and misstatements in cost allocations, which were not reported by the branch auditor. The branch auditor submitted a NIL report without suggesting any modifications.** **During overall review of financial statements of Company by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection reports etc. of above branch as part of overall review procedures. However, these reports did not point towards any concern or irregularities in the inventory or costing practices. Would the statutory auditor of the Company be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?**
Ans.	SA 600 states that the principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors. When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/ subsidiaries or other components audited by other auditors. In the given situation, nothing has come to light of statutory auditor which would arouse his suspicion about reliability of work performed by branch auditor. Therefore, he would not be responsible for work performed by branch auditor. Further, it should be clearly stated in the report that 96 production and sales units of company have been audited by branch auditors.