



## **PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS**

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### **PART – I : ACADEMIC UPDATE**

**(Legislative Amendments / Notifications / Circulars / Rules / Guidelines  
issued by Regulating Authority)**

#### **Chapter 14 - Unit 2 - Special Features of Audit of Non-Banking Financial Companies**

1. As per the circular DoR.FIN.REC.25/03.10.038/2025-26 dated June 06, 2025, if an NBFC-MFI fails to maintain the criteria specified in following para for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

“NBFC-MFI” means a non-deposit taking NBFC which has a minimum of 60 percent of its total assets (netted off by intangible assets), on an ongoing basis, deployed towards “microfinance loans” as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

2. On page no. 14.92, Tier 1 Capital definition has been amended to include reference of RBI Gold Lending Directions as follows:

Tier I capital - NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier 1 capital of 12 percent of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items. The treatment to on-balance and off-balance sheet assets for capital adequacy shall be provided as per the Directions respectively. These NBFCs shall also adhere to provisions of the Directions on treatment of deferred tax assets and deferred tax liabilities

for computation of capital. These NBFCs shall also ensure compliance with the instructions issued vide 'Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025' dated June 06, 2025 (as amended from time to time), as expeditiously as possible but no later than April 1, 2026.

3. Addition of ROU Assets to Other Assets definition in Weighted risk assets - On-Balance Sheet items table given on page no 14.94

(v) Other assets:

(d) Others (to be specified) ***including ROU assets***

#### **Chapter 19- Professional Ethics & Liabilities of Auditors**

1. **On page no. 19.68 amendment in Clause (9) of Part I of First Schedule**

Clause (9) accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with;

2. **On page no. 19.109 insertion of Clause (5) in Part II of Second Schedule**

Clause (5) acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

## PART II : Questions and Answers

**QUESTIONS****PART A: Multiple Choice Questions****Integrated Case Scenarios**

Mr. Vivek was appointed as the engagement partner on behalf of Reliant & Co., a Chartered Accountant Firm, to conduct statutory audit assignment of Zenith Components Limited, an unlisted public company engaged in the manufacturing of electrical equipment.

During the audit, CA Meenal, one of the senior engagement team members, was given the responsibility to audit the matters as per requirements of CARO, 2020. Her major observations included:

- One of the buildings owned by Zenith Components Ltd. was revalued during the year based on a valuation report from a registered valuer, increasing the aggregate carrying value of Property, Plant & Equipment (PPE) from ₹ 12.5 crore to ₹ 14.5 crore.
- Zenith Components Ltd. was sanctioned a cash credit limit of ₹ 5.25 crore by Unity Bank based on the security of current assets which was reduced to ₹ 4.95 crore after 6 months. In this connection, the company submitted quarterly stock statements to the bank which were in agreement with the books of accounts.

Meanwhile, Reliant & Co. was also appointed to conduct the audit of a State Housing Department. During the course of audit, Office of the Comptroller & Auditor General of India (C&AG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit.
- Buildings with a total area surpassing a threshold limit.

However, it was noted that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed

that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Further, CA Karan, another partner, was engaged in the audit of EcoTherm Power Ltd., a listed company operating in the thermal energy generation sector. As a part of Business Responsibility and Sustainability Reporting (BRSR), the company disclosed data on its total greenhouse gas emissions from its production outlets during the year and a detailed energy consumption plan which it had devised for the upcoming years.

CA Nisha, an independent Chartered Accountant who had recently completed a Certificate Course on Sustainability Reporting, was approached by CA Karan for informal guidance on improving the company's sustainability disclosures. Impressed by her knowledge, CA Karan later recommended her name for the Board of Management of Navlok Co-operative Bank, a Primary (Urban) Co-operative Bank, which was also one of their audit clients. CA Amit, another professional colleague, advised Nisha to refrain from accepting the post as it could amount to professional misconduct.

**Based on the above facts, answer the following MCQs:**

1. As per the provisions of CARO 2020, what should be the auditor's reporting responsibility with regard to revaluation of Property, Plant and Equipment done by Zenith Components Ltd.?
  - (a) No reporting is required as the revaluation is based on a registered valuer's report.
  - (b) Reporting is required under Clause (i)(d) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset
  - (c) Reporting is required under Clause (i)(c) of Paragraph 3 since the company has revalued its PPE and the amount of change exceeds 10% of the net carrying amount of each class of asset.
  - (d) Reporting is not required under Clause (i)(d) of Paragraph 3 as the amount of change does not exceeds 10% of the net carrying amount of each class of asset.

2. Whether reporting is required under CARO, 2020 in case of sanctioned cash credit limit i.e., working capital limits?
- (a) Yes, reporting is required under Clause (ii)(b) of Paragraph 3, as the company was sanctioned working capital limits in excess of ₹ 5 crore.
  - (b) No reporting is required under CARO, 2020.
  - (c) No, reporting is not required under Clause (ii)(b) of Paragraph 3, because the working capital limit was later reduced below ₹ 5 crore.
  - (d) Yes, reporting is required under Clause (iii)(a) of Paragraph 3, since the company has been sanctioned working capital limits in excess of ₹ 5 crore.
3. The report of audit of State Housing Department by the C&AG is likely to be submitted to:
- (a) The Board of the Authority directly.
  - (b) The Governor of State.
  - (c) The Central Government.
  - (d) The Ministry of Housing and Urban Affairs.
4. With respect to EcoTherm Power Ltd., which of the following statements correctly categorizes the sustainability reporting indicators?
- (a) Both the details of the emission & future energy consumption plans form part of the Essential Indicators and need to be mandatorily disclosed in the BRSR.
  - (b) The details of the emission are a Leadership Indicator and is considered as optional disclosure, whereas the plan for future energy consumption is an Essential Indicator and needs to be mandatorily disclosed in the BRSR.
  - (c) Both the details of the emission & future energy consumption plans form part of the Leadership Indicators and are considered as optional disclosure.

- (d) The details of the emission forms part of the Essential Indicators and need to be mandatorily disclosed. However, the plan for future energy consumption is only a Leadership Indicator and is considered as optional disclosure.
5. Whether CA Nisha would be held guilty of professional misconduct if she accepts the offer to become a member of the Board of Management of Navlok Co-operative Bank (Primary Urban Co-operative Bank)?
- (a) It is permissible for a CA in practice to become a member of the board of management in primary (rural) co-operative banks. Hence, CA Nisha would be held guilty of professional misconduct if he accepts the offer.
- (b) It is permissible for a CA in practice to become a member of the Board of management in primary (urban) co-operative banks. Hence, CA Nisha would not be held guilty of professional misconduct if he accepts the offer.
- (c) Yes. CA Nisha would be held guilty of professional misconduct under Part III (other misconduct in relation to members of the Institute generally) of Second Schedule, as Nisha is getting this offer as a reciprocation for helping Reliant & Co.
- (d) Yes. As per clause 11 of Part I of First Schedule CA Nisha would be held guilty of professional misconduct for engaging in another profession/ occupation without the permission of ICAI.

### Independent MCQs

6. During the audit of loan accounts of Worthy Bank for the year ended 31<sup>st</sup> March 2025, you come across a borrower account of Star Limited with an outstanding loan of ₹ 1.70 crore, which was classified as NPA in December 2024. The borrower made a partial repayment of ₹ 70 lakh in March 2025, however, remaining amount ₹ 1 crore is still overdue. Despite this, the bank has upgraded the account to Standard as of 31<sup>st</sup> March 2025 in its books. As statutory auditor of Worthy Bank, what should be your observation regarding the classification of this loan account?

- (a) The account is correctly upgraded, as partial repayment of ₹ 70 lakh was received before the balance sheet date.
- (b) The account can be classified as Standard based on management's judgment of the borrower's repayment capacity.
- (c) The account should continue to be classified as NPA, since the entire overdue principal and interest were not settled before 31<sup>st</sup> March 2025.
- (d) The classification can be adjusted retrospectively if the full repayment is received in April 2025.
7. During the audit of Beta Infrastructure Ltd. for the year 2024–25, auditor CA Ramesh observed that the company had lost significant accounting records including invoices and supporting documents related to purchases and revenue due to fire. He performed additional audit procedures to obtain alternative audit evidence, however, he was unable to obtain sufficient appropriate audit evidence through such procedures. Consequently, he could not obtain adequate audit evidence regarding several material items in the financial statements. The auditor CA. Ramesh should:
- (a) Express a Qualified Opinion since the records are incomplete.
- (b) Express an Adverse Opinion as the financial statements are unreliable.
- (c) Include an Emphasis of Matter paragraph highlighting the system failure while giving an unmodified opinion.
- (d) Express a Disclaimer of Opinion, as auditor was unable to obtain sufficient appropriate audit evidence relating to material items.
8. EcoSmart Technologies Ltd. is preparing its Integrated Report for the year 2024–25, focusing on its sustainability and ESG initiatives. The report highlights the following:
- The company has installed solar panels and rainwater harvesting systems at all its manufacturing plants to reduce carbon footprint and conserve water resources.

- It has developed an AI-based production optimisation software that improves operational efficiency, reduces energy consumption, and supports data-driven decision-making.
- Employees are provided with specialised training programs on sustainability practices, renewable energy management and digital technologies to enhance skills and promote a culture of innovation.

Which combination of integrated capitals is primarily represented in the initiatives described above?

- (a) Natural Capital, Intellectual Capital, Human Capital.
- (b) Financial Capital, Manufactured Capital, Social Capital.
- (c) Human Capital, Financial Capital, Manufactured Capital.
- (d) Intellectual Capital, Social Capital, Financial Capital.

## **PART B: DESCRIPTIVE QUESTIONS**

### **Standards on Auditing, Statements and Guidance Notes**

#### **Quality Control**

9. RBC & Co., Chartered Accountants, is a large audit firm engaged in audits and assurance services across various sectors. The firm currently maintains audit documentation in both electronic and physical (hard copy) formats. However, during audit it was observed that physical files are neither scanned and incorporated into the electronic files nor cross-referenced with them. As a result, the documentation remains scattered with no integrated or centralised audit file for the engagement. Additionally, several audit working papers lack clarity on whether the information was obtained from the client or prepared internally by the engagement team. This ambiguity raises concerns regarding the reliability and origin of audit evidence. How do you view the above situation from the point of view of quality control system in audit firm? Analyse.

**General Auditing Principles and Auditors Responsibilities**

10. Camel Manufacturing Ltd. (CML) is engaged in the production of speciality machinery for the automotive industry. The company operates in a competitive market and is under pressure to meet determined revenue and profitability targets to secure additional funding from the investors. The audit firm AJN LLP has been engaged to conduct CML's statutory audit for the financial year 2024-25. AJN LLP performed risk assessment procedures and related activities towards obtaining information in identifying risk of material misstatement due to fraud and also evaluated whether there is an indication that one or more fraud risk factors are present. Analytical procedures reveal unexpected relationships potentially indicating fraudulent activities, such as sales inflation by management to meet earnings targets. Management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.

Guide AJN LLP to decide on the course of action in determining overall responses to address the assessed risks of material misstatement due to fraud at the (i) Financial Statement Level and (ii) Assertion Level.

**Audit Evidence**

11. During the statutory audit of Nature Care Ltd., CA Vigilant has planned to attend the physical inventory count of the company. Nature Care Ltd. is engaged in the production of pharmaceutical tablets and capsules catering to domestic and export markets, particularly the Middle East. The manufacturing facility is spread over 15 acres in the Industrial Area, Delhi.

Raw materials such as powders and chemicals are stored in sacks and drums while work-in-progress (WIP) and finished goods are stored in production and warehouse areas. The company produces three major product lines: "HealFast" (domestic), "MediPlus" (domestic), and "GlobalCare" (export).

The process of production involves weighing, blending, granulation, tablet pressing, coating, packaging and quality testing using various automated machines.

The company management has provided a set of instructions for conducting and recording the inventory count:

- Physical inventory counting to be supervised by the warehouse in-charge.
- Counting should not disrupt the routine process of raw material receipt or product dispatch.
- Teams of four members each are to count raw materials, WIP and finished goods.
- Quantities of material in drums to be estimated based on drum capacity.
- Quantities of WIP to be estimated considering overall plant capacity.
- Responsible officer should ensure that all areas have been counted.

Before attending the physical inventory count, evaluate the management's instructions provided to CA Vigilant. Suggest modifications, additions, or deletions to ensure an effective and reliable counting process.

### Reporting

12. Opaque Pharmaceuticals Ltd. has outstanding long-term receivables of ₹ 415 crore as on 31st March 2024, arising from pending insurance claims for compensation due to supply chain disruptions caused by regulatory delays and unforeseen production stoppages. Some of these claims are under legal proceedings while others are in the process of negotiation with the insurance companies. Management has disclosed in the notes to accounts that these amounts are considered fully recoverable.

CA Neha, the statutory auditor, has relied solely on management representations regarding the recoverability of these receivables and is considering inclusion of this matter in the "Emphasis of Matter" paragraph of the audit report. Assess whether CA Neha's decision to include this matter in the Emphasis of Matter paragraph is appropriate.

**Prospective Financial Information and Other Assurance Services**

13. Moksh Ltd. has prepared prospective financial information for an upcoming expansion project. On review, the auditor finds that the basis of certain assumptions is not disclosed, highly uncertain assumptions lack sensitivity analysis and the date of preparation is missing. In addition, a recent change in accounting policy relating to revenue recognition has not been reflected. In this context, what should the auditor consider while assessing the presentation and disclosure of the prospective financial information and its underlying assumptions?

**Digital Auditing and Assurance**

14. During the audit of Long Ltd., the auditor came across the following instances:
- (i) The finance team relies on a system-generated customer ageing report while reviewing overdue balances of trade receivables.
  - (ii) The payroll module is designed in such a way that the person entering employee attendance cannot approve the salary disbursement thereby enforcing segregation of duties.
  - (iii) The purchase order system of the company does not allow processing of duplicate vendor codes and automatically rejects entries where the vendor GST number is already present.
  - (iv) The ERP system automatically computes depreciation on fixed assets by applying straight-line method based on input values of cost, residual value and useful life.

Identify the type of IT dependency involved in each of the above scenarios.

**Group Audits**

15. TRP Ltd. is a holding company with three subsidiaries namely T Manufacturing Pvt. Ltd., R Traders Ltd. and P Services Pvt. Ltd. While auditing the consolidated financial statements of TRP Ltd., the auditor observed that although management of all the subsidiaries have provided written representations, no formal written representation has been provided by the management of parent company TRP Ltd.

acknowledging its responsibility for the true and fair presentation of the consolidated financial statements. Furthermore, the auditor could not find any evidence that the management of the parent company has approved the consolidated financial statements. How should the auditor of the parent company deal with this situation?

### Special Features of Audit of Banks & Non-Banking Financial Companies

16. Fair Bank has appointed CA Riya as statutory auditor for the financial year 2024–25. During the audit, she observed the following:
- Pending cases with suppliers amounting to ₹ 2.5 crore.
  - Disputes with ex-employees regarding retirement benefits with claims of ₹ 1.2 crore.
  - Ongoing tax litigation with a potential liability of ₹ 3 crore.

Considering the above, CA Riya is concerned regarding claims not acknowledged as debts. State the audit procedures that CA Riya should perform to verify the 'Claims Not Acknowledged as Debts'.

### Overview of Audit of Public Sector Undertakings

17. The Comptroller & Auditor General of India (C&AG) appointed Sharma & Associates, a firm of Chartered Accountants, to conduct performance audit of NAL Ltd., a public sector undertaking of Government of India. The audit was conducted with the objective of examining whether all expenses of the unit were in conformity with public interest and accepted customs. However, audit report submitted by the firm was rejected by C&AG. Whether action of the C&AG is justified?

### Due Diligence, Investigation & Forensic Accounting

18. During the course of audit of Limca Ltd., CA Ranjan observed frequent changes in accounting estimates of receivables, delays in providing information requested by management including altered documents. He also noticed discrepancies between the company's records and external party confirmations. These factors made him suspect the possibility of fraud in the entity.

Identify the common indications that may alert an auditor to the existence of fraud considering the given situation. Also, explain the four elements of fraud, often referred to as the "Fraud Diamond."

### **Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance**

19. GreenTech Manufacturing Ltd., engaged in production of electronic appliances, has been facing criticism from environmental activists and local communities for its high energy consumption, discharge of untreated industrial waste and dependence on non-renewable resources. Considering the same, the company's management now wants to strengthen its environmental responsibility practices and align them with national and international commitments such as Paris Agreement and National Action Plan on Climate Change.

Identify the principle which is being referred to in this case. Also, state the core elements associated with this principle.

### **Professional Ethics & Liabilities of Auditors**

20. (a) Aditya & Co., a firm of Chartered Accountants in practice has been approached by Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. Scope of work of the same includes reviewing the efficiency of operations, utilisation of funds, quality of training imparted and suggesting measures for improvement. In this context, the partners of the firm are concerned about the permissibility of accepting such an engagement. Would accepting this assignment amount to a service prohibited for members in practice under the Chartered Accountants Act, 1949?
- (b) Puran, a practicing Chartered Accountant, uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals. In these videos, he introduced himself as a Partner in Puran & Associates, Chartered Accountants and displayed the firm's website address and his contact details in the description of the videos. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

**SUGGESTED ANSWERS****PART A: Answers to Multiple Choice Questions**

Question No.	Answer
1.	(b)
2.	(a)
3.	(b)
4.	(d)
5.	(b)
6.	(c)
7.	(d)
8.	(a)

**PART B: Answers to Descriptive Questions**

9. In accordance with SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" the firm should establish policies and procedures designed to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

In the given situation, the physical files are neither scanned and incorporated in the electronic files nor cross-referenced to the electronic files. Inability to do so shows that firm has not established policies and procedures to maintain integrity of engagement documentation. Lack of ensuring the same makes it difficult to demonstrate completeness of audit files and whether these were assembled within 60 days timeframe stipulated in SQC 1.

Where engagement documentation is in paper, electronic, or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. One of the reasons for designing and implementing appropriate controls for engagement documentation in this regard is

the protection of the integrity of information at all stages of engagement.

For the practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:

- (i) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- (ii) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and
- (iii) Enable the scanned copies to be retrieved and printed as necessary.

It has also been stated that there are many instances where audit working papers do not contain details as to whether information was obtained from the client or prepared by the engagement team. It is important to identify the source of the document and the information used as audit evidence to ensure its reliability. It could have potential risks of non-compliance with Standards on Auditing.

- 10. (i) Responses to the Assessed Risks of Material Misstatement due to Fraud at the Financial Statement Level:** In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:
- (a) Assign and supervise personnel taking account of the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement;
  - (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

- (c) Incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures.

**(ii) Audit Procedures Responsive to Assessed Risks of Material Misstatement due to Fraud at the Assertion Level:**

- (a) The auditor shall design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. In doing so, the auditor may change the nature, timing, and extent of audit procedures to obtain audit evidence that is more reliable and relevant or to obtain additional corroborative information.
- (b) If the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.
  - (i) In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return, and delivery terms.
  - (ii) In addition, the auditor might find it effective to supplement such external confirmations with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

**11.** The set of instructions and procedures given in the case scenario are incomplete and not properly followed, which are discussed as under:

- ❖ The physical inventory count process should be supervised by a responsible officer of the company, preferably from finance department. The supervision of the count process should not be done by person responsible for storage function. However, warehouse in-charge of each area should be present during inventory count process for co-ordination and facilitation.

- ❖ During inventory count process, inward and outward movement of goods should not be allowed as allowing such movement may distort the results or make it difficult to arrive at proper results.
- ❖ The instruction relating to the constitution of teams for counting process does not specify that counting shall be undertaken by members drawn from departments not connected with storage function. For example, these members may be from the finance department. Further, within each team, duties should be fixed separately for counting and recording on serially numbered count sheets. It is nowhere stated that once counting in an area is complete, certain distinctive marks or tags are required to be put.
- ❖ Count sheets should contain description of products in accordance with inventory records of company.
- ❖ The management's instructions are silent about how team members would proceed with their work. Team members should be provided with lay out plans for different sections/ storage areas so that all areas are covered.
- ❖ Powders in sacks should be counted bag by bag, using the standard weight per sack for calculation and quantities in drums should be measured using weighing or calibrated measuring devices, rather than assuming full drum capacity.
- ❖ WIP should be counted stage-wise, at each stage of production, rather than estimating for the entire plant as stage-wise counting ensures accurate reporting of partially completed inventory.
- ❖ Finished goods should be counted category-wise (HealFast, MediPlus, GlobalCare). Further, brand names and batch numbers should be verified to avoid misclassification.
- ❖ There is no instruction regarding damaged or obsolete stock items particularly in the case of finished goods. Damaged/obsolete inventories should be counted and shifted to a separate area for assessment of their condition and to prevent mix-up with other standard inventories.
- ❖ Count sheets need to be signed by each team member.

- ❖ The responsible officer should ensure that stocks have been counted/verified in all areas and distinctive marks are put to confirm completion of counting.

**12.** In accordance with SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", Emphasis of Matter Paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

As per SA 706, the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to: -

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Further, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter.

In the given case of Opaque Pharmaceuticals Ltd., the company has outstanding long-term receivables of ₹ 415 crore arising from pending insurance claims due to supply chain disruptions, some under legal proceedings and others under negotiation, which management considers fully recoverable and has disclosed in the notes. CA Neha, the auditor, has relied solely on management representations regarding recoverability and has not performed any other audit procedures. Since management representations alone do not constitute sufficient appropriate audit evidence, performing necessary audit procedures may lead the auditor to conclude that a modification of opinion is required.

In such circumstances, this matter cannot be included in an Emphasis of Matter paragraph. Therefore, CA Neha should form her opinion by

performing necessary audit procedures and obtaining sufficient appropriate evidence. It is only when she concludes that modification of opinion is not required as a result of said matter in terms of SA 705, the said matter may be included in Emphasis of Matter paragraph.

- 13.** When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether: -
- (i) the presentation of prospective financial information is informative and not misleading;
  - (ii) the accounting policies are clearly disclosed in the notes to the prospective financial information;
  - (iii) the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;
  - (iv) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
  - (v) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and
  - (vi) if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

14.

S. No.	Particulars	Type	Description
(i)	The finance team relies on a system-generated customer ageing report while reviewing overdue balances of trade receivables.	<b>Reports</b>	System generated reports are information generated by IT systems. These reports are often used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for testing, performing substantive tests of details or performing a substantive analytical procedure. E.g. (Vendor master report, customer ageing report)
(ii)	The payroll module is designed in such a way that the person entering employee attendance cannot approve the salary disbursement, thereby enforcing segregation of duties.	<b>Security</b>	Security including segregation of duties is enabled by the IT environment to restrict access to information and to determine the separation of roles and responsibilities that could allow an employee to perpetrate and conceal errors or fraud, or to process errors that go undetected.
(iii)	The purchase order system of the company does not allow processing of	<b>Automated Controls</b>	Automated controls are designed into the IT environment to enforce business rules. For example,

	duplicate vendor codes and automatically rejects entries where the vendor GST number is already present.		Purchase order approval via workflow or format checks (e.g., only a particular date format is accepted), existence checks (e.g., Duplicate customer number cannot exist), and/or reasonableness checks (e.g., maximum payment amount) when a transaction is entered.
(iv)	The ERP system automatically computes depreciation on fixed assets by applying the straight-line method based on the input values of cost, residual value, and useful life.	<b>Calculations</b>	Calculations are accounting procedures that are performed by an IT system instead of a person. For example, the system will apply the 'straight-line' depreciation formula to calculate depreciation of an asset (i.e., cost of the asset, less the residual value of the asset at the end of its useful life divided by the useful life of the asset) or the system will calculate the value of the amount invoiced to a customer by multiplying the item price times the quantity shipped.

15. SA 580, "Written Representations", requires the auditor to obtain written representations from management and, where appropriate, those charged with governance. The auditor of the consolidated financial statements should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent and that parent management has approved the consolidated financial statements. In addition, the auditor of the consolidated financial statements obtains

written representations from parent management on matters material to the consolidated financial statements.

Examples of such representations include:

- (i) Completeness of components included in the CFS;
- (ii) Identification of reportable segments for segmental reporting;
- (iii) Identification of related parties and related party transactions for reporting;
- (iv) Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra-group transactions.

In the given situation, the auditor should request written representations from the management of TRP Ltd., specifically acknowledging its responsibility for and approval of the consolidated financial statements. If such written representations are not provided, the auditor should express the opinion accordingly.

- 16.** Audit procedures to be performed by CA Riya for verifying claims against the bank not acknowledged as debts are:
- Examine the relevant evidence, e.g., correspondence with lawyers/others, claimants, workers/officers, and workmens' unions/officers' unions.
  - Review the minutes of meetings of board of directors/committees of board of directors, contracts, agreements and arrangements, list of pending legal cases, and correspondence relating to taxes, and duties, etc. to identify claims against the bank.
  - Ascertain from the management the status of claims outstanding as at the end of the year.
  - A review of subsequent events would also provide evidence about completeness and valuation of claims.
- 17.** In the given scenario, C&AG appointed Sharma & Associates, a chartered accountant firm, to conduct Performance Audit of NAL Ltd., a PSU of Government of India. The firm conducted audit with a view to

check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs which is not Performance Audit.

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Performance audit in PSUs is conducted by the C&AG (Supreme Audit Institutions) through various subordinate offices of Indian Audit and Accounts Department (IAAD). In conducting performance audit, the subordinate offices are guided by manual and auditing standards prescribed by C&AG.

Therefore, the objectives of performance auditing are evaluation of economy, efficiency, and effectiveness of policy, programmes, organization and management. It also promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance; and transparency by affording taxpayers, those targeted by government policies and other stakeholders an insight into the management and outcomes of different government activities.

Performance auditing focuses on areas in which it can add value which have the greatest potential for development. It provides constructive incentives for the responsible parties to take appropriate action.

Regulations on Audit and Accounts issued by C&AG lay down that the responsibility for the development of measurable objectives and performance indicators as also the systems of measurement rests with the Government departments or Heads of entities. They are also required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardise the unit cost of delivery and benchmark quality of outputs and outcomes.

Thus, rejection of audit report (submitted by audit firm) by C&AG is in order as audit with a view to mere check all the expenses of the unit are in conformity with the public interest and publicly accepted customs done by audit firm is not performance audit in all aspects.

18. The given situation presents several indications that may alert an auditor to possible fraud, which include the following:
- (i) Discrepancies in Accounting Records including non-recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
  - (ii) Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
  - (iii) Unacceptable management responses such as – denial of access to records/facilities/employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.
  - (iv) Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

In the given case, the altered documentation, discrepancies in records, and management's delayed cooperation clearly point to above mentioned fraud indicators.

**Fraud Diamond: Four Elements of Fraud are:**

- Incentive: I want to, or have a need to, commit fraud.
  - Opportunity: There is a weakness in the system that the right person could exploit. Fraud is possible.
  - Rationalization: I have convinced myself that this fraudulent behavior is worth the risks.
  - Capability: I have the necessary traits and abilities to be the right person to pull it off. I have recognized this particular fraud opportunity and can turn it into reality.
19. **Principle 6 – Protection and Restoration of Environment** is being referred to in the given case. The sixth principle looks at the environmental responsibility as a basic requirement for economic

prosperity and sustainability. The core elements associated with the principle are:

- (i) The entities should have policies, procedures, and practices in place to assess and rectify impacts to the environment. This should cover the whole life cycle of the product.
  - (ii) The entities have to make use of natural and manmade resources in an optimum manner to ensure their sustainability by taking feedback from the stakeholders.
  - (iii) The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.
  - (iv) The entities have to contribute towards climate change resilience in line with India's commitment to various international mechanisms such as, Paris Agreement and National Action Plans for Climate Change.
  - (v) The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/ recover materials, resources.
  - (vi) The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.
- 20. (a)** As per the recent decisions taken by the Ethical Standards Board of ICAI, it is permissible for members in practice to engage in the services assessment/performance audit of the centres of skill development council of Government of India as these are permissible under Management Consultancy and other services issued under section 2(2)(iv) of the Chartered Accountants Act, 1949.

In the given case, Aditya & Co., a firm of Chartered Accountants in practice has been approached by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. The scope of work includes reviewing the efficiency of operations, utilisation

of funds, quality of training imparted, and suggesting measures for improvement.

Thus, from above it can be concluded that Aditya & Co. can accept the offer given by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country.

- (b)** As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

The Council has further clarified that certain acts may amount to solicitation, including the use of Educational Videos. While members are permitted to upload videos of educational nature on the internet, no reference should be made to the Chartered Accountants Firm wherein the member is a partner/ proprietor. Further, it should not contain any contact details or website address.

In the given case, CA Puran has uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals wherein he introduced himself as a Partner in Puran & Associates, Chartered Accountants. He also displayed the firm's website address and his contact details in the description of the abovementioned videos.

In light of the above, it is evident that CA Puran's actions i.e., introducing himself as a Partner in Puran & Associates and display of the firm's website and contact details in the video description constitute solicitation of professional work. Thus, CA Puran would be held guilty for professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.