PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

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 of 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

Bhism & Co., Chartered Accountants, were appointed as statutory auditors of Sinwar Ltd., a listed public company whose equity shares are listed on the recognised stock exchange in India, for the financial year ending 31st March 2025. The company prepares its financial statements in accordance with Ind AS. As a top 1000 listed entity by market capitalisation, the company is required to prepare Business Responsibility and Sustainability Reporting (BRSR) in accordance with SEBI requirements; however, the audit of BRSR was not part of the audit engagement undertaken by the Statutory Auditor.

During the year, on 30th December 2024, the company revalued its class of "Plant and Machinery", which included a leased CNC plant recognised as a Right-of-Use asset under Ind AS 116. The revaluation was carried out by a Registered Valuer using the Depreciated Replacement Cost method. Consequently, the aggregate net carrying value of the class increased from ₹ 4.00 crore to ₹ 4.45 crore, representing an increase of 11.25%. The surplus of ₹ 0.45 crore was recognised in Other Comprehensive Income.

DMC Bank sanctioned a working capital cash credit facility of ₹ 5.5 crore in June 2024, secured by the hypothecation of current assets, which was later reduced to ₹ 4.5 crore. The outstanding balance as at 31st March 2025 was ₹ 3.9 crore, and the sanction limit was reduced to ₹ 4.8 crore. Quarterly stock statements and drawing power calculations submitted to the bank were found to be in quantitative agreement with the books of account. Management appropriately disclosed this position in their financial statement.

On 1st January 2025, Sinwar Ltd. granted an unsecured loan of ₹ 2 crore to its joint venture, Mekong Infra Pvt. Ltd., carrying an interest rate of 10% per annum and repayable in quarterly instalments commencing on 31st January 2025. As at year-end, since the first instalment became due, no amount had been repaid, and ₹ 2.05 crore, including accrued interest, was outstanding. No impairment provision was recognised, though the joint venture reported marginal profits but negative operating cash flows.

During the audit, the firm utilised Microsoft Power BI to analyse the complete sales ledger extracted from the ERP system. The data was converted into interactive dashboards to identify unusual trends, time-wise sales patterns and high-value outliers. It was observed that certain significant sales transactions were recorded during non-business hours and on public holidays. Management stated that these represented system-generated export dispatch entries. However, supporting shipping documentation and user access logs required further verification.

Further, in alignment with Principle 2 – Safe and Sustainable Goods and Services under the National Guidelines on Responsible Business Conduct (NGRBC), the company introduced eco-efficient production techniques to reduce energy consumption and raw material wastage by 15%. It redesigned certain industrial components to enhance durability and recyclability and initiated consumer awareness programmes on safe use and recycling practices. These disclosures were included in the Business Responsibility and Sustainability Reporting (BRSR) section of the annual report.

The Audit Manager was of the opinion that the Auditors are not required to report either on plant revaluation or working capital facility in their audit report, as management has already disclosed it in the financial statements and it's not a key audit matter. The Audit Manager accepted management's impairment assessment of the unsecured loan and decided not to report it in the audit report, as there is no misstatement.

Based on the above facts, answer the following MCQs:

1. Considering the facts given in the scenario, which of the following statements correctly describes the auditor's reporting responsibility in relation to revaluation of Plant and Machinery under CARO 2020?

   (a) Since the revaluation relates only to one CNC plant forming part of the larger class of Plant and Machinery and the surplus is recognised in Other Comprehensive Income rather than Profit and Loss, the auditor is not required to report under CARO 2020.

   (b) The auditor is required to report under Clause 3(i)(d) of CARO 2020 because the revaluation has resulted in an increase of more than 10% in the aggregate net carrying value of the class of assets, irrespective of the number of assets revalued or the accounting treatment of surplus.

(c) Reporting under CARO 2020 is required only where revaluation is carried out for the entire block of assets and not where selective revaluation is performed within a class.

(d) Since the asset revalued is a Right-of-Use asset under Ind AS 116 and not an owned asset, the reporting requirement under CARO 2020 relating to PPE does not apply.

2. In the context of reporting under Clause 3(ii)(b) of the Companies (Auditor's Report) Order, 2020, which of the following statements is most appropriate in the given scenario?

(a) Reporting is not required because the outstanding balance at year-end was below ₹ 5 crore, and the clause is triggered only if the year-end utilisation exceeds ₹ 5 crore.

(b) Since the company is unlisted and the stock statements agree quantitatively with books, reporting under CARO 2020 is not mandatory.

(c) As working capital limits in excess of ₹ 5 crore were sanctioned at any time during the year against security of current assets, the auditor is required to report whether quarterly returns/statements filed with the bank are in agreement with the books of account.

(d) Reporting is required only if material discrepancies are observed between the statements submitted to the bank and the books of account.

3. What would be the auditor's responsibility for the reporting of the unsecured loan as discussed in scenario?

(a) The auditor is required to report the loan as the Loan will be considered as NPA under prudential norms.

(b) The auditor must report the aggregate amount of loans granted during the year and the balance outstanding at year-end. However, reporting of default will not be required.

(c) Since the borrower is a joint venture and not a subsidiary, the reporting will be required under SMA-1 Category by the Company.

(d) Negative operating cash flows of the joint venture automatically require the auditor to report impairment under the Audit Report.

4. What will be the Bhism & Co.'s responsibility for reporting under BRSR in the current scenario?

(a) BRSR reporting is on ESG-related matters, and the same does not fall under the scope of financial audit, and hence the auditor Bhism & Co. should not verify any disclosure of BRSR reporting.

(b) The auditor Bhism & Co. is required to express a reasonable assurance opinion on the BRSR Report as it is part of the auditor's responsibility under the Companies Act, 2013.

(c) Although sustainability disclosures under BRSR are outside the primary financial statements, the auditor Bhism & Co. is required under SA 720 (Revised) to read such other information and consider whether it is materially inconsistent with the financial statements or the auditor's knowledge obtained during the audit.

(d) The auditor Bhism & Co. is required to report compliance with Principle 2 and under Paragraph 3 of CARO 2020 as it relates to responsible production practices and consumer protection measures.

5. With respect to the use of Microsoft Power BI for identifying high-value sales transactions recorded during non-business hours, which of the following represents the most appropriate audit approach?

(a) The auditor may rely entirely on the dashboard outputs generated through Power BI as it provides sufficient and appropriate audit evidence since the data was extracted from the client's ERP system.

(b) The analytics results may be considered sufficient audit evidence, and no further audit procedures will be necessary.

(c) The auditor should use the analytics output to identify unusual trends and potential risk areas, and thereafter perform additional substantive procedures, verify supporting shipping documents, and evaluate relevant IT general controls and user access logs.

(d) Since CARO 2020 does not specifically mandate the use of data analytics tools, the auditor is not required to consider the unusual timing of sales transactions.

Independent MCQs

6. Sunny & Co. has been appointed as the Central Statutory Auditor of Money Bank Ltd., a private sector bank registered with the Reserve Bank of India, for the financial year 2024–25.

While reviewing the computation of Demand and Time Liabilities (DTL), the engagement partner observed the following treatment of certain items:

Sr. No.	Particulars of Item	Inclusion/ Exclusion
1	Net credit balance of Branch Adjustment Account	Inclusion
2	Amount received from ECGC by invoking the guarantee	Exclusion
3	Amounts received in INR for disposal of import bills shown under Sundry Deposits	Inclusion
4	Unaccounted inward remittances received on behalf of customers	Inclusion
5	Margins held and kept in sundry deposits for funded facilities.	Inclusion

Identify the aforementioned serial numbers of the items that have been incorrectly included in, or excluded from, the computation of Demand and Time Liabilities (DTL).

(a) Items at Sr. No. 1 & 4, respectively.

(b) Items at Sr. No. 2, 3 & 5, respectively.

(c) Items at Sr. No. 1 & 3, respectively.

(d) Items at Sr. No. 3 & 5, respectively.

7. An audit team was scheduled to conduct the year-end physical verification of inventory at a client's warehouse. However, due to unexpected travel restrictions and safety guidelines, the auditors are unable to visit the warehouse in person. To avoid delay in completing the audit, the client proposed the use of Augmented Reality (AR)-enabled devices to enable the auditor to observe inventory remotely.

   Which of the following options correctly explains how Augmented Reality (AR) would assist the auditor in this situation?

   (a) It allows users to view the real-world environment with added elements, generated by digital devices.

   (b) It is step forward and replaces the real world entirely with a simulated environment, created through digitally generated images, sounds, and even touch and smell.

   (c) With a help of this, the user can explore a simulated world or simulate experiences such as flying or skydiving.

   (d) It captured audit information which can be combined with various alternative sources of information to optimise quality of deliverables, consolidate audit information and enhance the execution speed while ensuring correctness and completeness of data.

8. GAMA & Associates, was appointed as the statutory auditor of SARA Ltd., an unlisted company engaged in paper manufacturing. During the audit, the following observations were made:

   Observation 1: A major flood during the year damaged one of the company's warehouses, resulting in losses. The management has adequately disclosed the same in the financial statements and considers the loss to be not material.

   Observation 2: Due to the flood, certain transaction records were completely destroyed, and no duplicate records were maintained. The impact of this matter is material but not pervasive.

Under which heading GAMA and Associates should report Observation 1 and 2 in the audit report.

(a) Emphasis of Matter paragraph; Qualified Opinion

(b) Qualified Opinion; Disclaimer of Opinion

(c) Key Audit Matter; Adverse Opinion

(d) No reporting required; Emphasis of Matter paragraph

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Quality Control

9. M/s KRM & Associates, Chartered Accountants, is the statutory auditor of Velocity Engineering & Projects Ltd., a listed company engaged in execution of large-scale infrastructure projects under Engineering, Procurement and Construction (EPC) contracts across India and overseas.

The firm has an experienced partner designated as Engagement Quality Control Reviewer for listed entity audits.

During the audit for the year ended 31st March 2025, the engagement team noticed the following matters:

- Revenue of ₹ 1,250 crores recognised under long-term EPC contracts using percentage of completion method based on cost-to-cost input method under Ind AS 115. Significant variation claims and escalation clauses were included in transaction price based on management's assessment of "high probability of recovery".
- Impairment testing of investments in step-down foreign subsidiaries executing overseas EPC contracts, where cash flow projections were based on aggressive assumptions about future contract awards.
- Disagreement between the senior member of the audit team and the engagement partner regarding inclusion of variation claims as

part of transaction price, with the senior member recommending external technical consultation.

- The firm did not have internal infrastructure specialists. However, external consultation was obtained, and the matter was resolved without formal documentation of consultation process.
- The Engagement Quality Control Reviewer was informed about the audit but:
  - The review was conducted only at a summary level.
  - Detailed evaluation of significant judgments relating to revenue recognition and impairment was not performed.
  - The audit report was signed before completion of formal EQCR documentation.
  - Differences of opinion, if any, were not formally documented or resolved.
- The working papers contain general review notes but no detailed documentation evidencing depth of consultation or completion of objective EQCR procedures prior to issuance of the audit report.

You are required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1.

Completion and Review

10. CA Kanishka is auditor of a company engaged in poultry farming and egg production. The company has performed very well since its incorporation in 2015. Its sales had also grown and the company had expanded its operations from its home state in North India to eastern regions of the country.

    However, over the past two years, the company's financial performance has deteriorated significantly due to:

    - The impact of the pandemic; and
    - Three consecutive outbreaks of bird flu within a span of two years, resulting in substantial loss of livestock.

Consequently, the company's turnover declined sharply from ₹ 80 crores to ₹ 18 crores.

The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensuing year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers.

The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff.

Further, the company is facing allegations from nearby villagers regarding environmental pollution.

The management has prepared a cash flow forecast for her examination. Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.

Reporting

11. ABC Limited is a listed manufacturing company engaged in heavy engineering activities. During the audit of its financial statements for the year ended 31st March 2025, the statutory auditor noted the following:

- The company has overstated closing inventory by ₹ 8.75 crore due to incorrect valuation of obsolete stock, which has resulted in overstatement of profit before tax by the same amount.
- The company has not disclosed a material pending litigation of ₹ 12 crore relating to environmental penalties, which is required to be disclosed under applicable financial reporting framework.

The auditor has obtained sufficient appropriate audit evidence in respect of both the matters. However, management has refused to adjust the inventory valuation and has also declined to disclose the pending litigation. The auditor has concluded that the misstatements are material but not pervasive to the financial statements.

Required:

(a) Explain how the auditor should report the above matters in the audit report, with specific reference to the "Basis for Opinion" section.

(b) State the relevant reporting requirements applicable in this case.

(c) Conclude the type of audit opinion that should be issued.

Related Services

12. A Chartered Accountant has been requested to undertake a compilation engagement for preparation of financial information of an entity. The financial information is intended to be used by a group of external stakeholders and the engagement is expected to continue on a recurring basis.

    While considering acceptance of the engagement, the practitioner holds preliminary discussions with management regarding the manner in which the engagement will be carried out and the nature of the financial information to be prepared.

    In the above context, analyse the matters that the practitioner should ensure are clearly understood and agreed with management before commencing the engagement.

Review of Financial Information

13. CA Amar has been approached by a company to undertake a review of its historical financial statements under SRE 2400. During preliminary discussions, the practitioner observes that:

    - Certain key financial information may not be available.
    - Management has imposed restrictions on the scope of work.
    - There are concerns regarding management's integrity and compliance with ethical requirements, including independence.

    In the above circumstances, explain the factors affecting the acceptance and continuance of a review engagement. Also state the situations in which, unless required by law or regulation, the practitioner should not accept the review engagement.

Digital Auditing and Assurance

14. Impression Pvt. Ltd. is an e-commerce company that has recently started using blockchain technology to record customer payments made through cryptocurrency and to execute smart contracts with suppliers. The system is connected to the company's existing accounting software through Application Programming interfaces (APIs).

    Management believes that blockchain is fully secure because transactions cannot be altered once recorded. However, the auditor is concerned about issues such as loss of private keys, inability to reverse incorrect transactions, cyber-attacks on network nodes, data privacy compliance, and changing legal regulations relating to cryptocurrency.

    What are the common risks associated with the use of blockchain technology? Also discuss the probable audit implications when an organisation uses blockchain technology.

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

15. During the statutory audit of Fair Bank, you are examining the Cash Credit account of M/s Bright Traders as at 31st March, 2025.

    The following facts are observed:

    - Sanctioned Limit: ₹ 4 crore
    - Outstanding as on 31st March, 2025: ₹ 4.10 crore
    - Excess over limit: ₹ 10 lakh for 15 days
    - Latest stock statement available: dated 31st January 2025
    - Renewal of limit was due on 28th February 2025 and is under process
    - Interest is regularly serviced and no amount is overdue beyond 90 days
    - Drawing Power is properly calculated based on the stock statement less than 3 months old

    The Branch Manager has treated the account as Standard Asset. Examine whether the account requires classification as NPA.

Overview of Audit of Public Sector Undertakings

16. RST Ltd., a public sector company engaged in power generation, has recently completed five years of operations. The Board of Directors has requested an audit to evaluate not only the accuracy of its financial statements but also the efficiency of operations, adequacy of internal controls, and overall performance of the company. Preliminary review shows:

    - Several projects experienced cost overruns compared to approved budgets.
    - Some plants are operating below installed capacity.
    - Raw material and fuel consumption exceed standard norms, and inventory management appears weak.

    Identify the type of audit suitable in this scenario and suggest the key issues that the auditors should examine during such type of audit, considering the company's operational and financial activities.

Internal Audit

17. LED Ltd., a manufacturing company, has recently implemented a new ERP system for processing all financial transactions. During the audit, the auditors notice that:

    - Some User IDs are being shared among employees.
    - It is not clear whether the audit trail feature has been consistently active and secure.
    - Access logs for audit trails and configuration changes are not routinely reviewed.

    Explain the purpose and importance of an audit trail in a computerized accounting system. Also advise the key internal controls which may be required to be implemented and operated to verify the functionality of the audit trail by the auditor.

Due Diligence, Investigation & Forensic Accounting

18. PMO Ltd., a manufacturing company, has received complaints of overstocking of raw materials and irregular payments to suppliers. The management has appointed SPY & Co. to investigate these issues and submit a report. Preliminary review shows that inventory records are incomplete, some purchase approvals were bypassed and supporting documents for payments are missing.

    (a) State the key steps the investigator should follow to conduct this investigation.

    (b) Explain the important considerations the investigator must keep in mind while preparing the investigation report.

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

19. ELEC Ltd. is a consumer-oriented company engaged in the manufacture and sale of household electrical appliances. The company promotes its products widely through online platforms and advertisements. However, some advertisements overstate the benefits of the products and do not clearly disclose information about environmental impact or safe disposal.

    Further, customer complaints relating to data privacy breaches and defective products remain unresolved due to the absence of a structured grievance redressal mechanism. The company has also discontinued services to certain low-income regions, stating that it is not commercially profitable.

    With reference to nine Principles of BRSR, analyse the above situation in relation to the responsibility of ELEC Ltd. towards its consumers.

Professional Ethics & Liabilities of Auditors

20. Mr. Ajit, a practicing Chartered Accountant, started a coaching institute for CA aspirants in Delhi. He displayed large hoardings across the city stating: “Coaching by CA Ajit – Also Undertaking Audit, Tax Audit and Attestation Assignments. Contact for Professional Services.”

He also circulated pamphlets in nearby commercial areas inviting businesses to appoint him as statutory auditor.

Further, CA Ajit responded to a tender floated by a listed company for statutory audit work. The tender document did not prescribe any minimum fee. Furthermore, audit and attestation services were exclusively reserved for Chartered Accountants.

Examine whether CA Ajit is guilty of professional misconduct under the Chartered Accountants Act, 1949. Give reasons.

SUGGESTED ANSWERS

PART A: Answers to Multiple Choice Questions

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

PART B: Answers to Descriptive Questions

9. In the given case, the auditor is required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1," Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" as follows:

Engagement Performance: Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

In the given case, though complex and high-risk areas such as revenue recognition under long-term EPC contracts and impairment of overseas investments were involved, adequate documentation and supervision procedures are not evidenced.

Consultation should take place in difficult or contentious matters pertaining to an engagement. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter. It helps to promote quality and improves the application of professional judgment. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or outside the firm) on significant technical, ethical and other matters and appropriate documentation and implementation of conclusions resulting from consultations.

A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional and regulatory bodies. Complete and proper documentation should be maintained on issues involved and results of consultation.

In the given case, disagreement existed within the engagement team regarding inclusion of variation claims, and the firm lacked internal infrastructure specialists. In the absence of above, external consultation was obtained to resolve the matter. Though matter got resolved, no documentation for consultation process was maintained. This indicates non-compliance with consultation requirements.

Engagement Quality Control Review (EQCR): Significant judgments made in an engagement should be reviewed by an engagement quality control reviewer for taking an objective view before the report is issued.

The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.

Engagement quality control review is mandatory for all audits of financial statements of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.

In the present case, although the firm had an Engagement Quality Control Reviewer, the review was not adequately performed, significant judgments were not objectively evaluated in depth, and the audit report was issued before completion of proper EQCR procedures. This indicates non-compliance with the requirements relating to Engagement Quality Control Review.

Conclusion: In the given case, the audit involved significant judgments relating to revenue recognition under long-term EPC contracts and impairment of foreign investments, which constitute difficult and contentious matters requiring consultation at an appropriate professional level. Failure to document such consultation indicates non-compliance with engagement performance requirements.

Further, since Velocity Engineering & Projects Ltd. is a listed entity, Engagement Quality Control Review was mandatory. Though an Engagement Quality Control Reviewer existed in the firm, the review was not properly performed and was not completed before issuance of the audit report. Hence, the firm has failed to comply with the requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review.

10. In accordance with SA 570,"Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern by performing additional audit procedures, including consideration of mitigating factors.

Where the entity has prepared a cash flow forecast, and analysis of forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions, it includes -

(i) Evaluating the reliability of the underlying data generated to prepare the forecast and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

In the above situation, cash flow forecast has been prepared by management. Therefore, the auditor should carefully evaluate assumptions underlying forecast and also reliability of data to prepare the forecast. For example:

- She should verify assumption regarding new batch of livestock. The bankers have not provided fresh credit facilities. How funds from the same would be arranged? The reasonability of assumption in cash flow forecast needs to be looked into.
- She needs to check loan sanction letters/agreement to verify when repayments are beginning to see their accuracy in cash flow forecasts.
- The company plans to avail longer credits from animal feed suppliers. In the downturn situation of the company, how would suppliers extend longer credits? This is going to have effect on the cash flow forecast.
- Whether company has accounted for increased expenditure on preventive health check-up, vaccination and more frequent visits of veterinary staff in cash flow forecast.

- Since villagers have alleged the company of spreading air pollution, how does the company plan to deal with the same? Whether any proposed expenditure in this regard is accounted for in the cash flow statement. She may also consider other implications of this issue and possible effect on cash flows.

11. Since the auditor has identified material misstatements in the financial statements and management has refused to rectify the same, the auditor is required to modify the audit opinion in accordance with SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

Amendment in Heading: When the auditor modifies the opinion, the auditor shall amend the heading "Basis for Opinion" to "Basis for Qualified Opinion", since the misstatements are material but not pervasive.

Description of the Matter: Within this section, the auditor shall include a description of the matter giving rise to the modification.

In case of overstated closing inventory, the auditor shall describe that closing inventory is overstated by ₹ 8.75 crore due to incorrect valuation of obsolete stock, resulting in overstatement of profit before tax by ₹ 8.75 crore.

Further, this relates to specific amounts in the financial statements, the auditor shall include a description and quantification of the financial effects of the misstatement (₹ 8.75 crore overstatement of inventory and profit).

Non-Disclosure of Required Information: In respect of the non-disclosure of pending litigation of ₹ 12 crore, the auditor shall:

(i) Discuss the non-disclosure with those charged with governance.

(ii) Describe in the "Basis for Qualified Opinion" section the nature of the omitted information (i.e., pending environmental litigation of ₹ 12 crore required to be disclosed); and

(iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

Since the auditor has obtained sufficient appropriate audit evidence, and assuming it is not prohibited by law, the auditor may include the omitted disclosure in the report. The auditor shall also communicate to those charged with Governance in accordance with SA 260.

Conclusion: Since the misstatements relating to inventory overstatement and non-disclosure of litigation are material but not pervasive, the auditor shall issue a Qualified Opinion and include a properly titled section "Basis for Qualified Opinion" containing:

- Description of the matters giving rise to modification,
- Quantification of financial effects (₹ 8.75 crore),
- Explanation of the omitted disclosure (₹ 12 crore litigation), and
- Inclusion of omitted disclosure, where practicable and not prohibited by law.

12. As per SRS 4410 "Compilation Engagements", the practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:

(a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable.

(b) Identification of the applicable financial reporting framework.

(c) The objective and scope of the compilation engagement.

(d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements.

(e) The responsibilities of management for

(i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users

(ii) Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

(iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and

(iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement

(f) The expected form and content of the practitioner's report.

13. As per SRE 2400 "Engagements to Review Historical Financial Statements", the practitioner shall comply with relevant ethical requirements, including those pertaining to independence and the engagement partner is responsible for overall quality of each review engagement.

Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements

Unless required by law or regulation, the practitioner shall not accept a review engagement if:

(a) The practitioner is not satisfied:

(i) That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.

It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.

(ii) That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

(b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.

(c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.

(d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or

(e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

14. Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. All blocks are sequenced so that any modification or deletion of a block disqualifies the information.

Despite resistance, the benefits associated with blockchain technology are being recognized across a variety of other industries. Some of the example of Blockchain includes Bitcoin, cryptocurrency transfer application - Blockchain in money transfer, blockchain smart contracts.

Common risks for blockchain technology: The strengths of blockchain can also be its weaknesses. The inability to reverse transactions and to access data without the required keys make the system secure, but also mean that organisations need specific protocols and management processes to ensure that they are not locked out and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important. Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The regulatory landscape is still evolving for blockchain, so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

Audit Implications: Auditors should consider the appropriate governance and security around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain interacts with legacy systems and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored.

Weak blockchain application development protocols are something auditors cannot overlook. Similarly, data privacy laws and regulations may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on blockchain will expose the enterprise for noncompliance with applicable laws and regulations.

In the given situation, Impression Pvt. Ltd. uses blockchain for cryptocurrency payments and smart contracts integrated with its accounting system. Though management considers it fully secure due to immutability, risks such as private key loss, irreversible errors, API weaknesses, cyber threats, and regulatory uncertainty remain. Hence, the auditor must assess IT controls, legal compliance, and reconciliation processes, as blockchain improves integrity but does not eliminate audit risk.

15. In the given case, the borrower is enjoying a cash credit facility of ₹ 4 crore and the outstanding balance as on 31st March 2025 is ₹ 4.10 crore. The excess over limit has continued only for 15 days. The latest stock statement available with the bank is dated 31st January 2025, which is within three months from the balance sheet date. The renewal of the limit, though due, is under process. Interest is being serviced regularly and no amount is overdue beyond 90 days.

Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily and non-renewal of limits on the due date. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months. The outstanding in the account based on drawing power calculated from stock statements older than 3 months are considered as irregular.

Since the deficiencies in the account are purely temporary in nature, drawing power is based on stock statement not older than three months, and the account has not remained out of order for more than 90 days, the account should not be classified as NPA. Accordingly, the treatment of the account as a Standard Asset by the branch is in accordance with RBI IRAC norms.

16. The audit required in this scenario is a Comprehensive Audit (Efficiency-Cum-Performance Audit). The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. The auditors combine aspects of Financial, Compliance and Performance audits. All the audit information is used in such a way that a holistic assessment is possible.

Some of the issues examined in comprehensive audit are:

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

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

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

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

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

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

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

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

(i) Are procedures effective and economical?

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

17. Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source. Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded.

Records maintained as audit trail may include the following information:

- when changes were made i.e., date and time (timestamp)
- who made the change i.e., User Id
- what data was changed i.e., data/transaction reference; success/ failure

Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software.

In order to demonstrate that the audit trail feature was functional, operated and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls which may be required to be implemented and operated are given below:

- Controls to ensure that the audit trail feature has not been disabled or deactivated.
- Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under the provisions of the Act.

As per facts of the case, in LED Ltd., the new ERP system shows weaknesses such as shared User IDs and lack of clarity over activation and review of audit trails. Since an audit trail records all data changes with user and time details, it ensures accountability and reliability of financial records. If not properly enabled and monitored, data integrity may be affected. Hence, the auditor should ensure the compliance of above.

18. **(a)** As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:

Step 1. Determination of objectives and establishment of scope of investigation.

Step 2. Formulation of the investigation programme.

Step 3. Examination and study of various records by reference to appropriate evidence.

Step 4. Analysis, processing and interpretation of findings.

Step 5. Preparation of report and drawing up of conclusions.

(b) The important issues to be kept in mind by the investigator while preparing his report are as follows:

(i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.

(ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimized.

(iii) Relevant facts and conclusions should be properly linked with evidence.

(iv) Bases and assumptions made should be explicitly stated. Reasonableness of the bases and assumptions made should be well examined and care should be taken to see that none of the bases and assumptions can be considered to be in conflict with the objective of the investigation. For example, in an investigation into over-stocking of raw materials, inventories and spares etc. it should not be assumed that the ordering levels indicated on bin cards provide fair guidance about acquisition of further materials. Also, since investigation is a fact-finding assignment, assumptions should be made only when it is unavoidably necessary.

(v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.

(vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.

(vii) The report should also state restrictions or limitations, if any, imposed on the instructions given by the client. Preferably the reasons for placing such restrictions and their impact on the final result should also be stated.

(viii) The opinion of the investigator should appear in the final paragraph of the report.

19. In the given situation, ELEC Ltd.'s practices, such as overstating product benefits in advertisements, failing to disclose environmental and safe disposal information, leaving customer complaints on defective products and data privacy unresolved, and discontinuing services in low-income areas, indicate gaps in its responsibility towards consumers and conflict with Principle 9 of BRSR – "Provide Value to Consumers in a Responsible Manner.

As per 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.

20. Advertisement through Hoardings and Pamphlets: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from soliciting clients or professional work either directly or indirectly by circular, advertisement, personal communication, interview or by any other means.

In the present case, CA. Ajit displayed hoardings advertising his audit and attestation services. He also circulated pamphlets inviting businesses to appoint him as statutory auditor.

Such acts clearly amount to direct solicitation by advertisement and circular, which is expressly prohibited. Further, as per Council Guidelines, advertisement of coaching/teaching activities in a manner that indirectly promotes professional practice (e.g., linking coaching with audit services) amounts to indirect solicitation and is also violative of Clause (6).

Although a member may display a signboard outside coaching premises mentioning the name of the institute, contact details and subjects taught, large hoardings promoting professional services are not permitted.

Responding to Tender for Statutory Audit: Clause (6) permits a member to respond to tenders or enquiries issued by users of professional services.

However, as per Council Guidelines a member shall not respond to any tender in areas exclusively reserved for Chartered Accountants (such as audit and attestation services), unless the tender document prescribes a minimum fee, or the services are open to other professionals also.

In the given case, the tender is related to statutory audit which is exclusively reserved for Chartered Accountants. Also, minimum fee was not prescribed in the tender document.

Hence, responding to such tender violates the Council Guidelines and amounts to professional misconduct.

In view of above, CA Ajit is guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for directly and indirectly solicitation of professional work through hoardings and pamphlets and responding to the tender for statutory audit.