

QB Additions (Oct'24 edition)

[Applicable for May'26 Exams]

Covering new questions from:

- Suggested Ans (Nov'24 + May,Sep'25)
- MTPs (May,Sep'25 + Jan'26)
- RTPs (May,Sep'25 + RTP Jan'26)

How to deal with these questions?

- 90% of questions are direct, concepts which we have already covered in detail with class & also in revision videos.
- RTP (May,Sep'25 & Jan'26) + MTP Jan'26 playlist is available on Youtube.
- Subscribe Youtube channel "CA Shubham Keswani" for New RTP/MTP sessions.

Additional Questions to be done:

(Jan'26 Suggested + RTP/MTP May'26) → yet to be released by ICAI)

For all updates,

Join telegram channel: **Clear CA with Shubham Keswani**



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Standards on Auditing

Q1 (SQC-1)

STA and Associates, Chartered Accountants, is an upcoming firm and its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC. (Nov'24)

Solution

As per **SQC 1**, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," factors to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC:

- Deciding **whether the quality control system** of the firm has been **appropriately designed and effectively implemented**.
- Examining whether **new developments** in the **professional standards, legal, and regulatory requirements** have been reflected in the quality control policies.
- Conducting monitoring by entrusting **responsibility** of monitoring process to a **partner or other persons** with sufficient and appropriate experience and authority in the firm.
- **Dealing with complaints and allegations** against the **firm or any employees** of it of noncompliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- Taking appropriate remedial **actions against the personnel** who did not conform to quality control policies.
- Taking action when **deficiencies in the design or operation** of the firm's **quality control policies and procedures, or non-compliance** with the firm's **system of quality control** are identified.

Q2 (SQC-1)

XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the viewpoint of quality control system in audit firm in terms of requirements of SQC 1? Guide the firm in establishing the policies and procedures in respect of an engagement partner. (May'25)

Solution

SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," lays special emphasis on **familiarity threat**.

Using the same senior personnel on assurance engagements over a prolonged period may impair the quality of performance of the engagement. Therefore, the firm should establish criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as

- (i) the nature of the engagement, including the extent to which it involves a matter of public interest, and
- (ii) the length of service of the senior personnel on the engagement.

The **familiarity threat** is particularly relevant in the context of **financial statement audits of listed entities**. For these audits, the **engagement partner should be rotated after** a pre-defined period, normally **not more than seven years** (except in cases where audit of listed entities is conducted by a sole practitioner). However, to ensure quality control exists in such firms and appropriate reports are issued, there is a process for mandatory peer review of such firms.

Facts

In the given situation, XYZ and Associates, Chartered Accountants, has been conducting the statutory audit of B Ltd., a listed company, for the past seven years. CA X served as the engagement partner throughout this period. CA X has developed an in-depth understanding of the company's internal controls and maintains a strong, cordial relationship with the management and those charged with governance. However, during the current year, the firm's quality control reviewer raised concerns about the continued involvement of CA X, citing the continuation of the same engagement partner poses certain audit risk and threats to the organisation, and advised reviewing the firm's policies regarding engagement partner rotation.

Conclusion

In view of SQC 1, the continued involvement of the same engagement partner, CA. X with a listed entity for an extended period, i.e., more than 7 years, poses a familiarity threat, potentially impairing audit quality and independence. Therefore, the **firm should implement a policy of mandatory partner rotation and review its quality control procedures** to ensure compliance with professional standards and maintain the integrity of the audit process.

The firm should establish policies and procedures requiring that:

- i) The **identity and role of the engagement partner** are **communicated** to key members of the **client's management and those charged with governance**;
- ii) The engagement partner has the appropriate **capabilities, competence, authority, and time** to perform the role; and
- iii) The **responsibilities** of the engagement partner are **clearly defined and communicated** to that partner.

Q3 (SQC-1)

SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.

In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards? (RTP Sep'25)

Solution

As per **SQC 1**, "Quality Control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the **capabilities, competence, time and resources** to undertake an engagement, following matters have to be taken into consideration: -

- Firm personnel have **knowledge of relevant industries or subject matters**;
- Firm personnel have **experience with relevant regulatory or reporting requirements**, or the ability to gain the necessary skills and knowledge effectively;
- The firm has **sufficient personnel** with the necessary capabilities and competence;
- **Experts** are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform **engagement quality control review** are available, where applicable; and
- The firm would be able to **complete the engagement within the reporting deadline**.

Under **SA 220**, "Quality Control for an audit of financial statements", the responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Information like **integrity of principal owners, competence of engagement team and consideration of necessary capabilities including time and resources, compliance with relevant ethical requirements and significant matters arisen during current or previous audit engagement** and their implications assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.

Facts

In the given case:

- SDC & Associates lacks experience in pharmaceutical R&D audits, a highly regulated and technical field.
- The previous auditor's withdrawal citing scope limitations is a warning sign that must be evaluated.
- The engagement team lacks relevant expertise, and there is pressure from the managing partner to proceed regardless.
- Proceeding without addressing these issues would violate the requirements of SQC 1 and SA 220.

CA Rashi must not proceed with the engagement unless satisfied that all conditions under SQC 1 and SA 220 are met.

She should:

- Assess the **firm's capability** and consider engaging **external experts**.
- Understand the **reason for previous auditor's withdrawal**.
- Ensure that a **qualified EQCR reviewer is appointed** and review is completed before issuing the audit report.

This will help maintain audit quality, ensure compliance with professional standards, and protect the firm from regulatory repercussions.

Q4 (SA 240)

Alpha Manufacturing Ltd. (AML) 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 aggressive revenue and profitability targets to secure additional funding from the investors. The audit firm BETA LLP has been engaged to conduct AML's statutory audit for the financial year 2024-25. BETA 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 BETA LLP to decide 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.

(RTP Jan'26 + May'25)

Solution

(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:

- 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;
- 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**.

Q5 (SA 240 + 580)

CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Kamlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report.

In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation? (MTP Sep'25)

Solution

As per **SA 240**, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for **obtaining reasonable assurance** that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per **SA 580**, "Written Representations", if **management modifies or does not provide the requested written representations**, it may alert the auditor to the possibility that one or more **significant issues** may exist.

Facts

In the instant case, the auditor observed that there was an investigation conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for investigation report

which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

SA 580 Theory

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall

- **discuss the matter with management;**
- **re-evaluate the integrity of management** and evaluate the **effect** that this may have on the **reliability of representations** (oral or written) **and audit evidence in general;** and
- **take appropriate actions**, including determining the possible effect on the **opinion in the auditor's report.**
-

Sec 143(12)

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving **fraud** is being or has been committed **against the company by officers or employees of the company**, he shall immediately **report the matter to the Central Government** (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

CARO 2020

The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020,

- a. whether **any fraud by the company or any fraud on the company** has been **noticed or reported during the year**, if yes, the nature and the amount involved is to be indicated;
- b. whether **any report under sub-section (12) of section 143** of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;

Withdrawal

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- i) Determine the **professional and legal responsibilities** applicable in the circumstances, including whether there is a requirement for the auditor **to report** to the person or persons who made the **audit appointment** or, in some cases, to **regulatory authorities**;
- ii) Consider whether it is appropriate to **withdraw** from the engagement, where withdrawal from the engagement is legally permitted; and
- iii) If the auditor withdraws:
 - (1) **Discuss with the appropriate level of management and those charged with governance**, the auditor's **withdrawal from the engagement and the reasons** for the withdrawal; and
 - (2) Determine whether there is a professional or legal requirement to **report to the person or persons who made the audit appointment** or, in some cases, to **regulatory authorities**, the auditor's **withdrawal from the engagement and the reasons** for the withdrawal.

Q6 (SA 250)

AJ Private Limited is a company involved in the business of textile manufacturing and having its factory at NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation in its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 2025-26. During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same. They are of the opinion that obtaining Fire NOC is outside the purview of the financial statements, hence, you are not required to look after this aspect. What are the auditor's responsibilities in relation to compliance with laws and regulations? (Sep'25)

Solution

SA 250, "Considerations of Laws and Regulations in an Audit of Financial Statements" **distinguishes the auditor's responsibilities** in relation to compliance with **two different categories of laws and regulations** as follows:

- (i) The provisions of those **laws and regulations** generally recognized to have a **direct effect on the determination of material amounts and disclosures in the financial statements** such as tax and labour laws; and
 - (ii) **Other laws and regulations** that **do not have a direct effect** on the determination of the amounts and disclosures in the financial statements **but compliance** with which may be **fundamental to the operating aspects of the business**, to an entity's ability to continue its business, **or to avoid material penalties**. **Non-Compliance** with **such laws** and regulations may, therefore, **have a material effect** on the financial statements.
- **For the compliance with provisions of those laws and regulations** generally recognised to **have a direct effect** on the determination of material amounts and disclosures in the financial statements, the auditor's responsibility is to **obtain sufficient appropriate audit evidence** about compliance with the provisions of those laws and regulations.
 - **For other laws and regulations that do not have a direct effect** on the determination of the amounts and disclosures in the **financial statements** but compliance with which may be fundamental to the operating aspects of the business, the auditor's responsibility is limited to **undertaking specified audit procedures to help identify non-compliance** with those laws and regulations that may have a material effect on the financial statements.

Conclusion

Therefore, auditor should **ensure** as to **whether any penal provisions** will be there for non-compliance of such law and also whether the same has been duly **disclosed by the company**. If auditor concludes that such **non-compliance has a material effect** on the financial statements and the same has **not been adequately reflected in the financial statements** by the company, he shall **express an adverse or a qualified opinion** on the financial statements.

Q7 (SA 265)

CA. S is statutory auditor of a listed company. On reviewing internal controls of the company, he is of the view that there can be possible situations where insurance premiums for keeping insurance policies current in respect of various assets of company may have become due and payable but internal control systems established by the company may not be able to capture it. Elaborate how he should proceed to deal with the above matter. (SM)

Solution

A deficiency in internal control exists when: -

- (i) A **control is designed, implemented or operated** in such a way that it is **unable to prevent, or detect and correct, misstatements** in the financial statements on a timely basis or
- (ii) A **control necessary to prevent, or detect and correct, misstatements** in the financial statements on a timely basis **is missing**.

Facts

In above situation, there is a possibility that internal control systems established by the company may not be able to capture insurance premiums which may have become due and payable. It is a significant deficiency as failure to keep insurance policies current would render assets of the company uninsured. It may lead to losses for the company in case of any eventuality.

Further, in accordance with SA 265, the **significance of a deficiency** or a combination of deficiencies in internal control **depends not only on whether a misstatement has actually occurred, but also on the likelihood** that a misstatement could occur **and the potential magnitude** of the misstatement.

Significant deficiencies may, therefore, exist even though the auditor has not identified misstatements during the audit.

The **susceptibility to loss** of an asset is a **factor** in determining whether a deficiency constitutes significant deficiency in internal control.

The auditor shall **communicate in writing significant deficiency** in internal control to those charged with governance and include in the written communication of significant deficiencies in internal control: -

- (a) A **description** of the deficiencies **and an explanation** of their **potential effects** and
- (b) **Sufficient information** to enable those charged with governance and management to understand the **context of the communication**.

Q8 (SA 265)

CA Q is the engagement partner for the statutory audit of LAL Ltd. While conducting the audit he has identified some deficiencies in the internal controls. On further verification of the internal controls of the company, he has some indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with the governance and also in few cases he observed the susceptibility to loss of an asset. He determines, on the basis of the audit work performed, that identified deficiencies constitute significant deficiencies.

How and to whom CA Q shall communicate identified significant deficiencies in the internal control? Which matters shall be included by CA Q in such communication? (Sep'25)

Solution

Communicating Deficiencies in Internal Control

SA 265 on "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

The auditor, CA Q shall **communicate significant deficiencies** in internal control identified during the audit **to those charged with governance on a timely basis in writing**.

CA Q shall **also communicate to management** at an appropriate level of responsibility on a timely basis.

The auditor shall include in the **written communication** of significant deficiencies in internal control:

1. **A description of the deficiencies and an explanation of their potential effects;** and
2. **Sufficient information** to enable those charged with governance and management to **understand the context** of the communication.

In particular, the auditor shall explain that:

- i) The **purpose of the audit** was for the auditor to **express an opinion on the financial statements**;
- ii) The audit included **consideration of internal control** relevant to the preparation of the financial statements in order to **design audit procedures** that are appropriate in the circumstances, but **not for** the purpose of **expressing an opinion on the effectiveness of internal control**; and
- iii) The **matters being reported are limited** to those **deficiencies** that the auditor has identified during the audit and that the auditor has **concluded are of sufficient importance** to merit being reported to those charged with governance.

Q9 (SA 402)

Key Ventures Limited is availing the services of Chipmetric Limited for processing of its accounting data including payroll operations. Payroll costs account for 75% of the total costs of Key Ventures Limited. CA Tej, the auditor of Key Ventures Limited wants to obtain an understanding of the nature and significance of the services provided by Chipmetric Limited and their effect on the user entity's internal control to identify and assess the risks of material misstatement. In this regard, he wants to use Type 1 or Type 2 report.

What shall be the considerations of CA Tej in determining the sufficiency and appropriateness of the audit evidence? Suggest the procedures if he plans to use a Type 1 or Type 2 report as audit evidence to support the understanding about the design and implementation of controls at Chipmetric Limited as per relevant Standard on Auditing. (May'25)

Solution

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation

As per **SA 402**, "Audit Considerations Relating to an Entity Using a Service Organisation", in determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, CA Tez, the user auditor shall **be satisfied** as to: -

- i) The **service auditor's professional competence** (except where the service auditor is a member of the Institute of Chartered Accountants of India) and **independence from the service organisation**; and
- ii) The **adequacy of the standards** under which the Type 1 or Type 2 report was issued.

If the user auditor plans to use a Type 1 or Type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organisation Chipmetric Ltd., CA Tez, the user auditor shall:

- i) Evaluate whether the **description and design of controls at the service organisation** is at a date or for a period that is appropriate for the user auditor's purposes;
- ii) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the **user entity's internal control relevant to the audit**; and
- iii) Determine whether the **complementary user entity controls** identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls.

Q10 (SA 505)

During the audit of the financial statements of Looks Limited for the year ended March 31, 2024, CA Suyash, the statutory auditor requested external confirmation for certain trade receivables and trade payables as part of audit procedures in accordance with SA 505:

- i) CA Suyash sent a confirmation request to a debtor for balance of ₹ 15,50,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated.
- ii) He also sent a confirmation request to a creditor with an outstanding balance of ₹ 13,25,000 requesting a response only if there was a disagreement with the stated amount. CA Suyash received responses from the aforementioned debtor and creditor in following manner:
 - The debtor confirmed that, as per their records, they owed ₹ 14,90,000 to Looks Limited instead of ₹ 15,50,000 as per the company's books.
 - The creditor did not respond to the confirmation request.

Identify and explain the type of confirmation request sent by the auditor to the debtor and creditor. Also, discuss the course of action the auditor should take for the discrepancy in the confirmation received from the debtor and non-receipt of confirmation from the creditor. (RTP May'25)

Solution

i) Positive confirmation request: A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request or providing the requested information.

Exception - A response that indicates a **difference between information requested** to be confirmed, or contained in the entity's records, and **information provided** by the confirming party.

Facts of Case

In the given situation, the auditor has sent the positive confirmation request for the amount of ₹ 15,50,000 to a debtor which was outstanding for more than 6 months, however, due to difference between information requested to be confirmed, or contained in the entity's records (i.e. ₹ 15,50,000), and information provided by the confirming party (i.e. ₹ 14,90,000) is forming situation of exception confirmation.

Conclusion

The exception needs to be **assessed to the entire population** after **analyzing the reason** for difference.

The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in **concluding**

- whether **sufficient appropriate audit evidence** has been obtained or
- whether **performing further audit procedures is necessary**, as required by SA 330 in case a response is indicating an exception.

The company should be asked to **investigate and reconcile the discrepancy** indicated by the confirming party.

ii) Negative confirmation request - A request that the confirming party **respond directly** to the auditor only if the confirming party **disagrees**.

Facts of Case: In the given case, the auditor has sent the negative confirmation request for ₹ 13,25,000 to a creditor.

Conclusion: **Non- response** by the creditor **implies** that **creditor agrees** with the amount. Thus, an auditor is **not required to take any action** in this case.

Q11 (SA 510)

CA. Zora has recently accepted engagement of the statutory audit of Segment Ltd. for the financial year 2024-25. While reviewing the trial balance and financial records, Zora identifies that the Opening Balances as on 1st April 2024 are carried forward from the previous year and were audited by another auditor, CA. Rohan. Zora wants to be satisfied regarding the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements.

- Briefly mention the audit procedures Zora should perform to obtain sufficient and appropriate audit evidence regarding the Opening Balances, considering it is an initial audit engagement?
- Also suggest the approach to be followed by Zora if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein. (MTP Sep'25)

Solution

(i) Audit Procedures to be followed in case of initial audit engagement

As per **SA 510**, "Initial Audit Engagements - Opening Balances", the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

- Determining whether the **prior period's closing balances have been correctly brought forward** to the current period or, when appropriate, any **adjustments have been disclosed as prior period items** in the **current year's Statement of Profit and Loss**;
- Determining whether the **opening balances reflect the application of appropriate accounting policies**; and
- Performing **one or more of the following**:
 - ✓ Where the **prior year financial statements were audited**, perusing the copies of the audited **financial statements** including the other relevant documents relating to the prior period financial statements;
 - ✓ Evaluating whether **audit procedures performed in the current period** provide evidence relevant to the opening balances; or
 - ✓ Performing **specific audit procedures** to obtain evidence regarding the opening balances.

(ii) Approach to be followed if he is either **unable to obtain adequate evidence** about the Opening Balances or finds material misstatements therein: If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a **qualified opinion or a disclaimer of opinion**, as appropriate.

Further, If the auditor **concludes that the opening balances contain a misstatement that materially affects** the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a **qualified opinion or an adverse opinion**.

Q12 (SA 550)

PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties under terms and conditions that are outside PQR Ltd.'s normal course of business, suggestive of the indications about existence of related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. (Nov'24)

Solution

As per **SA 550, "Related Parties"**, M/s ST & Co. should take the following steps upon identifying previously undisclosed related party transactions:

- Verify whether the **circumstances substantiate the existence of such transactions**.
- Ensure **timely communication** of the relevant information to all members of the engagement team.
- Confirm that **appropriate substantive audit procedures have been conducted**.

- **Inquire why the entity's controls failed** to identify or disclose the related party relationships or transactions.
- Carry out **substantive audit procedures** specifically for these newly identified related parties or significant related party transactions.
- **Reassess risks** associated with other related parties.
- Request management to **identify all transactions** involving the newly identified related parties.
- If it appears that management **intentionally did not disclose** such transactions, evaluate the **implications for the audit**.

Q13 (SA 550)

CA Chirag is the statutory auditor of Electric Corporation Limited, a Government Company for the year ended on 31st March 2025. The turnover of the Company for the period was ₹ 10,000 crores from sales of electricity. During the audit, Chirag found that the Company had procured spares for Transmitters for ₹ 700 crores from abroad through a Corporation by name PCDC India Limited which is also owned and controlled by Government of India. The Financial 10 Statements of the Electric Corporation Limited, prepared in compliance with Ind AS for the year ended on 31st March, 2025 did not contain any additional disclosure regarding the procurement of spares as referred to above. Chirag had query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises. Analyse this issue faced during finalising the Audit Report. (MTP Sep'25)

Solution

As per Ind AS 24, "Related Party Disclosures", a reporting entity is exempt from the disclosure requirements in relation to **related party transactions and outstanding balances**, including commitments, with

- a **government** that has control or joint control of, or significant influence over, the reporting entity; and
- another entity** that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

If a reporting entity applies the above exemption, it shall **disclose the following** about the transactions and related outstanding balances referred to:

- the **name of the government** and the nature of its **relationship with the reporting entity** (i.e. control, joint control or significant influence);
- the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - the **nature and amount** of each **individually significant transaction**; and
 - for **other transactions** that are **collectively, but not individually, significant**, a qualitative or quantitative indication of their extent.

Further, as per SA 550, "Related Parties", in forming an opinion on the financial statements in accordance with SA 700, the auditor shall **evaluate whether the identified related party relationships and transactions**

have been appropriately **accounted for and disclosed** in accordance with the **applicable financial reporting framework**.

Facts

In the instant case, Electric Corporation Limited, a Government Company has procured spares for transmitters for ₹ 700 crore from abroad through a corporation namely PCDC India Limited which is also owned and controlled by Government of India.

Conclusion

Even after applying the exemption of Ind AS 24, Electric Corporation Limited has to disclose the matters specified above (i.e.name of Government, nature of its relationship with reporting entity, the nature and amount of transaction etc.). **Contention of Management** of Corporation regarding **no requirement of disclosure** for transactions between State Controlled Enterprise is **not tenable**.

Q14 (SA 580)

Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of ₹ 1,200 crores and profits of ₹ 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that:

- i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and
- ii) All transactions have been recorded and are reflected in the financial statements

As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests.

- a) Whether the contention of auditor for seeking written representation letter is justified?
- b) What should be the form of such written representation?
- c) How should the auditor proceed if management refuses to provide the written representation?

Solution

- a) As per **SA 580, "Written Representations"**, the auditor shall **request management** to provide a **written representation** that it has fulfilled its **responsibility** for the **preparation of the financial statements** in accordance with the **applicable financial reporting framework**, including where relevant their fair presentation, as set out in the terms of the audit engagement.

Further, the auditor shall request management to provide a written representation that:

- i) It has **provided** the auditor with **all relevant information and access** as agreed in the terms of the audit engagement
- ii) **All transactions** have been **recorded** and are **reflected** in the **financial statements**.

In the given case, Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. Thus, in view of above the **contention of auditor is correct.**

- b) The written representations as per SA 580, shall be in the **form of a representation letter addressed to the auditor.**

If **law or regulation** requires management to **make written public statements** about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the **relevant matters covered by such statements need not be included in the representation letter.**

- c) As per SA 580, if management does not provide one or more of the requested written representations, the auditor shall:
- i) **Discuss the matter with management;**
 - ii) **Re-evaluate the integrity** of management and evaluate the **effect** that this may have on the **reliability of representations** (oral or written) and **audit evidence in general;** and
 - iii) Take **appropriate actions**, including determining the **possible effect** on the **opinion** in the **auditor's report** in accordance with SA 705 (Revised).

Furthermore, the auditor shall **disclaim an opinion** on the financial statements in accordance with SA 705 (Revised) if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable or management does not provide the written representations required.

Thus, refusal to provide a written representation could impact the auditor's ability to obtain sufficient appropriate audit evidence, potentially leading to a modified audit report.

Q15 (SA 600)

MK Electronics Limited is a listed company with eight subsidiaries spread across various states. The financial statements of MK Electronics Ltd. are audited by CA Amar, the principal auditor. CA Amar relies on the work of other auditors for auditing the financial statements of subsidiaries.

You are required to:

- i) Explain the procedures that CA Amar will perform to obtain sufficient appropriate audit evidence to ensure that the work of other auditors is adequate for his purpose.
- ii) Explain how he will document the working papers with respect to the subsidiaries audited by other auditors. What matters need to be documented if the other auditor's report is modified?

(Nov'24)

Solution

- i) The principal auditor CA. Amar should perform procedures to obtain **sufficient appropriate audit evidence** that the **work of the other auditor is adequate** for the principal auditor's purposes.

When using the work of another auditor, CA. Amar the principal auditor should ordinarily perform the procedures given below:

(1) advise the other auditor regarding **use of his (other auditor) work** and report and make sufficient arrangements for **co-ordination at the planning stage** of the audit.

The principal auditor would **inform the other auditor** of matters such as

- **areas requiring special consideration,**
- **procedures** for the identification of **intercomponent transactions** that may require disclosure and
- the **timetable** for completion of audit;

(2) advise the other auditor of the **significant accounting, auditing and reporting requirements** and obtain **representation** as to compliance with them.

(ii) CA Amar should document in his working papers, the **components** whose **financial information audited by other auditors**.

- CA Amar should also document the **procedures performed** and the **conclusions reached**.
- For example, the auditor would document the **results of discussions** with the other auditor and **review of the written summary** of the other auditor's procedures.
- Where the other **auditor's report is other than unmodified**, the principal auditor should also document how he has **dealt with the qualifications or adverse remarks** contained in the other auditor's report in framing his own report.

Q16 (SA 620)

CA A has been appointed as an auditor of Datacom Ltd. to conduct statutory audit. The company has various derivative contracts - options, forward contracts, interest rate swaps etc. which were required to be fairly valued for which company got the fair valuation done through an external third party. CA A involved a registered valuer Mr. S as an auditor's expert to do the valuation of derivatives in order to obtain sufficient appropriate audit evidence. CA A and Mr. S are new to each other and they were working for the first time. Mr. S performed his work and submitted the report. CA A, while evaluating the adequacy of the work of Mr. S, observed that expert's work involved use of significant assumptions and methods. Consequently he wants to test the relevance and reasonableness of those assumptions and methods in the applicable circumstances. Guide CA A in this regard as per relevant Standard on Auditing.

(May'25)

Solution

Testing the relevance and reasonableness of assumptions and methods used by the auditor's expert

As per **SA 620**, "Using the Work of an Auditor's Expert", when an auditor uses the work of an expert, they must **evaluate whether the expert's work is adequate** for the auditor's purposes.

Facts

In the given case, CA A, statutory auditor of Datacom Ltd., is using the valuation report of Mr. S, a registered valuer, for auditing derivative instruments. CA A also observed that an expert's work involves the use of significant assumptions and methods.

Analysis

Accordingly, he must assess the relevance and reasonableness of the expert's assumptions, methods, and findings in the circumstances as per SA 620.

SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures", discusses the **assumptions and methods** used by management in making accounting estimates, including the use in some cases of highly specialised, entity-developed models. Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management's assumptions and methods, it may also assist the auditor when evaluating an auditor's expert's assumptions and methods.

When an auditor's expert's work involves the use of significant assumptions and methods, factors relevant to the auditor's **evaluation of those assumptions and methods** include **whether they are:**

- **Generally accepted** within the **auditor's expert's field**;
- **Consistent with** the requirements of the **applicable financial reporting framework**;
- Dependent on the **use of specialised models**; and
- **Consistent with** those of **management**, and if not, the **reason for, and effects of, the differences**.

Q17 (SA 701)

M/s JPP & Associates have been appointed as auditors of ABC Ltd., an ISO certified listed Indian multinational Jewellery Company having headquarters at Mumbai for F.Y. 2024-25. The company has more than 100 showrooms in India and 60 showrooms across the globe. During the course of audit, from the matters communicated with those charged with governance the auditors determined certain matters as most significant in the audit of the financial statements of the current period which are related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA). Public disclosure of this specific matter by the auditor is not precluded by authorities under PMLA since the same may not prejudice investigation which has already been officially completed and settled on 30th September 2024.

What would be the considerations of M/s JPP & Associates in determining the matter requiring significant attention in performing the audit? State the introductory language that JPP & Associates would use while communicating such matter in their audit report as per relevant Standard on Auditing. [Nov'24]

Solution

As per **SA 701**, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, **from the matters communicated with those charged with governance, those matters that required significant auditor attention** in performing the audit.

In making this determination, M/s JPP & Associates shall take into account the following:

- i. Areas of **higher assessed risk of material misstatement, or significant risks** identified in accordance with SA 315
- ii. **Significant auditor judgments** relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- iii. The effect on the audit of **significant events or transactions** that occurred during the period.

In view of the above, the **matter related to the company's offence of money laundering** against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA) is a **key audit matter**, and the same shall be communicated in the auditor's report KAM.

The introductory language that M/s JPP & Associates would use while communicating matters in this section of the auditor's report shall state that:

- i. Key audit matters are **those matters** that, in the **auditor's professional judgment**, were of **most significance in the audit of the financial statements** [of the current period]; and.
- ii. These matters were **addressed in the context of the audit** of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor **does not provide a separate opinion** on these matters.

Q18 (SA 701)

R & J Associates, Chartered Accountants, are the statutory auditors of Trikon Ltd., a listed manufacturing company. During the audit for F.Y. 2024-25, the engagement team identified areas such as valuation of obsolete inventory, impairment of plant assets, and a major tax dispute pending before the appellate authority that required significant auditor attention. The Audit Committee, however, expressed concern that highlighting the tax dispute in the auditor's report could attract negative publicity and advised the auditors not to include it in their report.

As the engagement partner, evaluate the professional considerations and reporting implications in this situation. In the given case, R & J Associates are required to determine and communicate Key Audit Matters (KAMs) in accordance with SA 701. (MTP Jan'26)

Solution

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit.

In making this determination, the auditor shall take into account the following:

- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period.

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

However, the auditor shall describe each key audit matter in the auditor's report unless in extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public

interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter.

Q19 (SA 710)

Kuber Tech Solutions Ltd. is in the process of finalising its financial statements for the year ended 31st March 2025. The company is required to present comparative financial statements, including figures for the year ended 31st March 2024. Roshan & Co., Chartered Accountants, has been appointed as the statutory auditor for the current year.

During the audit, CA Roshan, the engagement partner, notes the following:

Particulars	FY 23-24	FY 24-25
Auditor	Gupta & Mehra LLP, Chartered Accountants	Roshan & Co., Chartered Accountants
Audit Opinion	Adverse	Audit in progress
Reason for Modified Opinion	Material misstatement in valuation and disclosure of trade receivables	Misstatement remains uncorrected
Presentation of Financial Statements	Figures presented as comparatives in FY 2024-25 audit	Comparative financial statements (current + previous year)

- What are the duties of CA Roshan while reporting on the current year's financial statements, considering the prior year's adverse opinion?
- What modifications or disclosures are required in the current year's audit report in accordance with the relevant Standards on Auditing? (RTP Sep'25)

Solution

a) In the given case, CA Roshan noticed that the previous year's financial statements contained an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the trade receivables.

As per **SA 710**, "Comparative Information Corresponding Figures and Comparative Financial Statements", if the **auditor's report on the prior period**, as previously issued, included an **adverse opinion** and the **matter** which gave rise to the modification is **unresolved**, the auditor shall **modify the auditor's opinion on the current period's financial statements**.

In the **Basis for Modification paragraph** in the auditor's report, the auditor shall either:

- i) **Refer to both the current period's figures and the corresponding figures** in the description of the matter giving rise to the modification when the **effects or possible effects of the matter on the current period's figures are material**; or
- ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the **comparability** of the current period's figures and the corresponding figures.

Conclusion

In the present case, the matter leading to the prior year's adverse opinion i.e., material misstatement in trade receivables from the prior year remains uncorrected in the current year's financial statements, CA Roshan must **modify the current year's audit opinion**, in accordance with SA 710.

(b) When **comparative financial statements are presented**, the auditor's opinion shall refer to **each period** for which financial statements are presented and on which an audit opinion is expressed.

If the **financial statements of the prior period were audited by a predecessor auditor**, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an **Other Matter paragraph**:

- i) That the financial statements of the prior period were **audited by a predecessor auditor**;
- ii) The **type of opinion** expressed by the predecessor auditor and, if the **opinion was modified**, the **reasons** therefore; and
- iii) The **date** of that report.

Facts

In the given case, the previous year's audit was conducted by Gupta & Mehra LLP, who issued an adverse opinion due to a misstatement in trade receivables.

Conclusion

Accordingly, CA Roshan should

- ✓ **include an Other Matter paragraph** in the current year's auditor's report,
- ✓ disclosing that the prior year financials were **audited by Gupta & Mehra LLP**;
- ✓ an **adverse opinion** was expressed **due to material misstatement in trade receivables**; and
- ✓ the **date of the prior auditor's report**.

Q20 (SA 720)

ING Associates, Chartered Accountants, conducting the audit of XYZ Ltd., a listed Company for the year ended 31st March 2020 is concerned with the auditor's responsibilities relating to misstatements in other information, both financial and non-financial, included in the Company's annual report. While reading other information, ING Associates considers whether there is any material misstatement of the other information in the Company. After performing their procedures, the auditor concludes that a material misstatement of the other information exists.

ING Associates discussed with the Management about the other information that appeared to be materially misstated to the auditor and also requested management to provide evidence for the basis of management's statements in the other information along with supporting documents.

Guide ING Associates as to how to respond to that material misstatement of other information obtained prior to the date of auditor's report. Will your answer be different in case ING Associates conclude the same after the date of auditor's report? (MTP Nov'20)

Solution

As per **SA 720**, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall **request management to correct the other information**.

If management:

- i) **Agrees** to make the correction, the auditor shall determine that the **correction has been made**; or
- ii) **Refuses** to make the correction, the auditor shall **communicate the matter with those charged with governance** and request that the correction be made.

If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including:

- i) Considering the **implications for the auditor's report** and **communicating with those charged with governance** about how the auditor plans to address the material misstatement in the auditor's report;
- ii) **Withdrawing from the engagement**, where withdrawal is possible under applicable law or regulation.

If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- i) If the other information is **corrected**, perform the **procedures necessary** in the circumstances; or
- ii) If the other information is **not corrected after communicating with those charged with governance**, take **appropriate action** considering the auditor's legal rights and obligations, to seek to have the **uncorrected material misstatement** appropriately brought to the attention of users for whom the auditor's report is prepared.

Q21 (SA 720)

PQR Motors Ltd., a listed entity engaged in the manufacture, and sale of automobiles and related parts has prepared its annual financial statements for the financial year 2024-25. The company's management is also responsible for preparing other information, which includes:

(1) Annual Report:

- A Director's Report and Management Discussion & Analysis (MD&A) prepared by the management.
- A Corporate Social Responsibility (CSR) report highlighting the company's initiatives and outcomes.

(2) Chairman's Message:

- A message from the chairman discussing the company's financial performance and strategic outlook.

(3) Future Projections:

- Forward-looking statements in the annual report about anticipated growth in revenue and expansion plans.

The Statutory auditors, M/s ST & Co., Chartered Accountants, have completed its audit of the financial statements and prepared the auditor's report. During the course of the audit, the following circumstances arise:

- The Director's Report and MD&A are finalized and provided to the auditor before the date of the auditor's report.
- The Chairman's Message and Future Projections are not finalized but are expected to be included in the annual report, which will be released after the auditor's report is issued.

Issues Identified:

1. In the MD&A, M/s ST & Co., noted a misstatement regarding the company's claim of achieving a 20% reduction in production costs. Audit evidence suggests the reduction was only 10%.
2. The Chairman's Message, which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.

Answer the following with reference to the relevant Standard on Auditing:

- i) What should M/s ST & Co., include in the "Other Information" section of the auditor's report for PQR Motors Ltd.?
- ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s ST & Co. report under the "Other Information" section? (May'25)

Solution

As per **SA 720 (Revised)**, "The Auditor's Responsibilities Relating to Other Information", the auditor is required to report on "Other Information" in the auditor's report for listed entities.

"Other Information" refers to **financial and non-financial information** (other than financial statements and the auditor's report thereon) included in an entity's annual report.

In the "Other Information" section of the auditor's report, the following should be included:

- A statement that **management is responsible** for the other information included in the annual report.
- **Identification of other information** obtained:
 - The Director's Report and MD&A have been **obtained prior to the date of the auditor's report**.
 - Mention of other information **expected to be obtained later** (e.g., Chairman's Message and Future Projections)
- A statement that the **auditor's opinion does not cover the other information**, and the auditor does not express any form of assurance conclusion on it.
- A **description of the auditor's responsibilities** relating to reading, considering, and reporting on the other information as per SA 720.
- A statement on the results of the auditor's review of the other information:
 - If **no misstatement is identified**, a statement to that effect.

- If a **material misstatement** is identified, a **description of the uncorrected misstatement** (as applicable).

(ii) As per SA 720 (Revised), if the auditor identifies a material misstatement in the other information and management refuses to correct it, M/s ST & Co. shall report the uncorrected misstatement in the **"Other Information" section** as:

We have **identified a material misstatement** in the MD&A regarding the company's claim of a 20% reduction in production costs. However, based on our audit evidence, the reduction was only 10%.

Professional Ethics

Q1

CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification and feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner and other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence and due care that a Chartered Accountant needs to possess all the time. Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence and Due Care. (Nov'24)

Solution

Professional Competence and Due Care - Subsection 113

1. A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
 - (a) **Attain and maintain professional knowledge and skill** at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) **act diligently** in accordance with applicable technical and professional standards.
2. Serving clients and employing organizations with professional competence requires the **exercise of sound judgment** in applying professional knowledge and skill when undertaking professional activities.
3. Maintaining professional competence requires a **continuing awareness and an understanding** of relevant technical, professional and business developments.
4. **Continuing professional development** enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.
5. Diligence encompasses the responsibility to act in accordance with the **requirements of an assignment, carefully, thoroughly and on a timely basis**.
6. In complying with the principle of professional competence and due care, a professional accountant shall take **reasonable steps to ensure that those working in a professional capacity** under the accountant's authority **have appropriate training and supervision**.

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

Q2

- (a) KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 72% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to KB and Associates for accepting the audit. CA Yash, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Yash gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA Yash has complied with same.
- (b) If CA Yash is guilty of misconduct in the above situation given in part (a), then before which authority, the matters of CA Yash would have been placed and what punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

(RTP May'25 + Nov'24)

Solution

a. As per **Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949**, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of **audit of government Companies/ banks or their branches**, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit.

However, in case the time schedule given for the assignment is such that there is **no time to wait for the reply from the outgoing auditor**, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause.

In his acceptance letter, he should make clear to the client that his **acceptance of appointment is subject to professional objections**, if any, **from the previous auditors** and that he will decide about his **final acceptance after taking into account the information received from the previous auditor**.

Facts

In the given case, KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 72% of the paid-up share capital of the company and CA Yash has given a conditional acceptance of the appointment and commenced the audit.

Conclusion

In view of the above, it can be concluded that CA Yash is **not liable for misconduct** and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

b. If CA Yash would have been found guilty of professional misconduct under Clause 8 of Part I of the First Schedule of the Chartered Accountants Act, 1949:

The matter would have been placed before the **Board of Discipline**.

The punishment that the Board of Discipline could have imposed would be:

- i. Reprimand the member.
- ii. Remove the name of the member upto a period of 3 months.
- iii. Impose fine upto rupees ₹ 1,00,000/-.

Q3

CA F is the Chief Financial Officer of ABC General Insurance Limited. Being in insurance business, the company gets majority of its clients through their agency contracts. CA F has the practice of releasing the commission payments on the condition that he gets 20% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

(MTP Sep'25+ Nov'24)

Solution

According to **Clause (2) of Part II of First Schedule** of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a **member is in employment**, he must **maintain high level of ethics** and should **not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service**.

Facts

In the present case, CA F is the Chief Financial Officer of ABC General Insurance Limited. He releases the commission payments on the condition that he gets 20% of the commission amount from agent as majority of the clients are through their agency only.

Conclusion

Therefore, CA F is **guilty of professional misconduct** by virtue of Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949.

Q4

The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA H, the proprietor of M/s HA & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (11) of Part I of the First Schedule of the

Chartered Accountants Act, and penalty was imposed by an order passed against him dated 15th June, 2024. Against the said order, CA H preferred an appeal with the Appellate Authority on 5th August, 2024 by submitting the statement of appeal along with application form of appeal. During such appellate proceedings, it was discovered that the said statement of appeal contained some facts which were false to which CA H admitted it to be false and apologized for it. Based on the above stated scenario of the matters placed before The Director (Discipline) of ICAI against CA H, you are required to answer the following:

- (i) Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA H.
- (ii) Before which authority, the matters of CA H would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?
- (iii) Has CA H filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? (Nov'24)

Solution

(i) As per **Clause (3) of Part II of the Second Schedule** to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Facts

In the instant case, CA H preferred an appeal with the Appellate Authority on 05th August, 2024 by submitting the statement of appeal along with application form for the same. However, it was discovered that the said statement of appeal contained some facts which were false, and CA H admitted it to be false.

Conclusion

Therefore, CA H would be held **guilty of professional misconduct** under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(ii) In case where CA H was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule and Clause 11 of Part I of the First Schedule of the Chartered Accountants Act, 1949: the matter would have been **placed before Disciplinary Committee** as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee.

The maximum punishment that the Disciplinary Committee could have imposed would be:

- **Reprimand** the member
- **Remove the name of the member** from the Register **permanently or for such period** as it may think fit.
- Impose such a **fine** which may **extend to rupees five lakhs**.

(iii) Timeline for Filing an Appeal: Any member aggrieved by an order of the Board of Discipline or the Disciplinary Committee can prefer an appeal **within 90 days**.

Facts

In the given case, CA. H has preferred an appeal with the appellate authority on 5th August, 2024 against the order passed on 15th June 2024. From 15th June to 5th August, 90 days' timeline has not been lapsed.

Conclusion

Thus, it can be said that CA H has **filed an appeal within the time limit** prescribed under the said Act.

Q5

Mr. Chetan, a practicing Chartered Accountant, was involved in a family dispute over ancestral property. To gain an undue advantage, he allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings. The forgery was later uncovered, and legal action was initiated against him. Although the act was committed in his personal capacity and not in the course of his professional duties, a complaint was filed with the disciplinary committee of the Institute of Chartered Accountants of India (ICAI). Analyse whether Mr. Chetan would be held liable for misconduct as per the provisions of the Chartered Accountants Act, 1949. (MTP May'25)

Solution

As per **Clause (2) of Part IV of First Schedule** to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he, in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work.

Here the Chartered Accountant is expected to **maintain the highest standards of integrity** even in his personal affairs and any deviation from these standards calls for disciplinary action.

Facts

In the present case, Mr. Chetan allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings, to gain an undue advantage. This brings disrepute to the profession of a Chartered Accountant.

Conclusion

Therefore, CA Chetan will be held **guilty of other misconduct** under Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949.

Q6

CA A, the proprietor of A & Colleagues, Chartered Accountants, is developing his practice and recently secured a major audit assignment for B State Cooperative Society. The engagement fee for this audit is ₹ 1 Cr. In view of his vision of growth to expand the development of his business, CA A has entered into an agreement with an unregistered financial consultant, Mr. X, who is an MBA from a local university. Mr. X introduced CA A to his business clients and in return, CA A agrees to pay him a 2.5% commission (₹ 2.5

lakhs) on the audit fee as a referral bonus. Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5,00,000) has to be deposited into the State Treasury to cover administrative expenses. CA A complies with this requirement. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. (May'25)

Solution

As per **Clause (2) of Part I to the First Schedule** to Chartered Accountants' Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

The **exception** to this rule is specified in regulation 53A (3). The Regulation specifies that a **Master in Business Administration from Universities established by law or technical institutions recognized by the All India Council for Technical Education**.

Facts

In the given situation, Mr. X is an MBA from a local university and CA. A agrees to pay commission on the audit fee as a referral bonus to Mr. X for introducing him to his business clients.

Conclusion

Hence, **CA A is guilty of misconduct**.

Additionally, as per the State Cooperative Registrar's Circular, **5% of the audit fee (₹ 5 Lakh) must be deposited into the State Treasury to cover administrative expenses**. Council decided that as such, there is **no bar in the Code of Ethics to accept such an assignment** wherein a percentage of the professional fee is deducted by the Government to meet the administrative and other expenditure. Hence, **no violation is there**.

Q7

Ring Limited is a subsidiary of Pearl Limited. For the financial year 2024-25 M/s Vani & Co., Chartered Accountants were appointed as the statutory auditors of Ring Limited. The CEO of Pearl Limited was impressed with the professional competence of CA Devi, one of the partners of the firm and hence, he offered CA Devi to take up the position of Director (not MD/whole time director) of Pearl Limited. CA Devi is in a dilemma whether to accept the offer. She approaches you and seeks your advice on the same. Advise what CA Devi can do with the offer with reference to the Chartered Accountants Act, 1949 and Schedules thereto. (May'25)

Solution

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

Provided nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being MD or whole-time director) unless he or his partners is interested in such company as auditor.

In view of above, a Chartered Accountant in practice cannot engage (unless permitted by the Council so to engage) in any business or occupation other than the profession of Chartered Accountant but he can be a director of a Company (not being a managing director or whole-time director) wherein he or any of his partners is not interested in such company as an auditor.

Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardise their independence. In view of the above, the Board, via a clarification, decided that the **auditor of a Subsidiary Company can't be a Director of its Holding Company**, as it will affect the **independence of the auditor**.

Facts

In the given situation, Ring Limited is the audit client of CA Devi's firm (M/s Vani & Co.) and Pearl Limited is the holding company of Ring Limited. The CEO of Pearl Limited is offering CA Devi a non-executive directorship in Pearl Ltd., while her firm is the auditor of Ring Ltd. (a subsidiary).

Conclusion

CA Devi **should not accept the offer** as it will affect the independence of an auditor.

Q8

Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services. Comment. (MTP Sep'25)

Solution

As per the recent decisions taken by the Ethical Standards Board of ICAI, a member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949.

Facts

In the given case, CA. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949.

Conclusion

Thus, it can be concluded that the **senior partner of CA. Rohan is correct** as CA. Rohan's action of agreeing to **act as a Trademark Attorney** before the Registrar of Trademarks would amount to **professional misconduct** under the Chartered Accountants Act, 1949.

Q9

Mr. Ramesh, a practicing Chartered Accountant and partner at RR & Associates, recently ordered a new set of visiting cards and letterheads for his firm. He made following changes in the CA India logo to make the cards attractive:

- Changed the background from white to grey to match the firm's colour theme;
- Reduced the size of the logo to fit it in a smaller area on the top-right corner.
- Replaced the word "India" in the logo with his firm's initials.
- Added a gradient effect to the blue colour in the letters "CA".

He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto. (MTP Sep'25)

Solution

As per **Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949**, a Chartered Accountant in practice will be deemed to be **guilty of professional misconduct** if he **advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents**, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council.

Further, **Chapter XVI for Logo of Council General Guidelines, 2008** prescribes the following guidelines for CA members:

- There should be **no alteration of the font** (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.
- **Do not change the design and colours** including the white background.
- **Refrain from rotating or tilting** the logo clockwise and anti-clockwise.
- The logo should **not be shrunk or distorted** changing the original proportion.

Facts

In the given case, CA. Ramesh made changes in the CA India logo to make the cards attractive. He changed the background colour from white to grey to match the firm's theme, reduced the size of the logo to fit into a smaller space on the topright corner of his cards, replaced the word "India" in the logo with his firm's initials, and added a gradient effect to the blue colour in the letters "CA".

Conclusion

Hence, CA. Ramesh will be held **guilty of professional misconduct** due to violation of the Council General Guidelines and Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

Q10

(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? (RTP Jan'26)

Solution

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.

Facts

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.

Conclusion

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) 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.

Solution

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**.

Facts

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.

Conclusion

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.

Q11

Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto:
(a) CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core.

Solution

(a) As per the recent decisions taken by the Ethical Standards Board of ICAI, it is not permissible for member in practice being a **statutory auditor** to prepare **Business Responsibility & Sustainability Reporting (BRSR) study** to Audit Clients. However, he may provide **advisory services** on the same.

It is **permissible** for member in practice being a statutory auditor to be "**Assurance provider of BRSR core**" for the same client.

Facts

In the given case, Greenway Ltd., a listed entity, is required to submit a BRSR as per SEBI regulations. The company approached CA Sahil to prepare the BRSR study and to provide assurance on the BRSR Core for regulatory submission. CA Sahil accepted both assignments.

Conclusion

In view of the above guidance issued by the ESB, it can be concluded that CA Sahil's acceptance of the assignment to **prepare the BRSR study** for his audit client Greenway Ltd. is **not permissible**. However, his role as an assurance provider for BRSR Core is permissible.

Hence, CA Sahil would be held **guilty of professional misconduct** for accepting the assignment to prepare the BRSR study

(b) M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months.

Solution

If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client. However, an advance received by a Chartered Accountant **against services to be rendered does not fall under Clause (10)** of Part I of the Second Schedule.

Facts

In the given case by depositing the client's money of ₹ 10 lakh i.e., for the specific purpose of investment in designated securities, by M/s R & Co., a firm of Chartered Accountants, in their own savings bank account, the auditors have committed professional misconduct.

Conclusion

Hence in the given case, M/s R & Co. will be held **guilty of professional misconduct** under Clause (10) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

Q12

CA Suba is a senior partner in a chartered accountancy firm in Mumbai. She and few other CA firms, each specializing in different sectors, agree to form a network to enhance their service portfolio and geographical reach. They apply to the ICAI for the network name approval, which is granted as "Suba & Affiliates". They are under the process of submitting relevant forms to the ICAI for Registration. Simultaneously, M/s. RS & Associates, one of the member firms in the group, signs a collaboration agreement with an international accounting network based in Singapore.

Based on above facts, you are required to: Guide CA Suba & M/s. RS & Associates with regard to Guidelines for Networking issued by the ICAI in respect of registration of Network with entities in India and outside India. (Sep'25)

SolutionRegistration of Network with entities in India

1. An application for approval of the name of the Network shall be made to the Institute in **Form A**. **Institute shall approve or reject** and intimate the same to the Network at its address mentioned in Form A **within a period which shall not be later than 30 days from the date of receipt of said form.**
2. After the name of a Network is approved as per provision under Guideline 5, the Institute shall **reserve such name for a period of three (3) months from the date of approval.**
3. The Network shall get itself **registered with the Institute** by applying in **Form B within the period of 3 months**, failing which the name assigned shall stand cancelled on the expiry of the said period.
4. **Registration of Network with Institute is mandatory.**
4. If **different Indian firms are networked with a common Multinational Accounting Firm**, they shall be **considered as a part of network.**

Listing of Network with entities outside India

1. The duly authorized representative(s) of the Indian Member firm(s)/Member constituting the Network with entities outside India shall file a **declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement.**
2. Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to **join only one network and firms having common partners shall join only one such network.**

Q13

F & F Associates, Chartered Accountants, are appointed as the statutory auditors of TQR Limited, an unlisted company, for the financial year 2024-25. The net-worth of the company has remained at ₹500 crores for last 2 years. CA F is the engagement partner for the audit of the company. During the audit, CA F became aware of an imminent breach of law that would cause substantial harm to investors, creditors and employees of the company. He discussed this matter with Mr. X, who was one of the senior-most directors of the company and who also happened to be a Chartered Accountant. He is of the view that it is the responsibility of Mr. X, being a senior professional accountant, to respond to such non-compliance of law. However, Mr. X is of the view that there is no responsibility casted on him for responding to the aforesaid non-compliance.

In view of the following:

- i) Comment on the contention of Mr. X in terms of relevant section of Revised Code of Ethics.
- ii) What documentations are required to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing. (Sep'25)

SolutionResponding to Non-compliance with Laws and Regulations (NOCLAR) applicable to Professional Accountants in Service

(i) NOCLAR, under Code of Ethics, is applicable on professional accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than audit.

It is applicable to **Senior Professional Accountants in service**, being **employees of listed entities**. Senior professional accountants in service ("senior professional accountants") includes directors.

Facts

In the given case, TQR Limited is an unlisted company, consequently, the provision of section 260 of NOCLAR is not applicable to Mr. X who is a senior-most director of the company and a Chartered Accountant.

Conclusion

Thus, **contention of the Mr. X** that there is no responsibility cast on him for responding to the non-compliance is correct.

(ii) Documentation Requirements in NOCLAR to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing:

- How **management / those charged with governance** have responded to the matter.
- The **course of action the accountant considered**, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the **accountant is satisfied** that the **responsibility of public interest has been fulfilled**.

Q14

CA Neha, a Chartered Accountant in practice, is approached by Growtech Ltd., a startup company planning to raise capital through an Initial Public Offering (IPO). The company requests her assistance in guiding them through the selection of advertising agencies, co-ordinating with bankers and brokers to issue. Besides helping the company as an advisor, she also underwrote the public issue of the company to the extent of 20% at a commission of 1%. She contends that provisions of code of conduct are not binding such services. Do you agree with the view of CA Neha? Analyse the facts and give your comments in the light of applicable code of conduct. (Sep'25)

Solution

The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to **Section 2(2)(iv)** of the Chartered Accountants Act, 1949 has passed a resolution permitting a Chartered Accountant in practice to render entire range of "**Management Consultancy and other Services**".

A clause of the aforesaid resolution **allows Chartered Accountants in practice to act as advisor or consultant to an issue**, including preparation of publicity budget, advice regarding arrangements for selection of (i) admedia, (ii) centres for holding conferences of brokers, investors, etc., (iii) bankers to issue, (iv) collection centres, (v) brokers to issue, (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material.

It is, however, specifically stated that Chartered Accountants in practice are **not permitted to undertake the activities of broking, underwriting and portfolio management services**.

Facts

In the given situation, CA. Neha, a practicing Chartered Accountant, is helping the company as an advisor, she also underwrote the public issue of the company Growtech Ltd., a startup company, to the extent of 20% at a commission of 1%.

Conclusion

In view of Section 2(2)(iv) of the Chartered Accountants Act, 1949, contention of CA Neha that provision of Code of Conduct (Ethics) are not binding in providing such services **is not correct**. Accordingly, CA Neha **is permitted to provide the services of advisor or consultant to an issue** as part of Management Consultancy and other Services under section 2(2)(iv) of the Chartered Accountants Act, 1949. However, CA Neha would be **held guilty of professional misconduct** under the Chartered Accountants Act, 1949 **for underwriting the public issue** of the Company.

CARO 2020

Q1

TEA Ltd., a public company is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year 2023-24, it had availed credit facilities from Kuber Bank Ltd. The bank had sanctioned a working capital cash credit facility on 21st April, 2023, for a limit of ₹ 4.50 crore and Letter of Credit facility for a limit of ₹ 2.50 crores aggregating to ₹7 crore on the basis of the hypothecation of stocks and book debts of the company against which utilisation of the limits by TEA Ltd. during the year in the case of cash credit facility was ₹ 3.90 crore and of Letter of credit was ₹ 1.05 crore aggregating to ₹ 4.95 crore. During the year under review, the company had faced sluggish market conditions for its various brands of teas due to its inability to cater to the requirements of its customers' expectations. It faced severe cash crunch and found it difficult to manage working capital stress. In order that the bank does not reduce its drawing power of working capital limit, the management decided to peg up the values of the stock statements it submitted to bank by a hike of 15% during the quarters ended June 2023, September 2023 and December 2023.

When an engagement partner leading the audit team happened to review the stock statements submitted to the bank, it was noticed that the stock figures declared were not in agreement with book figures and had been hiked as above. The matter was taken up with CFO of the company who contended that auditors need not examine and compare the quarterly statements with the books of accounts as the utilisation of working capital limits is less than the specified sanctioned limit as on 31st March 2024 and hence this case is beyond the scope of reporting under CARO, 2020.

Is the contention of CFO correct? Analyse the issue and discuss the reporting responsibilities of the auditor. (Nov'24)

Solution

As per **para 3(ii) (b) of CARO, 2020**, the auditor is required to report whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the

quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details.

The above clause requires the auditor to comment on whether during any point of time of the year, the company has been **sanctioned working capital limits in excess of ₹ 5 crores in aggregate**.

Tea Ltd. has been sanctioned a working capital cash credit facilities for a limit of ₹ 4.50 crore and for Letter of Credit facility for a limit of ₹ 2.50 crores aggregating working capital facilities/limit of ₹ 7 crores which is apparently in excess of ₹ 5 crores. based on the security of current assets i.e. Hypothecation of stocks and book debts of the company.

In addition, the auditor is required to ensure that whether the quarterly returns filed by the Tea Ltd. company with Kuber Bank Ltd. are in agreement with the book of accounts of the company.

Facts

In the instant situation, management of Tea Ltd. submitted its Stock Statement by a hike of 15% during the quarter ended June 2023, September 2023 and December 2023, to peg up the values of the stock due to fear of reduction in the drawing power of working capital limit. The auditor noticed that the stock figures declared by Tea Ltd. were not in agreement with the book figures and had been hiked as above.

Conclusion

Thus, the **contention of CFO is not correct** regarding applicability of CARO, 2020 as the working capital is more than specified sanctioned limit as on 31st March, 2024. Hence the **auditor is required to report the same in accordance with Clause (ii) (b) of Paragraph 3 of CARO, 2020**.

Q2 (RTP May'25)

Comment with reference to the provisions of CARO, 2020:

- a) Relon Limited has a turnover of ₹ 650 crores during the financial year 2023-24. It has outstanding dues towards income-tax of ₹ 15 lakhs since July 2023. When inquired by the auditor, the company's management informed him that they have filed an objection letter for the said demand with the Income-tax Authorities, however, no response is received from the department. Is there any reporting responsibility of auditor under CARO, 2020?

Solution

- The auditor is required to report as per **clause (vii) (a) of Paragraph 3 of CARO, 2020** that whether the company is **regular in depositing undisputed statutory dues** including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
- Further, the auditor is also required to report as per **Clause (vii) (b) of Paragraph 3 of CARO, 2020**, where statutory dues referred to in sub-clause (a) have **not been deposited on account of any dispute**,

then the **amounts involved and the forum** where dispute is pending shall be mentioned (a **mere representation** to the concerned Department shall **not be treated as a dispute**).

Facts: In the given case, Relon Limited has an outstanding Income-tax liability of ₹ 15 lakhs since July 2023. Although the management has filed an objection letter, no formal dispute has been raised, and the dues remain unpaid for more than six months.

Conclusion: Therefore, the auditor is required to **report** the same under **clause (vii)(a)** of Para 3 of CARO, 2020.

- b) During the audit, CA Kunal found that physical verification of inventories of the company has been conducted by management on regular interval. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts as at the year-end:

₹'in crores

Particulars	As per physical verification	As per Books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2,500	2,790
Stores and spares	220	180
Total	4,290	4,580

Solution

As per **clause (3)(ii)(a)** of CARO, 2020, the auditor is required to report **whether any discrepancies of 10% or more in the aggregate for each class of inventory** were noticed on physical verification conducted by management and if so, whether they have been **properly dealt with in the books** of account.

Computation of % of discrepancies found in physical verification and Books of Accounts

Particulars	As per physical verification	As per Books of a/cs	% change
Raw material	1,160	1,180	1.72%
Work-in-progress	410	430	4.87%
Finished goods	2,500	2,790	11.6%
Stores and spares	220	180	18.18%

Since, the discrepancies in the value of finished goods (11.6%) and stores and spares (18.18%) exceed the 10% threshold specified under clause (3)(ii)(a) of CARO, 2020, the auditor should report these discrepancies accordingly.

Q3

Brown Enterprises Limited, an unlisted public company, has granted loans to two of its subsidiaries, stood as a guarantor for loans taken by a Limited Liability Partnership (LLP), and made investments in a start-up company during the financial year 2024-25. The company's financial statements disclose the following:

(1) Loans Provided:

- ₹ 10 crore to Subsidiary A, with ₹ 6 crore outstanding as of March 31, 2025.
- ₹ 5 crore to Subsidiary B, fully repaid during the year.
- ₹ 3 crore loan to a UR & Co. a partnership firm with ₹ 1.5 crore overdue for 120 days. UR & Co. is not a related party.

(2) Guarantees:

- Guarantee provided to Milestone LLP for ₹ 7 crore loan availed from a bank, outstanding in full as of March 31, 2025.

(3) Investments:

- ₹ 4 crore equity investment in KD start-up. Additional information:
- For the overdue loan, Brown Enterprises Ltd. has initiated legal proceedings for recovery but no settlement has been achieved.
- All loans and guarantees have been documented with terms and conditions.
- One loan, ₹ 2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.

Based on the above facts you are required to:

- Analyse the reporting requirements under CARO, 2020, for Brown Enterprises Ltd.
- The management of Brown Enterprises Limited contended that reporting requirements under CARO, 2020, of overdue in respect of UR & Co., and Subsidiary A, are not applicable. Comment. (May'25)

SolutionReporting Requirements Under Clause (iii) of Para 3 of CARO 2020

- Loans and Advances provided:
 - Report the aggregate amount of loans provided during the year to subsidiaries (₹ 15 crore) and other parties (₹ 3 crore).
 - Disclose the outstanding balance as of March 31, 2025:
 - Subsidiary A: ₹ 6 crores.
 - Subsidiary B: Nil (fully repaid).
 - UR & Co., Partnership firm: ₹ 1.5 crore overdue for 120 days.
- Guarantees and Security Offered: Disclose the guarantee of ₹ 7 crore provided to Milestone LLP and confirm whether it was prejudicial to the company's interest.
- Investments Made: Report the ₹ 4 crore equity investment and ensure compliance with terms and disclosure requirements.
- Overdue Loan: In the case of UR & Co., disclose the overdue amount of ₹ 1.5 crore for more than 90 days and assess the company's recovery actions. Mention if legal proceedings are progressing adequately.
- Loan Renewal:
 - Report the renewal of the ₹ 2 crore loan to Subsidiary A as a fresh loan granted to settle existing dues.
 - Include this amount and its proportion in the total loans granted during the year.

(ii) In view of above it can be concluded that the **contention of management** of Brown Enterprises Limited is **not correct** as the auditor is required to report the overdue loan amount in respect of UR & Co. and Subsidiary A under Clause (iii) of Paragraph 3 of CARO 2020.

Alternate Answer

(i) **Clause (iii) of Para 3 of CARO, 2020**, requires the auditor to report whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so-

- a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate-
 - (A) the **aggregate amount during the year, and balance outstanding at the balance sheet date** with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;
 - (B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to **parties other than subsidiaries, joint ventures and associates**;
- b) whether the **investments** made, **guarantees** provided, **security** given and the **terms and conditions** of the grant of all **loans and advances** in the nature of loans and guarantees provided are **not prejudicial to the company's interest**;
- c) in respect of **loans and advances** in the nature of loans, whether the **schedule of repayment** of principal and payment of interest has been **stipulated** and whether the **repayments or receipts are regular**;
- d) if the **amount is overdue**, state the **total amount overdue for more than ninety days**, and whether **reasonable steps have been taken by the company for recovery** of the principal and interest;
- e) whether any **loan or advance** in the nature of loan granted which has **fallen due during the year**, has been **renewed or extended or fresh loans granted to settle** the overdues of existing loans given to the same parties, if so, **specify the aggregate amount** of such dues renewed or extended or settled by fresh loans and the **percentage of the aggregate to the total loans or advances** in the nature of loans **granted during the year** [not applicable to companies whose principal business is to give loans];
- f) whether the company has granted any **loans or advances in the nature of loans** either **repayable on demand or without specifying any terms or period of repayment**, if so, **specify the aggregate amount, percentage thereof to the total loans granted**, aggregate amount of **loans granted to Promoters, related parties** as defined in clause (76) of section 2 of the Companies Act, 2013;

In the given situation, the auditor of Brown Enterprises Limited, an unlisted public company, is required to report under Clause (iii) of Paragraph 3 of CARO 2020:

- aggregate amount of loans provided to subsidiaries [i.e., ₹ 10 crore to Subsidiary A & ₹ 5 crore to Subsidiary B] and ₹ 6 crore for the loan outstanding from subsidiary A at the balance sheet date.
- the loans provided to Partnership firm UR & Co. of ₹ 3 crore and Guarantee provided to Milestone LLP of ₹ 7 crore.
- an amount of ₹ 1.5 crore in respect of the loan given to the partnership firm UR & Co., as the amount has been overdue for 120 days i.e., more than 90 days] and reports that Brown Enterprises Ltd. has

taken reasonable steps initiated legal proceedings for the recovery, but no settlement has been achieved.

- loan of ₹ 2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.

(ii) In view of above it can be concluded that the **contention of management** of Brown Enterprises Limited is **not correct** as the auditor is required to report the overdue loan amount in respect of UR & Co. and Subsidiary A under Clause (iii) of Paragraph 3 of CARO 2020.

Q4

Harsh Electronics Ltd., a manufacturing company, planned to set up a new R&D centre at its existing industrial premises in Pune to mark its 25th anniversary in the financial year 2024-25. To expand the premises, the company decided to acquire an adjacent plot of land owned by Ms. Reena, an executive director of the company.

The company offered to exchange one of its underutilised land parcels, located in another industrial area rather than having a cash transaction. Though the company's land was nearly twice the size of Ms. Reena's land, it was considered less commercially useful. The exchange was approved by the Board and a registered agreement was executed in January 2023.

As an audit engagement partner for Harsh Electronics Ltd., what additional audit procedures would you perform in respect of this land exchange transaction, and what would be your responsibilities from a reporting perspective? (RTP Sep'25)

Solution

Facts

In the given case, Harsh Electronics Ltd. has entered into a non-cash transaction during the financial year involving a land exchange with a director, Ms. Reena, who is also a member of the company's Board. The company transferred a land parcel, located in a different industrial zone, to Ms. Reena, and in return, acquired a strategically located plot adjacent to its main manufacturing facility in Pune, which was owned by her. The transaction was approved by the Board of Directors and was executed through a formally registered agreement in January 2023. This arrangement was entered into without any cash consideration and instead relied on the relative value and strategic importance of the properties being exchanged.

Analysis

As this transaction involves a **director and is non-cash in nature**, it attracts specific attention from an audit perspective under the **Companies Act, 2013 and the CARO, 2020**. Accordingly, the auditor must evaluate the appropriateness of the transaction, ensure compliance with **statutory provisions**, and consider following **reporting implications**.

The auditor is required to **report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020** which states whether the company has **entered into any non-cash transactions with directors or persons**

connected with him and if so, whether the provisions of **section 192 of the Companies Act, 2013** have been complied with.

In addition, this is a **transaction with a related party**. The provisions of **section 188** of the Companies Act, 2013 as regards Related Party Transactions are to be checked for compliance. **Section 189** of the Companies Act, 2013 requires a **register to be maintained** wherein the **contract with related parties** is to be entered. The **compliance with section 177 and section 188** has to be reported under **Clause (xiii) of Paragraph 3 of the CARO, 2020**.

Q5

AZ Industries Ltd., an Indian pharmaceutical company having its corporate office in Mumbai is engaged in developing, manufacturing and globally marketing a broad range of pharma products. During the F.Y. 2024-25, in pursuit of company's research & development drive for developing their core product portfolios, two companies viz. KK Ltd., a wholly owned subsidiary company, and OP Ltd., a Jointly Controlled Entity, were amalgamated with AZ Industries Ltd. PPP & Associates, Chartered Accountants, are the principal auditors of the company. The audit of KK Ltd. and OP Ltd. was conducted by the respective auditors of those companies. The consolidated financial statements of AZ Industries Ltd. consists of financial statements and financial information of both these companies, to whom CARO 2020 is applicable.

The auditors of the said companies have given qualifications in their CARO report on the standalone financial statements for the F.Y. 2024-25 as under:

- (1) In respect of wholly owned subsidiary company viz. KK Ltd, its auditor has qualified clause 3(xv) since the company has not complied with the provisions of Section 192 of the Companies Act, 2013 while entering into non-cash transactions with the director.
- (2) In respect of OP Ltd., being Jointly Controlled Entity, its auditor has made the adverse remark in clause 3(ix)(a) since the company has defaulted in repayment of loans to bankers.
- (3) In respect of AZ Industries Ltd., the principal auditor has given adverse remark in the standalone financial statement of the company in respect of clause 3(i)(c) since the title deeds of some immovable properties were not held in the name of the company. The engagement partner, CA P, is in the process of finalizing the consolidated audit report.

Guide CA P how he will report on the matters stated above in terms of the reporting requirements under paragraph 3 of CARO, 2020. (Sep'25)

Solution

Clause (xxi) of Paragraph 3 of CARO 2020 requires the auditor to report **whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements,**

- ✓ if **yes**,
- ✓ indicate the **details of the companies and**
- ✓ the **paragraph numbers of the CARO report** containing the qualifications or adverse remarks.

In terms of Clause (xxi), the engagement partner CA P in the consolidated audit report shall provide the details of KK Ltd., OP Ltd. and AZ Industries Ltd., and the paragraph numbers of the respective CARO report containing the qualifications or adverse remarks, accordingly, text of those paragraphs is not required to be reproduced.

Since Reporting under this clause is only required for those entities included in the consolidated financial statements to whom CARO 2020 is applicable, qualifications/adverse remarks given in AZ Industries Ltd.'s standalone CARO report are also required to be included while reporting on consolidated financial statements in addition to Subsidiary company and Jointly Controlled Entities.

In view of the above, for the purpose of reporting the qualifications/adverse remarks, the engagement partner CA P, the principal auditor may report in the following manner in the consolidation audit report

S No.	Name of the company	Holding Company/ Subsidiary Co./ Associate/ Joint Venture	Clause number of CARO Report which is Qualified or Adverse
1	AZ Industries Ltd.	Holding company	(i)(c)
2	OP Ltd	Joint controlled entity	(ix)(a)
3	KK Ltd	Wholly owned subsidiary company	(xv)

Group Audit

Q1

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? (RTP Jan'26)

Solution

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:

- Completeness of components** included in the consolidated financial statements;

- b. Identification of **reportable segments** for segment reporting
- c. Identification of **related parties and related party transactions** for reporting
- d. 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**.

Bank Audit

Q1

During the statutory audit of ELITE Bank Ltd., a leading private sector bank, for the financial year 2024-25, the following issue emerged to statutory central auditors. ELITE Bank Ltd. acquired a commercial property in satisfaction of a loan default by a borrower in Financial Year 2016-2017. The property was recorded at net book value of the loan. The bank plans to sell this property in the next fiscal year to recover its dues. A legal dispute has emerged over the ownership of the property, with a third party claiming partial rights. The matter is pending in court. The management has not disclosed this dispute in the financial statements but contends that a favourable court ruling is expected. The auditor's review reveals that the property's fair market value is significantly lower. Based on the above facts, you are required to:

- i) Identify specific audit procedure the auditor should undertake to ensure compliance of the Banking Regulation Act, 1949.
- ii) Under which head ELITE Bank Ltd. should record the above mentioned property?
- iii) Suggest also other audit procedures that an auditor should focus upon. (May'25)

Solution

- i) The auditor should ensure **compliance with Section 9** of the Banking Regulation Act, 1949, which **restricts a banking company from holding any immovable property**, regardless of how it is acquired, including in satisfaction of claims, **for a period exceeding seven years from the date of acquisition**, unless such property is required for the bank's own use.
- ii) Such property should be classified under the **"Other Assets" head** in the Schedule to the financial statements by Elite Bank, i.e., Non-Banking Assets Acquired in Satisfaction of Claims.
- iii) Other audit procedures the auditor should focus upon are to:
 - ensure that the heading includes those immovable properties/tangible assets which the bank has **acquired in satisfaction of debts due or its other claims**, and these are being **held with the intention of being disposed off**.
 - verify such assets with reference to the **relevant documentary evidence**, e.g., terms of settlement with the party, order of the Court, or the award of arbitration, etc.
 - check that the **ownership of the property is legally vested** with the bank. If there is any dispute or other claim about the property, the auditor should examine whether the recording of the asset

is appropriate or not. In case the **dispute arises subsequently**, the auditor should examine whether a **provision for liability or disclosure of a contingent liability** is appropriate, keeping in view the requirements of AS 29, "Provisions, Contingent Liabilities and Contingent Assets".

- ensure that the assets should be **recorded at the lower of the net book value of the advance or the net realisable value of the asset acquired on the date of acquisition**.

Q2

You are auditing the branch operations of XS Bank, a scheduled commercial bank, for the year ending 31st March 2025. During the audit of the loans and advances portfolio, you observed the following:

- Advances were sanctioned without proper credit appraisal in some cases.
- Certain loans were sanctioned without adequate documentation like demand promissory notes and hypothecation letters and others where post-disbursement monitoring was weak.
- In several branches, securities were being held by a single officer instead of under joint custody.
- A few loan accounts had exceeded the sanctioned limit and drawing power, but no intimation was given to the Head Office.

On pointing out the above, branch manager replied that they rely on their internal control framework to mitigate such risks. Based on the above situation, explain the internal controls that bank is expected to implement in the area of loans and advances. (RTP Sep'25)

Solution

Banks are expected to implement the following internal controls in loans and advances are:

- The bank should make advances only after satisfying itself as to the **creditworthiness of the borrowers** and after obtaining **sanction from the proper authorities** of the bank.
- All the **necessary documents** (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be **executed** by the parties before advances are made.
- **Sufficient margin** should be kept against securities taken to cover any decline in the value thereof and to comply with **Reserve Bank directives**. Such margins should be determined by the proper authorities of the bank as a general policy or after detailed scrutiny for specific accounts.
- All the **securities should be received and returned by responsible officer**. They should be kept in the **Joint custody of two such officers**.
- All **securities requiring registration** should be **registered in the name of the bank** or otherwise accompanied by the documents sufficient to give the title of the bank.
- All **accounts should be kept within both the drawing power and the sanctioned limit** as per prescribed norms. **Additional temporary limit** may be sanctioned, for a **maximum of 20% of existing limit and 90 days maximum tenure**.
- All the **accounts which exceed the sanctioned limit or drawing power** or are against unapproved securities or are otherwise irregular should be brought to the **notice of the Management/Head Office regularly**.
- The **operation (in each advance account) should be reviewed at least once every year**.

Conclusion

In the given case, the observations made during the audit indicate serious lapses in adherence to internal control procedures relating to credit appraisal, documentation, custody of securities, and monitoring of advance accounts. The **branch's reliance on the internal control framework is not substantiated by its execution in practice**. The bank must **ensure strict compliance with its internal controls and regulatory guidelines** to mitigate credit risk and safeguard its interest.

Q3

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'.
(RTP Jan'26)

Solution

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.

Q4

M/s. TZ and Associates are appointed as a statutory branch auditors of the Delhi Branch of ABC Bank Limited for the F.Y. 2024-25. CA T is the engagement partner for this assignment. He is verifying the advances and has obtained the list of advances outstanding as on 31st March, 2025. On sampling basis, he selected one account of Mr. X who has borrowed ₹ 1.00 crore in the form of housing loan in the year 2021-22. The account was operating positively till 2023-24. Since April 2024, the account was often remaining overdue.

On 01.10.2024, Mr. X approached the Branch and requested to increase the repayment period and to reduce the rate of interest as he was facing some financial crunch due to sudden medical emergency in the family. On 01.11.2024, the Branch accepted the proposal of Mr. X and increased the repayment period and reduced the rate of interest. The Branch classified the account of Mr. X as a Standard Asset as on 31.03.2025. CA T insisted the Branch Manager to classify the account as Sub-standard Asset as on 31.03.2025 as there is a change in the terms of payment. CA T started to draft Memorandum of Changes (MOC) for account of Mr. X to be submitted to the Branch. The rate of provision for secured portion of Sub-standard

Assets as prescribed by the Board of ABC Bank Limited is 20% whereas the requirement as per IRAC norms is 15% for secured portion.

In this context:

- i) Justify the classification insisted by CA T regarding the account of Mr. X as on 31.03.2025. (3 Marks)
- ii) Guide CA T in deciding the rate to be applied for secured portion of Sub-standard Asset while finalizing the Memorandum of Changes (MOC). (2 Marks) [Sep'25]

Solution

Restructuring of Advances:

(i) Restructuring is an act in which a **lender**, for economic or legal reasons relating to borrower's financial difficulty, **grants concessions to the borrower**.

- It may involve **modification of terms of advances** including alteration of amount of instalments/alteration of repayment period/ rate of interest/sanction of additional credit facilities etc. to help in curing default.
- Under RBI prudential norms, banks may **restructure the accounts classified under standard, substandard or doubtful categories**.
- On restructuring, the **account will be downgraded from Standard to Sub-standard** whereas NPAs will remain in the same category.

Facts

In the given situation CA T selected account of Mr. X whose account was often overdue since April, 2024 but did not become NPA. On 01.11.2024, Bank accepted Mr. X's request to increase the repayment period and reduced rate of interest. Branch classified the account as Standard Asset as on 31.3.2025. However, CA T is of the view that the account should be classified as sub-standard asset as there is change in terms of payment.

Conclusion

Thus, classification insisted by CA T regarding the account of Mr. X as on 31.03.2025 as sub-standard is **correct**.

(ii) The Reserve Bank has prescribed objective norms for determining the quantum of provisions required in respect of advances. However, these norms should be construed as laying down the minimum provisioning requirements and **wherever a higher provision is warranted** in the context of the threats to recovery, such **higher provision should be made**.

Facts

In the given situation, CA T drafted Memorandum of changes for account of Mr. X to be submitted to the branch. Rate of provision for secured portion of sub-standard assets prescribed by Board of ABC Bank Ltd. is 20%, whereas requirement as per IRAC norms is 15%.

Conclusion

Since 15% provisioning prescribed by IRAC norms is minimum requirement, therefore, rate of provision prescribed by ABC Bank Ltd. for secured portion of Sub-standard Asset as **20% as higher provision is in order.**

Q5

PARK Bank Ltd. is reviewing the Cash credit limit worth ₹3 crores of Manish Manufacturing Pvt. Ltd. During the quarterly review, the credit officer noticed that the latest stock statement available was more than three months old. Based on this old statement, the drawing power (DP) calculations showed that the outstanding amount exceeded the permissible limit. Further, the sanction limits were due for renewal, but the renewal process had not been completed on time. However, the excess outstanding was only temporary and resulted from a short-term timing mismatch in receipts.

The officer is unsure whether the account should be classified as a Non-Performing Asset (NPA) in light of these observations. Evaluate the situation and determine, with reasons, whether the bank should classify the account as NPA. (MTP Jan'26)

Solution

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.
- Although the account reflects irregularity due to reliance on outdated stock statements, the deficiencies identified are temporary and do not independently justify NPA classification.
- The bank must obtain an updated stock statement promptly and continue monitoring the account, but NPA recognition is not warranted at this stage.

NBFC Audit**Q1**

CA M is appointed as the Statutory auditor of Fincorp Limited for the financial year 2024-25. This company is an NBFC covered under Middle Layer. To comply with the RBI Prudential Norms for asset classification, Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as on 31st March, 2025:

Particulars	Balance outstanding as on 31.03.25	Provision for FY 2024-25
Standard Assets	₹ 200 crores	NIL
Sub-standard Assets	₹ 15 crores (Fully secured)	₹ 1.50 crores
Doubtful Assets (one to three years)	₹ 8 crores (Fully secured)	₹ 2.00 crores
Loss Assets	₹ 2 crores	₹ 2.00 crores
Total Provision for NPA		₹ 5.50 crores

CA M is of the opinion that the company has not done the provisioning correctly. Is the opinion of CA M correct? In this context, explain the provisioning requirements applicable to this NBFC and comment on the provision for NPA made by the company. [Nov'24]

Solution

Provisioning Requirements: The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Categories of Non-Performing Assets:	Provision required (%)
Standard asset provisioning (Not applicable for NBFC-UL) NBFC shall make provisions for standard assets at 0.40 percent of the outstanding, which shall not be reckoned for arriving at net NPAs.	0.40%
Substandard Assets	10%
Doubtful Assets (upto 1 to 3 Years)	30%
Loss Assets	100%

The Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as under:

Categories of Non-Performing Assets:	Balance outstanding as on 31.03.25	Provision required (%)	Provision required (in ₹)	Provision made by the Co.
Standard Assets	₹ 200 crores	0.40%	₹ 80 lakhs	NIL
Substandard Assets	₹ 15 crores	10%	₹ 1.5 Cr	₹ 1.5 crores
Doubtful Assets (upto 1 to 3 Years)	₹ 8 crores	30%	₹ 2.4 crores	₹ 2 crores
Loss Assets	₹ 2 crores	100%	₹ 2 crores	₹ 2 crores
Total Provision for NPA			₹ 6.7 crores	₹ 5.5 crores

Conclusion

From the above, it can be concluded that **provisioning for Substandard Assets and Loss Assets is in accordance with the prescribed RBI Prudential Norms** whereas in case of **Standard Assets and Doubtful Assets it is not as per provisioning norms**. Thus, **CA M is correct** in his opinion that the company has not done the provisioning correctly.

Q2

Qura Capital Ltd., a Non-Banking Financial Company (NBFC) classified under the Scale-Based Regulation framework, is required to maintain a minimum capital ratio of 15% of its aggregate risk-weighted assets (RWA) and risk-adjusted off-balance sheet items. The company has provided the following financial data for computing of its Tier 1 and Tier 2 capital as per the RBI Master Directions:

Particulars	Amount in ₹
Owned Fund	₹ 1,000 crore

Investment in shares of other NBFCs and in group companies (exceeding 10% of owned fund)	₹ 150 crore
Perpetual Debt Instruments issued by Qura Finance Ltd.	₹ 120 crore
Preference Shares (not compulsorily convertible into equity)	₹ 80 crore
Revaluation Reserves	₹ 200 crore
General Provisions & Loss Reserves	₹ 50 crore
Hybrid Debt Capital Instruments	₹ 90 crore
Subordinated Debt	₹ 140 crore
Risk-Weighted Assets (RWA)	₹ 8,000 crore

Considering that Qura Finance Ltd. is neither an NBFC-MFI nor primarily engaged in lending against gold jewellery, compute the following:

- Tier 1 capital of Qura Finance Ltd. as per RBI guidelines.
- Tier 2 capital, ensuring it does not exceed the Tier 1 capital.

Also, determine whether Qura Finance Ltd. meets the minimum capital adequacy requirement of 15% of RWA.

Solution

To determine whether Qura Capital Ltd. meets the capital adequacy requirement, we need to compute its Tier 1 Capital, Tier 2 Capital and compare the total capital ratio against the required 15% of Risk-Weighted Assets (RWA).

Step 1: Computation of Tier 1 Capital

Tier 1 Capital = Owned Fund - Investments in Group Entities + Eligible Perpetual Debt Instruments.

Tier 1 Capital = 1,000 - 150 + 120 = ₹ 970 crore

Note: The perpetual debt instruments are limited to 15% of the previous year's Tier 1 capital.

Assuming ₹120 crore qualifies, we include it in Tier 1 capital.

Step 2: Computation of Tier 2 Capital

Tier 2 Capital = Sum of:

- Preference Shares = ₹ 80 crore
- Revaluation Reserves at 55% discount = ₹200 crore × 45% = ₹ 90 crore
- General Provisions (Limited to 1.25% of RWA) = 1.25% of ₹ 8,000 crore = ₹ 100 crore
(Since actual general provisions are ₹ 50 crore, we take ₹ 50 crore)
- Hybrid Debt Capital Instruments = ₹ 90 crore
- Subordinated Debt = ₹ 140 crore
- Perpetual Debt Instruments exceeding Tier 1 Limit = ₹ 0 crore (As ₹ 120 crore is already within Tier 1 limit)

Tier 2 Capital = 80 + 90 + 50 + 90 + 140 + 0 = ₹ 450 crore.

Note: Tier 2 Capital cannot exceed Tier 1 Capital. Since ₹ 450 crore is within the ₹ 970 crore Tier 1 limit, it is fully eligible.

Step 3: Compute Capital Adequacy Ratio (CAR)

Total Capital = Tier 1 Capital + Tier 2 Capital.

Total Capital = 970 + 450 = ₹ 1,420

Capital Adequacy Ratio (CAR) = (Total Capital/Risk-Weighted Assets) × 100 = 1420/8000 × 100 = 17.75%

Step 4: Conclusion

- Minimum required capital ratio = 15%
- Actual Capital Adequacy Ratio (CAR) = 17.75%

Since Qura Capital Ltd.'s CAR (18%) is higher than the minimum requirement of 15%, it meets the regulatory capital adequacy norms.

Q3

Instant Finance Ltd. is a Non-Banking Financial Company (NBFC-BL) primarily engaged in providing loans to small businesses and individuals. As per its audited financials for the year ending March 31, 2025, the following information was observed:

1. Instant Finance Ltd. has an aggregate risk-weighted asset base of ₹ 1,000 crore.
2. The company has reported Tier 1 capital of ₹ 130 crore, which includes ₹ 15 crore raised through perpetual debt instruments.
3. Instant Finance Ltd. has investments in shares and bonds of other NBFCs totalling ₹ 10 crore, which amounts to 12% of its owned fund.
4. The company's primary business involves lending against gold jewellery, with such loans comprising 60% of its financial assets.

As a statutory auditor, you are entrusted with assessing compliance with the prudential norms prescribed under the Master Direction - Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023, regarding capital adequacy.

You are required to:

- i) Evaluate whether Instant Finance Ltd. complies with the minimum Tier I capital requirements as per the RBI prudential norms.
- ii) Discuss the treatment and impact of perpetual debt instruments in the calculation of Tier I capital for NBFCs primarily engaged in lending against gold jewellery.
- iii) Analyse the adjustment required in Tier 1 capital for Instant Finance Ltd. due to its investments in other NBFCs. (May'25)

Solution

Compliance with Minimum Tier 1 Capital Requirements: As per RBI norms, Instant Finance Ltd. must maintain a minimum capital adequacy ratio of 15 % of aggregate risk-weighted assets. Since 60 % of its financial assets are loans against gold, it must maintain a Tier 1 Capital of at least 12% (₹ 120 Crore) of its risk-weighted assets.

(i) In the given situation, Instant Finance Ltd. has reported Tier 1 Capital of ₹ 130 crore. However, NBFC-BL are not eligible to include perpetual debt instruments in their Tier 1 capital. Thus, the amount of Tier 1 Capital will be ₹ 115 crores (₹ 130 crores - ₹ 15 crores = ₹ 115 crores).

Since, Instant Finance Ltd.'s primary business involves lending against gold jewellery, with such loan comprising of 60% of its financial assets which is exceeding the criteria of 50% or more, thus, Instant Finance Ltd. is required to 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.

Considering the ₹ 120 crore (Aggregate Risk Weighted assets ₹ 1000 crore*12% = ₹ 120 crore) as Tier 1 Capital, it can be concluded that Instant Finance Ltd. has not complied with the minimum Tier 1 Capital requirements as per the RBI Prudential Norms.

Alternative Answer:

(i) As per the facts, Instant Finance Ltd. has investment in shares and bonds of other NBFCs totalling of ₹ 10 crore, which amount to 12% of its owned fund. "Tier 1 capital" for NBFCs (except NBFCs-BL) is the sum of

- Owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund; and
- Perpetual debt instruments issued by a nondeposit taking NBFCs in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous accounting year. However, NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.

Since Owned Fund = ₹ 83.33 crore [i.e., = ₹ 10 crore /12%] - ₹ 1.667 [in excess of 10% of owned fund] = ₹ 81.667 crore

In the given situation, Instant Finance Ltd. has reported Tier 1 Capital of ₹ 130 crore. However, NBFC BL are not eligible to include perpetual debt instruments in their Tier 1 capital. Thus, amount of Tier 1 Capital will be ₹ 113.333 crore = ₹ 130 crore - ₹ 15 crore - ₹ 1.667 crore (i.e., Tier 1 Capital-Perpetual Debt Instrument - excess of 10% of owned fund).

Considering the ₹ 120 crore = (Aggregate Risk Weighted assets 1000*12%) as Tier 1 Capital, it can be concluded that Instant Finance Ltd. has not complied with the minimum Tier 1 Capital requirements as per the RBI Prudential Norms.

(ii) Perpetual debt instruments issued by a non-deposit taking NBFCs in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous accounting year are included while calculating Tier 1 capital. However, NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.

In the instant case, Instant Finance Ltd. falls under the category of NBFC-BL, hence, perpetual debt instruments will not be included in Tier I Capital.

(iii) While computing Tier I capital, Owned fund shall be reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund.

In the given case, Tier I capital of Instant Finance Ltd should be reduced by investment in shares of other NBFCs, exceeding in aggregate ten percent of the owned fund. In the current scenario, the investment in shares and bonds of other NBFCs totaling to ₹ 10 crore is 12% of owned funds, hence, the excess of 2% of owned funds should be adjusted to arrive at Tier I Capital.

Alternative Answer:

(iii) While computing Tier I capital, Owned fund shall be reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund.

In the given case, Tier I capital of Instant Finance Ltd should be reduced by investment in shares of other NBFCs, exceeding in aggregate ten percent of the owned fund. In the current scenario, the investment in shares and bonds of other NBFCs totaling to ₹ 10 crore is 11.33% of owned funds, hence, the excess of 1.33% of owned funds should be adjusted to arrive at Tier I Capital.

PSU Audit

Q1

A state government owned PSU was involved in setting up of a thermal power plant in the state. The C & AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out. What kind of audit is referred in the above case? Describe the methods which could be used in conducting such audits.

Solution

In the given situation, **Performance Audit** will be conducted as it 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.

Some of the methods which could be used in conducting performance audits include:

- i) Analysis of procedures: It involves **review of the systems** in place for planning, conducting, checking and monitoring the activity. This would consist of examination of documents such as financial reports, budgets, programme guidelines, procedure manuals, etc.
- ii) Case studies: A case study is a **descriptive analysis** of an entity, scheme or a programme. It involves analysis of a particular issue within the context of the whole area under review.

- iii) Use of existing data: The audit staff should investigate the data held by entity management and by other relevant sources. Audit conclusions based on testing of available data for **correctness and completeness** enhances the assurance level.
- iv) Surveys: Survey is a method of **collecting information from members of a population** to assess the interrelation of events and conditions. Surveys on predetermined parameters can supplement the audit findings and conclusions adding value to the performance audits.
- v) Analysis of results: It requires the auditor to carry out actual **output-input analysis** to determine the **efficiency** of the programme.
- vi) Quantitative analysis: It involves **examination of available data** relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc. However, it may not be possible for the auditor to work with complete data due to its high volume. In such cases, sampling techniques are required to be used.

Q2

The Government of India launched a rural development scheme to undertake projects aimed at improving infrastructure, healthcare and education in the rural areas. To execute the projects the Central Government provided funds to the state government. The Comptroller and Auditor General of India wants to ensure that the funds provided to the State Governments have been utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized by the state government for building hospitals, school buildings and roads and submit a report on the wastefulness in public administration and cases of improper, avoidable and infructuous expenditures, if any, has been done. What functions as an auditor will be performed by you?

(Nov'24)

Solution

Function of Auditor in case of Propriety Audit

The functions of Auditor in the context of Propriety Audit may be specified as under as to:

- see that all **expenditure incurred** are properly **planned**.
- see that the size and channels of **expenditure** are **rightful and expected to give maximum results**.
- appraise whether those expenditure are likely to give **optimum result**.
- see that **any substitute plan of action** can bring about an improvement on current operation and as well as return from capital expenditure.
- examine the **actions and decisions of the management** to see that they are conducive to public interests and that they meet the standards of conduct.

Q3

Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG. [RTP Jan'26/May'24 + MTP Sep'25 + SM]

Solution

In the provided scenario, Saha & Associates, a Chartered Accountant firm, was appointed by the Comptroller and Auditor General (C&AG) to conduct a Performance Audit of Herbal Ltd., a Public Sector Undertaking (PSU) of the 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.

Conclusion

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.

Note: This question is already in QB, ICAI has just changed its framing little bit.

Q2

LNG Corporation is a government-owned entity, is engaged in operating liquefied natural Gas. The organization recently underwent a compliance audit conducted by the Comptroller and Auditor General

(C&AG) of India. The audit aimed to assess whether the PSU's financial transactions, procurement activities and operations complied with relevant laws, regulations and internal guidelines.

In context of the above, you are required to:

- (i) Explain the concept of compliance audit and its perspective.
- (ii) What shall be the concern of the auditor when undertaking compliance audit? (Sep'25)

Solution

Compliance Audit is the **independent assessment** of whether a given **subject matter** is in **compliance with the applicable criteria**. This audit is carried out by assessing whether activities, financial transactions and information comply in all material respects, with the regulatory and other rules which govern the audited entity.

Perspective of Compliance Auditing: Compliance Auditing is part of a combined audit that may also include other aspects.

Compliance auditing is generally conducted either-

1. in relation **with the audit of financial statements**, or
2. **separately** as individual compliance audits, or
3. in combination **with performance auditing**.

(ii) Compliance auditing is concerned with:

1. **Regularity** - adherence of the subject matter to the **formal criteria** emanating from **relevant laws, regulations and agreements** applicable to the entity.
2. **Propriety** - observance of the **general principles** governing **sound financial management** and the **ethical conduct of public officials**.

While regularity is emphasized in compliance auditing, propriety is equally pertinent in the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.

Internal Audit

Q1

Footwear Ltd., a manufacturing company has recently appointed you as its Internal Auditor to review its financial and operational controls. You have to conduct the internal audit in compliance with the standards of Internal Audit, within the framework governing Internal Audits. During the audit, you have identified misappropriation of inventories and suspected fraudulent activities by a procurement manager. You thought it would be more appropriate to bring the same immediately to the attention of the management. As per the principles outlined in Standard on Internal Audit, you need to prepare an internal audit report covering the audit findings. Explain the stages of internal audit reporting results as per relevant Standard on Internal Audit and state the key elements to be included while issuing a clear, well documented Internal Audit Report by you as an internal auditor. (May'25)

Solution

As per Standard on Internal Audit (SIA) 370 Reporting Results, reporting of internal audit results is generally undertaken in two stages:

- At the **end of a particular audit assignment**, an "Internal Audit Report" covering a specific area, function or part of the entity is prepared by the Internal Auditor **highlighting key observations** arising from those assignments. This report is generally issued with **details of the manner in which the assignment was conducted** and the **key findings** from the audit procedures undertaken. This report is issued to the auditee, with copies shared with local and executive management, as agreed during the planning phase.
- On a **periodic basis**, at the **close of a plan period**, a comprehensive report of all the internal audit activities covering the entity and the plan period is **prepared by the Chief Internal Auditor** (or the Engagement Partner, in case of external service provider). Such reporting is normally done on a **quarterly basis** and **submitted to** the highest governing authority responsible for internal audits, generally the **Audit Committee**. Some part of the aforementioned Internal Audit Reports may form part of the periodic (e.g. Quarterly) report shared with the Audit Committee.

On the basis of the internal audit work completed, the Internal Auditor shall issue a clear, well-documented Internal Audit Report which includes the following key elements:

- i) An overview of the **objectives, scope, and approach** of the audit assignments;
- ii) The fact that an internal audit has been conducted in accordance with the **Standards of Internal Audit**;
- iii) An executive summary of **key observations** covering all important aspects, and specific to the scope of the assignment;
- iv) A summary of the **corrective actions** required (or agreed by management) for each observation; and
- v) **Nature of assurance**, if any, which can be derived from the observations.

Q2

CA. Jayesh has recently been appointed Chief Internal auditor of a listed company. The internal audit charter inter alia includes long term view of internal audit function, purpose and objectives of internal audit, reporting structure, scope & approach, accountability for certain deliverables like reducing risk ratings, improving control environment etc. & authority attached. Given his sharp insight, he realizes that a proper plan needs to be put in place for reviewing performance/ training of professional staff constituting in-house teams and acquisition of fresh professional talent. Does the above fall within purview of critical activities to be performed by Chief Internal Auditor to achieve objectives of Internal audit function? Comment on the above with regards to critical activities intended to achieve objectives of internal audit function outlined in internal audit charter. (MTP Sep'25)

Solution

As per Standard on Internal Audit (SIA) 210, "Managing the Internal Audit Function", the Internal Audit Function performs a number of activities to achieve its objectives as outlined in its Charter (or Terms of Engagement). A few of the critical activities are as follows:

- i) Define the **overall plan, scope and methodology of the Internal Audit Function** on a periodic basis.
- ii) **Oversee and monitor various audit assignments**, their proper planning, execution, reporting of findings and subsequent closure of reported observations.

- iii) Plan, acquire, engage and review the **performance, training and development of professional staff, talent and other resources** to achieve its objectives.
- iv) Identify, source, engage and manage **external experts and technical solutions**, if required.
- v) **Communicate and engage with all key stakeholders** regarding progress and achievement of objectives.
- vi) Develop and maintain a **quality evaluation and improvement program**.

Conclusion

- Therefore, planning, acquiring and review of performance, training and development of professional staff is one of the critical activities for achievement of internal audit objectives.
- Without performance of this critical activity, it would be difficult to achieve objectives of internal audit function as outlined in internal audit charter. Hence, it **falls within purview of critical activities** to be performed by Chief Internal auditor to achieve objectives as outlined in internal audit charter.

Q3

Jeneva Technologies Pvt. Ltd., a private limited company engaged in the manufacturing of automation equipment, having turnover of ₹ 210 crores during the financial year 2023-24. Additionally, the company had taken a loan of ₹ 95 crores from a consortium of banks during the same year, which remained outstanding as of the balance sheet date.

Meanwhile, Cross Buildcon Ltd., an unlisted public company involved in real estate development, had the following financial details for the year 2023-24:

Particulars	Amount
Paid up share capital	₹48 Crores
Turnover	₹198 Crores
Outstanding borrowings from bank	₹110 Crores
Outstanding deposits	₹30 Crores

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

As a professional consultant, you are required to advise:

- a) Whether Jeneva Technologies Pvt. Ltd. is required to appoint an internal auditor for the financial year 2024-25.
- b) Whether Cross Buildcon Ltd. is required to appoint an internal auditor for the financial year 2024-25.
- c) State who can be appointed as internal auditors under the Companies Act, 2013. (RTP Sep'25)

Solution

As per **section 138** of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

(A) every **listed company**;

(B) every **unlisted public company** having-

- i) **paid up share capital of fifty crore rupees or more** during the preceding financial year; or
- ii) **turnover of two hundred crore rupees or more** during the preceding financial year; or

- iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
- iv) outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

- i) turnover of two hundred crore rupees or more during the preceding financial year; or
- ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

(a) In the case of Jeneva Technologies Pvt. Ltd., the company recorded a turnover of ₹ 210 crores during the financial year 2023-24 and had obtained a loan of ₹ 95 crores from a consortium of banks during the same period. As the turnover exceeds the prescribed threshold of ₹ 200 crores, the company falls within the criteria specified under Rule 13 of the Companies (Accounts) Rules, 2014. Hence, it is **mandatorily required to appoint an internal auditor for the financial year 2024-25**.

(b) In the case of Cross Buildcon Ltd., the company has a paid-up share capital of ₹ 48 crores, a turnover of ₹ 198 crores, outstanding borrowings from a bank amounting to ₹ 110 crores, and outstanding deposits of ₹ 30 crores as per the financial year 2023-24. Although the paid-up capital and turnover are below the prescribed thresholds, the outstanding borrowings and deposits exceed the specified limits under Rule 13 of the Companies (Accounts) Rules, 2014. Therefore, **Cross Buildcon Ltd. is mandatorily required to appoint an internal auditor for the financial year 2024-25**.

(c) As per **section 138**, the internal auditor shall **either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.**

- The internal auditor **may or may not be an employee** of the company.
- To be effective, the internal auditor must be **regarded as a part of the management and not merely as an assistant thereto**.

Forensic Accounting

KLIM Ltd., a construction company, engaged in constructing and selling residential or commercial properties, having suspected potential fraud of substantial amount, engaged CA J, a forensic accountant, to investigate the matter. During the course of performing a forensic accounting engagement in relation to suspected fraud, which aspects CA J should take care of while undertaking the process of obtaining relevant evidence? (May'25)

Solution

During the course of performing a forensic accounting engagement in relation to suspected fraud, while undertaking the process of obtaining relevant evidence, CA J should take care of the following aspects:

- Depending on the nature of the case, this may involve **locating documents, economic information, assets, a person or company, another expert or proof of the occurrence of an event**.
- In order to gather detailed evidence, the investigator must **understand the specific type of fraud that has been carried out and how the fraud has been committed**.

- The **evidence should be sufficient** to ultimately prove the **identity of the fraudster(s)**, the **mechanics of the fraud** scheme, and the **amount of financial loss** suffered.
- It is important that the investigating team is **skilled in collecting evidence** that can be used in a court case within the stipulated time period, and in **keeping a clear chain of custody** until the evidence is presented in court.
- If any **evidence is inconclusive or there are gaps in the chain of custody**, then the evidence may be **challenged in court, or even become inadmissible**. Investigators must be alert to documents being falsified, damaged, or destroyed by the suspect(s).

Investigation

Q1

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."

(RTP Jan'26)

Solution

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.

Q2

BIL Limited is a company manufacturing premium shampoos since last decade. The company functions through various salesmen appointed across the country. The management of company came across the news that the salesmen in the central and western regions have exaggerated their sales through fictitious billings to achieve higher commission and to accommodate the sales volume achieved by one employee with other employees, who falls short of their target. The management of the company appointed you to investigate and unearth such type of fraud, if it is prevailing in their company. What procedures will be followed by you to investigate such type of fraud? (Sep'25)

Solution**Procedure to be followed to Investigate Commission Schemes Fraud:**

1. Before proceeding to investigate frauds of the type aforementioned, the investigating accountant should **ascertain the exact duties of the person** concerned who is suspected to have committed a fraud, his relationship to the general routine of the office and the circumstances in which any known instances of defalcation have come to light.
2. Such an enquiry would give a clue to promising avenues of investigation. **Greater the authority of the individual suspected** of a fraud, **wider** would be the **field** which would have to be **covered by the investigation**.
3. At times, an accountant is called upon to investigate a suspected fraud, the details or the nature whereof is not known. In such a case, for localising the source of the fraud, the investigating accountant will have to **study the financial and accounting structure of the organisation**.
4. As a first step, he should **examine the line of responsibility between the various members of the staff**. He should have a look at the system of internal control in operation for spotting out the weaknesses, if any, that may exist in it.
5. Relying on the above study, he should **direct his enquiry towards those aspects** of the business where there has been **excessive control in the hands of single person/employee, without any supervision** by any other person/employee or, any other inherent weakness that may be in existence in the system.

SA 810

Gold Opportunities Fund is in the business of Mutual fund and has prepared the financial statements for the F.Y. ended on 31st March 2025. These financial statements have been audited by M/s SH & Co., Chartered Accountants, and the audit report issued is unqualified. The company has also prepared a scheme wise summary of its financial performance for the stakeholders. The management of Gold Opportunities Fund further engages M/s SH & Co. to perform an engagement to report on the abridged financial statements derived from the audited financial statements pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Describe in detail the nature of procedures that would be performed by M/s SH & Co., under relevant Standard on Auditing to provide an opinion on the abridged financial statements. (Sep'25)

Solution

As per **SA 810**, "Engagements to Report on Summary Financial Statements", **nature of procedures** to be performed by auditor M/s SH & Co. to provide opinion on the abridged financial statements are given below:

1. Evaluate whether the **summary financial statements** adequately **disclose their summarised nature** and **identify the audited financial statements**.
2. When summary financial statements are **not accompanied by the audited financial statements**, evaluate whether they **describe clearly**:
 - i. From **whom or where** the **audited financial statements** are available; or
 - ii. The **law or regulation** that specifies that the **audited financial statements need not be made available** to the intended users of the summary financial statements and **establishes the criteria** for the preparation of the summary financial statements.
3. Evaluate whether the summary financial statements adequately **disclose the applied criteria**.
4. Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements **agree with or can be re-calculated from the related information in the audited financial statements**.
5. Evaluate whether the summary financial statements are **prepared in accordance with the applied criteria**.
6. Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements **contain the information necessary**, and are at an **appropriate level of aggregation**, so as not to be misleading in the circumstances.
7. Evaluate whether the **audited financial statements are available to the intended users** of the summary financial statements **without undue difficulty**, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

SRE 2400/2410**Q1**

Glow management Ltd., a workspace operator, seeks to secure funding from investors. The funds will be used for repayment of debt and cost of capital for strengthening its Balance sheet. To support this, the company has prepared its financial statements for the year ended March 31, 2025. The investors request a limited assurance review rather than a full audit, to ensure the reliability of the financial statements. The management of Glow management Ltd. engages an independent practitioner CA Kishore to perform a review engagement under SRE 2400. During the review, CA Kishore identifies that there was significant increase in deferred revenue. On inquiry, CA Kishore found management's explanation unreasonable that it is related to advances received for upcoming projects and was unable to corroborate this with contracts.

Based on the evidence gathered and procedures performed, CA Kishore determines, that the financial statements are materially misstated. He is bound to express a qualified conclusion, as the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements.

In the above context, you are required to help CA Kishore to:

- (i) State the phrases to be used in conclusion paragraph as appropriate.
- (ii) State the matters to be included in the basis for conclusion paragraph. (May'25)

Solution

As per **SRE 2400**, "Engagements to Review Historical Financial Statements", when the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -

- a) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework) or
 - b) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).
- (ii) In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall: -
- a) **Describe and quantify the financial effects of the misstatement** if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
 - b) Explain **how disclosures are misstated** if the material misstatement relates to **narrative disclosures**; or
 - c) Describe the **nature of omitted information** if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Q2

Best Textiles Ltd. makes an investment in Prime Textiles Ltd. with a view to expand its business, capture more market share and to earn higher returns. While forming an agreement for the same, Best Textiles Ltd. puts a clause in the contract that Prime Textiles Ltd. will get its financial statements reviewed on a quarterly basis for a period of 2 years from the commencement of the contract i.e. 01-04-2024. To comply with the provisions of the contract the management of Prime Textiles Ltd. appoints CA Sumit to conduct the quarterly review of financial statements for the first quarter of the financial year 2024-25. Discuss from the practitioner's point of view, the preconditions for accepting a review engagement in accordance with the relevant SRE. (Nov'24)

Solution**Preconditions for Accepting Review Engagement**

As per **SRE 2400, Engagement to Review Historical Financial Statements**, the preconditions for accepting a review engagement are:

1. Determine whether the **financial reporting framework** applied in the preparation of the financial statements is **acceptable** including, in the case of special purpose financial statements, obtaining an

understanding of the purpose for which the financial statements are prepared and of the intended users, and;

2. Obtain the **agreement of management** that it **acknowledges and understands its responsibilities**:
 - i) For the **preparation of the financial statements in accordance with the applicable financial reporting framework**, including, where relevant, their fair presentation.
 - ii) For 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; and
 - iii) To **provide the practitioner with**: -
 - a) **Access to all information** of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - b) **Additional information** that the practitioner may request from management for the purpose of the review; and
 - c) **Unrestricted access** to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

Q3

Amar Projects Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Amar Projects' interim financial statements for the six-month period ending 30th September 2024, instead of a full audit.

To comply with this request, the management appoints CA Tanvi, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Tanvi is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report.

- (i) What kind of assurance is given in a review engagement? How is it different from an audit?
- (ii) What are the key elements that must be included in the written review report as per SRE 2410? Also, explain whether a UDIN is required for such an engagement. (RTP Sep'25)

Solution

i) A review engagement under **SRE 2410** provides **limited assurance**, which is **lower in scope** than the reasonable assurance obtained in an audit. A review consists of making **inquiries**, primarily of persons responsible for financial and accounting matters, and applying **analytical and other review procedures**.

A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Overview of distinctive areas between Audit and Review

Audit	Review
Audit is a type of reasonable assurance engagement providing reasonable level of assurance .	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.

It performs elaborate and extensive procedures including tests of controls and substantive procedures .	It performs fewer procedures primarily focusing on inquiry and analytical procedures .
It draws reasonable conclusions on the basis of sufficient appropriate evidence .	It draws limited conclusions on the basis of sufficient appropriate evidence .
It provides an assurance opinion . The language of assurance opinion is positively worded .	It provides an assurance conclusion . The language of assurance conclusion is negatively worded .

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

- a) An appropriate **title**.
- b) An **addressee**, as required by the circumstances of the engagement.
- c) **Identification of the interim financial information** reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.
- d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.
- e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.
- f) A statement that the **auditor is responsible for expressing a conclusion** on the interim financial information based on the review.
- g) A statement that the review of the interim financial information was conducted in accordance with **Standard on Review Engagements (SRE) 2410**, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
- h) A statement that a **review is substantially less in scope than an audit** conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.
- i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.
- j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (k) The date of the report.
- k) **Place of Signature**.

- l) The auditor's **signature and membership number** assigned by the Institute of Chartered Accountants of India (ICAI).
- m) The **Firm's registration number** of the member of the Institute, wherever applicable, as allotted by ICAI.

Besides, **UDIN has also to be generated** and stated for review engagement as it is also in nature of an assurance engagement. UDIN has to be stated for engagements performed in accordance with SRE 2400 or SRE 2410.

Q4

MK Limited, a company engaged in the manufacture of modular furniture, is headquartered at Mumbai. The company is recently listed at the recognized stock exchange in the month of July, 2024. CD & Co., chartered accountants, are statutory auditors of the company for the F.Y. 2024-25. The company has approached statutory auditors for providing quarterly review report pursuant to requirement of SEBI to provide quarterly results of the company in accordance with SRE 2410. Elucidate the objective of the engagement assigned by the company to the statutory auditors. (Sep'25)

Solution

As per **SRE 2410**, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", the **objective** of an engagement to review interim financial information is: -

- a. To enable the auditor to **express a conclusion** whether, on the basis of the review, **anything has come to the auditor's attention** that causes the auditor to believe that the **interim financial information is not prepared**, in all material respects, **in accordance with an applicable financial reporting framework**.
- b. The auditor makes **inquiries and performs analytical and other review procedures** in order to **reduce to a moderate level risk of expressing an inappropriate conclusion** when the interim financial information is materially misstated.
- c. The **objective of a review** of interim financial information **differs significantly from** that of an audit conducted in accordance with Standards on Auditing (SAs). A **review** of interim financial information **does not provide a basis for expressing an opinion** on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
- d. A review, in contrast to an audit, is **not designed to obtain reasonable assurance** that the interim financial information is free from material misstatement. A review consists of making **inquiries**, primarily of persons responsible for financial and accounting matters, **and applying analytical and other review procedures**.
- e. A review **may bring significant matters** affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Q5

VPN Ltd. is a listed entity that prepares quarterly financial statements in accordance with Ind AS. The company has appointed Jack & Co., Chartered Accountants, as its statutory auditors. During Q2 of the Financial Year 2024-25, Jack & Co. undertake a review of VPN Ltd.'s interim financial information in accordance with SRE 2410. The auditor plans to obtain written representations from the management. The

management has merely stated that the interim financial information is prepared and presented in accordance with the applicable financial reporting framework. As an engagement team member, you are required to specify areas that these written representations should cover for the review of interim financial information. (Sep'25)

Solution

Review of Interim Financial Information: As per **SRE 2410**, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", specific areas that **written representations** should cover for the review of interim financial information are given below:

- i) The **interim financial information** is prepared and presented in accordance with the applicable financial reporting framework.
- ii) It acknowledges its responsibility for the **design and implementation of internal control** to prevent and detect fraud and error.
- iii) It believes the effect of those **uncorrected misstatements** aggregated by the auditor during the review are **immaterial**, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations.
- iv) It has **disclosed to the auditor** all significant facts relating to any **frauds or suspected frauds known to management** that may have affected the entity.
- v) It has disclosed to the auditor the **results of its assessment of the risks** that the interim financial information may be materially misstated as a result of fraud.
- vi) It has disclosed to the auditor all **known actual or possible non-compliance with laws and regulations** whose effects are to be considered when preparing the interim financial information; and
- vii) It has disclosed to the auditor all **significant events that have occurred subsequent to the balance sheet date** and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.

SAE 3400/3402/3420

Q1

PQ Pharma Limited, a company dealing in research and development and manufacture of pharmaceuticals is coming up with an Initial Public Offer (IPO). PQ Pharma Ltd. has prepared the prospective financial statements for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit and loss and cash flow statements, which are prepared on the basis of several key assumptions like favourable government regulations, planned research and development of more effective medicines at reasonable prices, etc. The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment. (Nov'24)

Solution

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 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
- v) 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.

Q2

Smart Technology Ltd. plans to issue a prospectus to raise capital through a public offering. Smart Technology Ltd. acquired Cloud Computing Ltd., a leader in cloud advisory services, to strengthen its capabilities in providing cloud solutions and this acquisition aligned for a digital transformation strategy. The prospectus includes pro forma financial information to demonstrate the financial effects of a significant acquisition completed recently. As the engagement practitioner, you are entrusted with providing an assurance report on the compilation of this pro forma financial information in accordance with relevant Standard on Assurance Engagement. Smart Technology Ltd.'s management has provided the following details:

- (1) The source of the unadjusted financial information includes unaudited financial statements for a subsidiary acquired during the year.
- (2) Pro forma adjustments which include Fair value adjustments for acquired assets and liabilities.
- (3) The applicable financial reporting framework is IFRS, with modifications specific to the jurisdiction of operation.

In the above context, answer the following:

- i) State the aspects you will consider during planning and performing the Engagement while evaluating the source from which the unadjusted financial information has been extracted.
- ii) As a practitioner you need to obtain evidence about the appropriateness of the pro forma adjustments. Explain what it includes. (May'25 + SM)

Solution

i) As per **SAE 3420**, as a practitioner, while planning and performing the engagement, the following aspects must be evaluated regarding the source of the unadjusted financial information:

- The practitioner shall obtain evidence about the **appropriateness of the source** from which the unadjusted financial information has been extracted.
- If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be **satisfied that the source is appropriate**.

- The practitioner shall determine whether the responsible party has **appropriately extracted the unadjusted financial information from the source.**
- The practitioner shall obtain evidence about the **appropriateness of the pro forma adjustments.**

ii) The practitioner shall obtain evidence about the appropriateness of the pro forma adjustments:

In relation to unadjusted financial information, Pro forma adjustments include:

- Adjustments** to unadjusted financial information that **illustrate the impact of a significant event or transaction** as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration and
- Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be **compiled on a basis consistent with the applicable financial reporting framework** of the reporting entity and its accounting policies under that framework.

SRS 4400/4410

Q1 (SRS 4400)

ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd. with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd. and submit a detailed report for the same. As the engagement partner, you are responsible for drafting the engagement letter.

Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd? (Nov'24)

Solution

As per **SRS 4400** "Engagements to Perform Agreed-upon Procedures regarding Financial Information", matter to be agreed and would be included in the engagement letter are given as under:

A. Matters to be agreed include the following:

- Nature of the engagement** including the fact that the procedures performed will **not constitute an audit or a review** and that accordingly no assurance will be expressed.
- Stated **purpose** for the engagement.
- Identification of the financial information** to which the agreedupon procedures will be applied.
- Nature, timing and extent** of the specific **procedures** to be applied.
- Limitations on distribution of the report** of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

B. Matters that would be included in the engagement letter include:

- A **listing of the procedures** to be performed as agreed upon between the parties.
- A statement that the **distribution of the report** of factual findings would be **restricted** to the specified parties who have agreed to the procedures to be performed

Q2 (SRS 4410)

Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.

- i) For what purposes may the financial information prepared under such an engagement be required?
- ii) Briefly discuss the elements of Practitioner's report for such engagement. (RTP May'25)

Solution

(i) As per SRS 4410, "Compilation Engagements", financial information that is the subject of a compilation engagement may be required for various purposes including:

- To comply with **mandatory** periodic financial reporting requirements established in **law or regulation**, if any or
- For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:
 - ✓ For **management or those charged with governance**, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for **internal use**).
 - ✓ For **periodic financial reporting** undertaken for **external parties** under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a **grant**).
 - ✓ For **transactional purposes**, for example, to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).

(ii) The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -

- a. The report **title**;
- b. The **addressee(s)**, as required by the terms of the engagement;
- c. A statement that the practitioner has **compiled the financial information** based on information provided by management;
- d. A description of the **responsibilities of management**, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;
- e. Identification of the **applicable financial reporting framework** and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
- f. **Identification of the financial information**, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
- g. A description of the **practitioner's responsibilities** in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;
- h. A description of what a compilation engagement entails in accordance with this **SRS**;
- i. Explanations that: -

- i) Since a compilation engagement is **not an assurance engagement**, the practitioner is **not required to verify the accuracy or completeness of the information** provided by management for the compilation; and
- ii) Accordingly, the practitioner **does not express an audit opinion or a review conclusion** on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- j. If the financial information is prepared using a **special purpose financial reporting framework**, an explanatory paragraph that:
 - i) Describes the **purpose** for which the financial information is prepared and, if necessary, the **intended users**, or contains a **reference to a note** in the financial information that discloses this information; and
 - ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information **may not be suitable for other purposes**;
- k. The **date** of the practitioner's report;
- l. The practitioner's **signature**; and
- m. The **place** of signature.

Q3 (SRS 4400)

KSN and Co., Chartered Accountants, have been appointed by Nature Ltd. to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework and issuing a report. CA L has been appointed as the engagement partner for the assignment.

What are the responsibilities of CA L and which documentation requirements related to Engagement Level Quality Control should CA L ensure compliance with in such an engagement? (MTP May'25)

Solution

The engagement partner shall take responsibility for: -

- The **overall quality** of each **compilation engagement** to which that partner is **assigned** and
- The engagement being performed in accordance with the **firm's quality control policies and procedures**.

The practitioner shall include in the engagement documentation: -

- (i) **Significant matters** arising during the compilation engagement and **how those matters were addressed** by the practitioner.
- (ii) A record of how the compiled financial information **reconciles** with the **underlying records, documents, explanations and other information**, provided by management and
- (iii) A copy of the **final version** of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.
- (iv) The practitioner **may** consider also **including** in the engagement documentation a **copy of the entity's trial balance, summary of significant accounting records or other information** that the practitioner used to perform the compilation.

Q4 (SRS 4410)

Coastal Ventures Ltd., a newly formed real estate development firm, is applying for a loan from a financial institution to fund a new residential project. The bank requires the submission of the company's financial statements for the year ending March 31, 2025. The company engages an independent practitioner, CA X to compile the financial statements based on its accounting records and other information provided. The financial statements will be prepared in accordance with Ind AS (Indian Accounting Standards). CA X intends to record the agreed terms of engagement in an engagement letter prior to performing the engagement. CA X is of the view that independence requirements will not be applicable for the above assignment. Do you agree? CA X is concerned with engagement acceptance and continuance. Suggest him focus points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter. (May'25)

Solution

In the given case, the company engages CA X, an independent practitioner, to compile the financial statements based on its accounting records and other information. Being in the nature of non-assurance engagement, independence requirements do not apply to compilation engagements as per SRS 4410, "Compilation Engagements". However, laws or regulations may specify requirements or disclosure rules pertaining to independence. Thus, the **view of CA X is correct that independence requirements will not be applicable for the compilation engagement** discussed in the situation.

CA X should focus on the following points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

- 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.

Emerging Areas (ESG/SDG)**Q1**

Sukaran Ltd., a leading textile manufacturing company, has been facing criticism from its employees regarding various workplace concerns. Some employees have raised issues about delayed salary payments, while others have reported excessive working hours that affect their work-life balance. Additionally, a few workers have complained about inadequate safety measures in the factory, leading to frequent minor accidents. Which principle of BRSR deals with this? Mention the core elements of this principle.

(RTP May'25)

Solution**Principle 3 - Promote Well-Being of All Employees Including those in the Value Chain:**

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is:

- a. The entity should ensure **compliance with all regulatory requirements** as far as employees are concerned.
- b. The entities are to **respect the dignity** of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
- c. The entities should **prevent all kinds of child labour**, bonded labour, and any other forms of involuntary labour.
- d. The entities should have a system in which the **work-life balance** of the employees is not compromised.
- e. The businesses have to ensure **timely payment** of the worker's wages and compensation.
- f. The payment of the wages has to be as per the **living wages**, that can take care of the basic needs and provide economic security to the employees.
- g. The entities are responsible to create a workplace and **work environment that is safe, hygienic, and comfortable** for people to work for long durations.
- h. The **skill development, career development and training** of the workforce is another responsibility of the entities employing them.
- i. The creation of a **workplace which is free of harassment and violence** is also a responsibility of the entity.

In the given case, employees have raised issues about delayed salary payments, excessive working hours that affect their work-life balance and complained about inadequate safety measures in the factory.

In view of the above, Sukaran Ltd. must take corrective actions to align with this principle.

Q2

Pink Ltd., a leading manufacturing company, is expanding its operations globally. However, the company has received multiple complaints from stakeholders regarding misleading advertisements and a lack of transparent grievance redressal mechanisms.

As part of its Business Responsibility and Sustainability Reporting (BRSR) compliance, which principle is the company required to adhere to? This principle emphasizes engaging with and providing value to consumers responsibly and transparently.

What are the key consumer protection aspects that Pink Ltd. should focus on under this principle of BRSR?
(MTP May'25)

Solution

Pink Ltd. shall adhere to **Principle 9** of BRSR which focuses on Providing 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:

- i) Entities should put in their efforts to **reduce the negative impacts of their products and services** on consumers, natural environment, and society at large.
- ii) When conceptualizing, designing, and marketing their products, the organisation should **not** in any manner **prevent the freedom of choice and fair competition**.
- iii) The entities should **transparently and accurately disclose all kinds of adverse impacts** to the user, planet, society, on the biodiversity from their products.
- iv) When handling customer data, the **right to privacy** of the customer needs to be maintained.
- v) 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.
- vi) 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.
- vii) 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.
- viii) 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.

Q3

Miger Ltd. is a multinational corporation that prides itself on sustainable business practices and holistic value creation. During a recent board meeting, the CEO emphasised the importance of disclosing not just financial performance but also non-financial aspects that contribute to long-term success. The company's sustainability team highlighted their investments in cutting-edge research, employee skill development, strong supplier relationships, and eco-friendly infrastructure. To ensure a well-rounded and transparent report, the company's Chief Financial Officer (CFO) suggests adopting Integrated Reporting. The board members, however, are unfamiliar with the concept and ask for a clear breakdown of its key elements.

As a consultant, how would you explain the essential components of Integrated Reporting to the board?
(MTP May'25)

Solution

There are 6 Cs of Integrated Reporting - also known as 6 capitals:

(i) Financial Capital:

- Pool of **funds that is available** to the organization for use in the production of goods or provision of services.
- Obtained through financing, such as **debt, equity, or grants**, or generated through **operations or investments**.

(ii) Manufactured Capital:

- Seen as human-created, **production-oriented equipment and tools**.
- Available to the organization for use in the production of goods or the provision of services, including **buildings, equipment, infrastructure** (such as roads, ports, bridges & waste, and water treatment plants).

(iii) Natural Capital:

- Is an **input to the production** of goods or the provision of services.
- An organization's activities also impact, positively or negatively, on natural capital.
- Includes **water, land, minerals and forests, biodiversity, and ecosystem health**.

(iv) Human Capital:

People's skills and experience, their capacity, and motivations to innovate, including their:

- Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.
- Ability to **understand and implement an organization's strategy**.
- **Loyalties and motivations** for improving processes, goods, and services, including their ability to lead and to collaborate.

(v) Social Capital:

- **Institutions and relationships** established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
- Includes:
 - **Common values and behaviour**.
 - **key relationships**, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners. o an organization's social license to operate.

(vi) Intellectual Capital:

Key element in an organization's future earning potential, with a tight link and contingency between investment in **R&D, innovation, human resources, and external relationships**, which can determine the organization's competitive advantage.

Q4

GAS limited, is in the business of renewable energy, including fuel cell, electrolyzer, battery energy storage system wishes to contribute to clean energy ecosystem and National Green Hydrogen mission. GAS limited is among top 1000 listed entities and have to mandatorily provide BRSR reporting (Business Responsibility and Sustainability Reporting) on ESG parameters in accordance with the principles of "National Guidelines on Responsible Business Conduct" as mandated by SEBI. One of the principles states that "This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities." Elucidate the essence of core elements associated with the aforesaid principle. (May'25)

Solution

Principle 8 - Promote Inclusive Growth and Equitable Development can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities. The core elements of the eighth principle are:

- i) The entities should have **systems in place to identify and address the impacts of their activities** on the social, cultural, and economic aspects of the people. This includes business-created issues like land acquisition and use, and construction activities for new facilities.
- ii) The entities should **review, measure, and track the adverse impacts of their activities** on society and the environment and make action plans to mitigate them adequately.
- iii) The entities should make efforts to bring up **creative products, technologies, and business concerns** that help the marginalized communities to have well-being and a better quality of life.
- iv) Entities, when designing their **CSR activities**, should review the local and regional development priorities to help the marginalized groups and communities.
- v) The entities should take care to ensure that **business-induced displacement or relocation of communities does not happen, and in unavoidable cases**, should make sure to have mutually agreed, participative, and informed negotiations to provide **fair compensation to the affected people**.
- vi) All forms of **intellectual property and traditional knowledge** should **get the deserved respect** from the organisation, and efforts should be made to ensure that **benefits derived from their knowledge are shared equitably**.

Q5

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. (RTP Jan'26)

Solution

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.

Q6

XYZ Ltd., a listed entity, is preparing its Annual Report for the financial year 2024-25. The company has operations in many countries and has implemented policies on ethics, diversity, and environmental sustainability. The management has taken steps to align its reporting with the National Guidelines on Responsible Business Conduct (NGRBC). As part of its BRSR submission, the company provides information on its workforce strength, gender diversity, number of subsidiaries, and policies on 14 human rights. It also discloses data on energy consumption, carbon emissions, and the number of employees trained in sustainability practices. However, it does not include life cycle assessments or details of its biodiversity conservation initiatives. Identify which sections of the BRSR reporting framework are covered by XYZ Ltd. based on the disclosures mentioned. Also, comment whether XYZ Ltd. has complied with the minimum mandatory disclosures required under BRSR. (MTP Sep'25)

Solution

Sections of BRSR covered by XYZ Ltd.:

In the given case, XYZ Ltd., a listed entity, has made disclosures that fall under the following sections of the BRSR framework:

- (i) Section A - General Disclosures: This section contains the details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc.
- (ii) Section B - Management Process and disclosures: It contains questions related to policy and management processes, governance, leadership, and oversight.
- (iii) Section C - Principle-wise performance disclosures: Companies are required to report upon Key performance indicators (KPIs) in alignment with the nine principles of the NGRBC.

The section classifies KPIs into two categories that companies are required to report upon:

- Essential indicators (Mandatory disclosures): This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.
- Leadership indicators (Optional disclosures): It would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumption, supply chain managements etc.

Facts & Analysis

In the given situation, XYZ Ltd. has disclosed information related to its workforce strength, gender diversity, and number of subsidiaries, which aligns with Section A - General Disclosures about employee details and corporate structure. Further, disclosure of policies on ethics, diversity, human rights, and environmental sustainability initiatives indicates coverage of Governance and Policy are in compliance with Section B - Management Process and disclosures. Furthermore, XYZ Ltd. has disclosed data on energy consumption, carbon emissions, and sustainability-related training for employees, which are part of the Mandatory Essential Indicators under Section C - Principle-wise performance disclosures.

Compliance with Minimum Mandatory Disclosures: XYZ Ltd. has disclosed essential indicators such as environmental data (energy, emissions), employee training, and policy-related disclosures, which are the

core components of mandatory requirements. However, XYZ Ltd., has not disclosed life cycle assessments, details of its biodiversity conservation initiative which are leadership indicators. Since, disclosure of Leadership indications is optional, therefore, their exclusion does not violate compliance with mandatory BRSR requirements. Thus, it can be concluded that XYZ Ltd. appears to have **complied with the minimum mandatory disclosures** required under BRSR.

Q7

KLM Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to enhancing its Environmental, Social and Governance (ESG) transparency. Sustainability Reporting plays a crucial role in enhancing transparency and accountability regarding an entity's Environmental, Social and Governance (ESG) performance. The company wants to apply Sustainable development in its corporate policy. During the review of its sustainability practices, the management is keen to assess the safety of the products, its quality and labour relations.

What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. (Sep'25)

Solution

Social Pillar: The ESG pillar highlighted here is the "Social" pillar which addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business, and the value chain involved. It further includes labour relations, diversity, and inclusions.

The Social pillar includes the following elements as under:

- Human Capital:
 - ✓ Labour Management
 - ✓ Health & Safety
 - ✓ Human Capital Development
 - ✓ Supply Chain Labour Standards
- Product Liability:
 - ✓ Product Safety & Quality
 - ✓ Chemical Safety
 - ✓ Financial Product Safety
 - ✓ Privacy and Data Security
 - ✓ Responsible Investment
- Stakeholders Opposition:
 - ✓ Controversial Sourcing
- Social Opportunity:
 - ✓ Access to Communication
 - ✓ Access to Finance
 - ✓ Access to Health Care
 - ✓ Opportunities in Nutrition & Health

Q8

ALP Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to improving its Environmental, Social and Governance (ESG) transparency. Sustainability reporting plays a crucial role in enhancing accountability for the entity's ESG performance. The company has been discharging untreated chemical water into a nearby river, adversely affecting aquatic life. Management now plans to install an effluent treatment plant. What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. (MTP Jan'26)

Solution

Environment Pillar: The ESG pillar highlighted here is the "Environment" pillar which stands for corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals.

- It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on.
- Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on.
- Thus, one is dependent on the environment for carrying out its operations.

The Environment pillar includes the following elements as under:

- Climate Change:
 - ✓ Carbon Emissions
 - ✓ Product Carbon FootPrints
 - ✓ Financing Environmental Impact
 - ✓ Climate Change Vulnerability
- Natural Resources:
 - ✓ Water Stress
 - ✓ Bio-diversity & land use
 - ✓ Raw Material sourcing
- Pollution & Waste:
 - ✓ Toxic emission and waste
 - ✓ Packing Material and waste
 - ✓ E- Waste
- Environment Opportunity:
 - ✓ Clean Tech
 - ✓ Green Building
 - ✓ Renewable Energy

Digital Audit

Q1

Metaverse is the emerging 3-D digital space that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. It represents a convergence of digital technology to combine and extend the reach and use of Cryptocurrency, Artificial Intelligence (AI), Augmented Reality (AR) and Virtual Reality (VR). State the key considerations for sustainable future of Metaverse. (May'25)

Solution

Considerations for sustainable future of the Metaverse:

- Beyond cryptocurrencies, coins, and exchanges, players in the Metaverse will need to consider **how to build digital monetary systems and apply economic principles** to things like digital land.
- **Governance models** will become ever **more difficult** to balance openness and user contribution with strategic direction and innovation.
- Identity in the digital world has historically been different based on the platform utilized. The **practical challenge of identity** will also have to be considered in the Metaverse (e.g., KYC).
- **Synchronicity** is the ability for aspects of the Metaverse to be multiplayer, simultaneous, and real-time. This includes transactions and actions happening in the Metaverse and are dependent on the infrastructure of digital economies, networking, and computing power required to operate a digital world.

Q2

TP Limited is a medium-sized company involved in manufacturing and retailing of home appliances to cater to the daily needs of a wide range of consumers. The company has in place proper cyber security policies, procedures and framework. Regular assessment of the same is also carried out by the management. The company faced a cyber attack incident of email phishing scam which resulted in inappropriate disbursements to various individuals posing as vendors and caused a substantial financial loss. This incident highlighted the need for strong and updated internal controls to mitigate the cyber risks.

As the statutory auditor of the company, how will you evaluate the controls around the vendor setup and modifications (Nov'24)

Solution

Evaluation of the controls around the vendor setup and modifications

Certain cyber schemes exist in which changes to bank account or other critical vendor information are requested through email phishing scams by individuals purporting to be authorized vendor personnel. Entities have inappropriately dispersed funds to these individuals and therefore inappropriately reduced the liability owed to the actual vendor, resulting in an impact to the financial statements (i.e., loss of cash and related expense)

- **Who is responsible for making changes** to vendor master data? Is the **process centralized or decentralized**?
- **Are other communication channels**, such as email, used to **request changes to vendor master data**? (If yes, consider if multi-factor authentication is enabled for email).

- What **systems and technologies** are used to initiate, authorize and process requests related to changes to vendor master data?
- Are **authentication protocols defined** to verify modifications to vendor master data (e.g., call back procedures, multi-factor authentication)?

Q3

Yuvi, a finance manager at DCB Ltd., received a text message on his mobile phone claiming to be from his bank. The message states that:

"Dear Customer, Your account has been temporarily suspended due to suspicious activity. To reactivate, please verify your details by clicking on the following link: [sendyourinfo-link.com]. Failure to do so within 24 hours will result in account deactivation. Thank you for banking with us".

Yuvi is worried about his account security. Which type of phishing cyberattack Yuvi fell victim to? Also explain other types of such phishing attack. (MTP May'25)

Solution

The type of phishing cyberattack Yuvi fell victim to is **Smishing**. It is a type of fraudulent practice of **sending text messages** purporting to be from **reputable companies** in order to induce individuals to **reveal personal information**, such as **passwords or credit card numbers**.

Other types of phishing cyberattacks are:

Spear Phishing: It is a type of phishing attack that **targets specific individuals or organizations** typically through **malicious emails**. The goal of spear phishing is to **steal sensitive information** such as **login credentials** or infect the targets' device with **malware**.

Whaling: A whaling attack is a type of social engineering attack specifically **targeting senior or C-level executive employees** with the purpose of **stealing money or information or gaining access** to the person's computer in order to execute further cyberattacks.

Vishing: Vishing, a **voice phishing attack**, is the fraudulent use of **phone calls and voice messages** pretending to be from a **reputable organization** to convince individuals to **reveal private information** such as **bank details and passwords**.

Q4

ABC Bank recently faced a cyber-attack where hackers attempted to steal customer data. This raised concerns about their cybersecurity measures. Regulators now require financial institutions to assess their cyber risk management and improve their defence against such threats. To handle cyber risks effectively, it is important to understand its key stages.

Elucidate the stages of cyber risks that any organisations should focus on? (MTP May'25)

Solution

There are 3 Stage of cyber risk :

Stage 1 - Assessing the cyber risk:

No organisation is completely immune to a cyber risk. Different clients will have different levels of risks, even with the same industry. Every organisation should consider at least the common threats-

- **Ransomware** disabling their organisation (including their plants and manufacturing facilities).
- **Common criminals using email phishing** and hacks for fraud and theft.
- **Insiders committing malicious activities or accidental activities** resulting in unintended disclosure of information theft and frauds.

Stage 2 - Impact of cyber risk:

Cyber-attack can impact one, two or more types of risks. The impact of the attack would vary from organisation to organisation and most importantly from attack to attack. Some of the indicative areas can be -

- **Regulatory costs.**
- **Business interruptions** causing an operational challenge for an organisation.
- **Data loss**, reputational loss and litigation.
- **Ransomware** - more common these days where entire systems are encrypted.
- **Intellectual property theft** which may not only take the competitive advantage, but we may also result in any impairment/impediment charge because of the loss of IP.
- **Incident response cost** which could be for investigations & remediations.
- **Breach of Privacy**, if personal data of a consumer is hacked it could have a significant impact on the organisation.
- **Fines and penalties.**

Stage 3 - Managing cyber risk:

A strategic approach to cyber risk management can help an organisation to:

- Gain a **holistic understanding of the cyber risks**, threats facing their organisation and other financial institutions.
- Assess **existing IT and cybersecurity program** and capabilities against the relevant regulatory requirements.
- Align cybersecurity and IT transformation initiatives with **strategic objectives and critical risks**.
- **Understand accepted risks & documented compensating controls.**

Q5

KLM Industries Ltd., a mid-sized company engaged in consumer electronics manufacturing, has recently undergone a major digital transformation by implementation of a fully automated production tracking system, cloud-based accounting software, and a blockchain-based vendor payment system. These changes were introduced during the financial year 2024-25. The management believes that these technologies will increase the efficiency and reduce the chances of errors, and hence, have revised the risk assessment accordingly. As an auditor, what steps should you take to evaluate the impact of such technology changes on the company's internal controls and financial reporting? (MTP Sep'25)

Solution

Steps that the auditor should take to evaluate the impact of technology driven changes on the company's internal controls and financial reporting include the following:

- Maintain sufficient **professional skepticism** when reviewing management's risk assessment for new systems.
- Understand the direct and indirect **effects of new technology** and determine how its use by the entity impacts the auditor's overall risk assessment.
- Understand **how the technologies impact the flow of transactions**, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.
- Assess the **appropriateness of management's processes** to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.

Q6

Sujal is appointed as the auditor of Kashish Ltd., a company heavily dependent on digital platforms for its core business operations and financial reporting.

During the preliminary discussions with management, Sujal observes following gaps in the company's IT risk management framework:

- No recent risk assessment of the IT environment has been conducted.
- No documented strategy for managing cybersecurity threats such as unauthorised access, system failures, or potential data breaches.
- The company has not classified its information assets or reviewed the systems connected to its digital infrastructure.
- No defined roles such as Chief Information Security Officer (CISO) or Chief Information Officer (CIO) exist to manage cybersecurity responsibilities.
- There has been no discussion with those charged with governance on how cybersecurity risks may impact internal controls, especially over financial reporting and revenue recognition.

As an auditor, what should Sujal's first step be in response to the abovementioned observations?

(RTP Sep'25)

Solution

Sujal's first step in response to the above observations should be to

Identify the risk in following manner:

- The auditor has to determine whether the entity's **risk assessment process considers cybersecurity risks**.
- Entity should conduct a **periodic risk assessment & develop a management strategy** which identifies cybersecurity risks around IT system failure affecting the entity's primary business or potential loss of data or inability to access data as required, Risk of unauthorized access to the IT network.
- The entity should maintain and periodically review an **inventory of their information assets**, i.e., **Asset Management** (e.g., intellectual property, patents, copyrighted material, trade secrets and other intangibles).
- The entity should classify and prioritise protection of their information assets based on sensitivity and business value and periodically review the systems connected to the network on which digital assets reside.
- From the **governance perspective** management should review **how cybersecurity risks affect internal controls over financial reporting**. In case of adverse attack how management is going to assess the impact on the recoverability of financial data and impact on revenue recognition.

- Management needs to identify if any established a **risk-based cybersecurity program** can be leveraged e.g. (NIST, ISO etc.)
- To determine **overall responsibility for cybersecurity** in the business environment entity should establish roles and responsibilities over cybersecurity (CISO, CIO). Further, the risk assessment should be discussed with those charged with governance (e.g., the Audit Committee or Board of Directors).

Q7

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. (RTP Jan'26)

Solution

i. Reports ii. Security iii. Automated controls iv. Calculations (Explanation already covered in QB)