

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

PART – I Multiple Choice Questions

1. *M/s DG & Co. is a firm of Chartered Accountants, consisting of two partners, CA D and CA G. The firm operates its main office in Delhi and has established branch offices in Gurgaon, and Shimla. M/s DG & Co. had applied for exemption with respect to the Shimla Office, due to its hill area location.*

The permission was granted to them allowing a temporary office in Chandigarh during winter months. The temporary office in Chandigarh displayed its name board year-round and used the address on firm stationery.

The firm is concerned with the compliance of provisions of Section 27 of the Chartered Accountants Act, 1949. Exemption has been given to members practicing in hill areas.

You are required to identify the correct condition(s) from the following:

- (i) M/s DG & Co. should be allowed to open temporary offices in Chandigarh for a limited period not exceeding 3 months in a year.*
- (ii) Shimla office should be closed during winter months and all correspondence should be made at the Chandigarh office only.*
- (iii) The name board of the firm in the Chandigarh office should not be displayed at times other than the period such office is permitted to function.*
- (iv) Chandigarh office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.*
- (v) Before commencement of every winter it shall be obligatory on the firm to inform the Institute that it is opening the Chandigarh office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.*

(A) (i), (ii), (iii), (iv)

(B) (i), (iii), (iv), (v)

(C) (i), (ii), (iv)

(D) (ii), (iii), (iv), (v)

(2 Marks)

2. *Secure Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems.*

(I) Incident 1: *An employee of Secure Bank received an email from what appeared to be a reputable software vendor, offering a "free system optimization tool". Believing it to be legitimate, the employee downloaded and installed the tool. However, it was a cyber-attack, disguised to appear as harmless software. Once installed, it created a backdoor that allowed attackers to access the bank's internal network.*

(II) Incident 2: *The attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing), which prompted employees to click on malicious links. The malware exploited outdated operating systems on the devices to extract sensitive corporate information.*

(III) Incident 3: *The attackers executed a malware on the bank's systems by exploiting legitimate tools such as PowerShell and Windows Management Instrumentation (WMI), the attackers initiated a series of commands to explore and manipulate the bank's network.*

(IV) Incident 4: *A critical server was encrypted by a cyber-attack, disrupting operations for three days. This encrypted all critical financial data, rendering the system inoperable. Investigations revealed that the attack originated from a phishing email sent to an employee. The email contained a link that exploited an unpatched vulnerability in the server.*

From the above which of the cyber-attack incident that Secure Bank Ltd. became victim of, is described as "Ransomware?"

(A) Incident 4

(B) Incident 3

(C) Incident 2

(D) Incident 1

(2 Marks)

3. *Uranus Pvt. Ltd., a partially-owned subsidiary of Saturn Ltd., a manufacturing company, has been operating as an unlisted company in India. The company's shareholders, including non-voting members, have been informed in writing about the company's decision not to present consolidated financial statements. None of the members have objected, and the company holds proof of delivery for these communications.*

Saturn Ltd., the ultimate holding company of Uranus Pvt. Ltd., files its consolidated financial statements with the Registrar in compliance with the applicable Accounting Standards. Saturn Ltd. is listed on the National Stock Exchange (NSE) and adheres to Ind AS for its reporting requirements.

Pluto Ltd., is another subsidiary of Saturn Ltd. manages funds from various investors, with a stated business objective of earning returns through capital appreciation and investment income. It evaluates its investments on a fair value basis, reporting these changes through profit or loss. Pluto Ltd. holds 75% shares of Neptune Ltd. and 60% shares of Eris Ltd.

During a regulatory review, issues arose regarding the applicability of Consolidated Financial Statement (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

Which of the following statements is most appropriate regarding the applicability of Consolidated Financial Statements (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

- (A) *Uranus Pvt. Ltd. must prepare consolidated financial statements as it is a subsidiary of a listed company that files its consolidated statements.*
- (B) *Pluto Ltd. must present consolidated financial statements for all entities it controls as it measures its subsidiaries at fair value through profit or loss.*
- (C) *Saturn Ltd. must consolidate all entities it controls, excepting Pluto Ltd. and its subsidiaries as the requirement of preparation CFS shall not apply to Pluto Ltd.*
- (D) *Saturn Ltd. must consolidate all entities it controls, including Uranus Pvt. Ltd., Pluto Ltd. and its subsidiaries.*

(2 Marks)

Integrated Case Scenario - I

M/s FILE & Co. is a firm of Chartered Accountants consisting of 12 partners based at Mumbai. The audit firm is engaged in the audit of DEAF Ltd. for the financial year 2024-2025 for which CA L is the engagement partner.

During the course of the audit of DEAF Ltd., the following misstatements were identified:

- I. A calculation error in the depreciation schedule amounting to ₹ 1 lakh.*
- II. Management's estimate regarding inventory valuation seemed aggressive, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable.*
- III. A sample audit revealed an error in sales invoices amounting to ₹ 60,000 and the population of similar invoices totalled ₹ 1 crore. The auditor's best estimate of misstatement in population identified in the samples to the entire population is ₹ 6 lakhs.*

CA L has determined a threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.

Further:

- (i) The auditor communicated with those charged with governance regarding uncorrected misstatements and their effect and requested to them that uncorrected misstatements be corrected.*
- (ii) The management corrected the inventory valuation issue but did not correct the depreciation error or the error in sales invoices amounting to ₹ 60,000, considering the immateriality.*
- (iii) After evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, CA L is concerned on the documentation aspect with reference to the relevant Standard on Auditing.*

M/s FILE & Co. is also the statutory auditors of Purple Pvt. Ltd., a manufacturing company, which has been severely impacted by economic downturns and operational inefficiencies. The company's cash flow statements reveal recurring negative cash flows, and its interim financial statements show a significant decline in profitability. Additionally, Purple Pvt. Ltd. has defaulted on loan covenants, and on-going litigation poses a risk of substantial financial liabilities. Management has stated their plans to mitigate these challenges by restructuring

debt, securing additional funding from related parties, and reducing operational costs. However, no formal documentation supporting these plans has been provided yet.

M/s FILE & Co. have identified the events and conditions in the case of Purple Pvt. Ltd. which cast significant doubt on the entity's ability to continue as a Going Concern, and auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty exists and gather evidence including of mitigating factors.

M/s FILE & Co. is planning to perform the following additional procedures:

- (i) As long as management provides a representation letter stating their plans to address financing difficulties the auditor is not bound by the terms of breached loan agreements.
- (ii) Confirm the existence, legality, and enforceability of arrangements to provide or maintain financial support, both from related/third parties and the assessment of the financial ability of such parties to provide the promised support as immaterial.
- (iii) Evaluate the assumptions underlying cash flow, profit, and other relevant forecasts, considering historical accuracy and current market conditions.
- (iv) Considering whether existing facts and information have become available since the date of management's initial assessment that could impact the going concern conclusion.
- (v) Review minutes of meetings of shareholders, those charged with governance, and relevant committees for references to financial difficulties, plans for mitigating actions, or discussions on securing additional funding.
- (vi) If management has not yet performed an assessment, the entity is treated as not a going concern and issue a modified audit opinion without further evidence.

M/s FILE & Co. the statutory auditors of Crypto Ltd., a non-listed public company, carrying out manufacturing activity, have been identified for their quality review based upon risk based approach. However, Crypto Ltd. is neither covered under Rule 3 of NFRA Rules, 2018 nor referred to QRB by NFRA. The Quality Review Board (QRB) is entrusted with conducting a quality review of M/s FILE & Co.'s audit services. During the review, QRB identifies non-compliance with Standards on Auditing (SAs) in areas related to engagement documentation and

independence. Meanwhile, NFRA receives a whistle blower complaint regarding audit irregularities in Glitch Ltd., a listed company, audited by FILE & Co. M/s FILE & Co. was charged with failure to identify related parties and transactions with them. Glitch Ltd. has made 95% of sales to a related party which was not identified as such in the annual report of the company. NFRA initiates an investigation under Section 132(4) of the Companies Act, 2013.

Based on the above facts, answer the following questions (Q. Nos. 4 to 7):

4. Which of the following options is correct regarding the classification and treatment of the identified misstatements of DEAF Ltd. under relevant Standard on Auditing?

(A) The ₹ 1 lakh error in depreciation schedule qualifies as a judgemental misstatement. Management's estimate regarding inventory, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable does not qualify as a misstatement.

A sample audit revealed an error in sales invoices amounting to ₹ 60,000 is a factual misstatement.

(B) The ₹ 1 lakh error in the depreciation schedule is a judgemental misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a factual misstatement.

The invoice-related error does not qualify as a misstatement as the individual error is below the trivial threshold.

(C) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a projected misstatement.

The auditor's best estimate of misstatement of population is a judgemental misstatement.

(D) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a judgmental misstatement.

The auditor's best estimate of misstatement of ₹ 6 lakhs to entire population is a projected misstatement.

(2 Marks)

5. Which of the following actions is not required as part of the auditor's documentation for the identified misstatements of DEAF Ltd.?
- (A) Justifications for not communicating identified misstatements to those charged with governance.
 - (B) Recording the predetermined threshold of ₹75,000 as the amount below which misstatements would be considered clearly trivial.
 - (C) Listing all identified misstatements, including the inventory misstatement, even if corrected by management.
 - (D) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.
- (2 Marks)**
6. Based on the listed additional procedures, which of the following are the inappropriate actions for the auditor to take decision on Going Concern in the case of Purple Pvt. Ltd.?
- (A) (i), (ii), (iii), (iv)
 - (B) (i), (ii), (iv), (vi)
 - (C) (ii), (iii), (iv), (vi)
 - (D) (iii), (iv), (v), (vi)
- (2 Marks)**
7. Which of the following statements is most appropriate in the context of the roles of QRB and NFRA?
- (A) QRB is empowered to review the quality of audit services for both Crypto Ltd. and Glitch Ltd. since it oversees all entities audited by ICAI members.
 - (B) NFRA cannot investigate Glitch Ltd. as it falls under QRB's jurisdiction due to the audit being performed by ICAI members.
 - (C) QRB can review the quality of audit services of Crypto Ltd.; but cannot review the quality of audit services of Glitch Ltd.
 - (D) NFRA and QRB have overlapping jurisdiction for listed entities, and either body can independently investigate Glitch Ltd.
- (2 Marks)**

Integrated Case Scenario - II

M/s TAG & Associates, a Chartered Accountant firm was appointed by Comptroller and Auditor General to conduct performance audit of Wind power Ltd., a public sector undertaking of Government of India for the financial year 2024-25. Wind power Ltd. is engaged in generation of wind power with setting up of wind power plants at distinct locations in the country. The audit is assigned with the objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of 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.

The audit firm is concerned with Planning for Performance Audit.

The audit manager Mr. G suggested the following procedures in the following sequence of steps for conduct of Performance audit:

- (1) Understanding the entity/programme*
- (2) Defining the objectives and the scope of audit*
- (3) Deciding audit approach*
- (4) Developing audit questions*
- (5) Determining audit criteria*
- (6) Establishing time table and resources*
- (7) Preparing Audit Design Matrix*
- (8) Assessing audit team skills and whether outside expertise required*
- (9) Intimation of Audit programme to audit entities*

Further, in the course of performance audit of Wind power Ltd., the engagement partner CA JP entrusted the audit work to four team members namely Mr. P, Mr. Q, Mr. R, Mr. S. The audit team is initially concentrated in deciding audit approach. CA JP suggested that there is no uniform audit approach prescribed that can be applicable to all types of subjects of performance audits. CA JP asked his team members to suggest a method for conducting the Performance audit.

- Mr. P suggested a method which involves a descriptive analysis of an entity, scheme or a programme.*

- *Mr. Q suggested a method which involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc.*
- *Mr. R suggested a method which involves collecting information from members of a population to assess the interrelation of events and conditions.*
- *Mr. S suggested a method which involves review of the systems in place for planning, conducting, checking, and monitoring the activity.*

CA JP analysed the methods suggested by each team member.

M/s TAG & Associates were appointed as statutory auditors of Indore Main branch of a public sector bank for the financial year 2024-25. Advances generally constitute a major part of the assets of the branch. There are substantial number of borrowers to whom variety of advances are granted. Hence, they felt that audit of advances requires major attention. M/s TAG & Associates are primarily concerned with obtaining evidence about the following while carrying out audit of advances:

- *Amounts due to the bank are appropriately supported by loan documents.*
- *The stated basis of valuation of advances is appropriate and properly applied and recoverability of advances is recognized in their valuation.*
- *Advances are disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory and regulatory requirements.*
- *Appropriate provisions towards advances are made as per RBI norms, accounting standards and generally accepted accounting practices.*

Audit approach of advances should encompass designing appropriate audit procedures to obtain audit evidence in all these areas.

The engagement partner, CA R assigned the focus areas in advances to the members of audit team as follows:

*Mr. X was assigned to focus on evaluation of internal control on advances.
Mr. Y was assigned to focus on substantive audit procedures on advances.
Mr. Z was assigned to focus on recoverability of advances.*

Further during the course of audit, it was observed that in the case of Kiran Ltd., a trading company which has availed a cash credit facility of ₹ 10 crore from Indore Main branch, the drawing power was not arrived at by bank.

As of 31st March 2025, the following details are provided regarding its stock, receivables (with ageing analysis), and creditors for calculating the Drawing Power (DP):

Particulars	Amount (₹ in lakhs)	Remarks
Total Stock	900	Includes damaged stock of ₹ 60 lakhs.
Total Receivables (Debtors)	800	Ageing details provided below.
Creditors for Stock	140	Related to stock financed by creditors.
Margin on Stock	25%	As per bank sanction terms.
Margin on Receivables	40%	As per bank sanction terms.
Sanctioned Cash Credit Limit	1000	

Debtors' Ageing Analysis:

Age Bucket	Amount (₹ in lakhs)
0 - 30 days	250
31 - 60 days	200
61 - 90 days	250
> 90 days (Overdue)	100
Total Receivables	800

On the basis of the above details, you are required to answer the following questions (Q. Nos. 8 to 11):

8. CA JP, the engagement partner is satisfied with the procedures suggested by audit manager but he is not convinced with the sequence of steps while planning the performance audit of Wind power Ltd. He seeks your advice in suggesting the correct sequence after rearranging them. You are required to select the correct option from the following:

- (A) Step 1, 2, 6, 4, 5, 3, 7, 8, 9
- (B) Step 1, 2, 4, 3, 5, 7, 6, 8, 9
- (C) Step 1, 2, 3, 5, 4, 8, 6, 7, 9
- (D) Step 1, 2, 5, 3, 4, 8, 7, 6, 9

(2 Marks)

9. *As regards the method suggested for conducting performance audit of Wind power Ltd., by which team member, do you think that, it may not be possible for the auditor to work with complete data due to its high volume and in such cases sampling techniques are required to be used?*
- (A) Mr. P
(B) Mr. Q
(C) Mr. R
(D) Mr. S
- (2 Marks)**

10. *The following audit procedures are undertaken by the audit team in relation to audit of advances of the Indore Main branch:*
- (i) *Examine existence, enforceability, and valuation of securities in respect of securities requiring registration.*
- (ii) *Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.*
- (iii) *Examine whether system laid down in bank for review/renewals of advances is being followed.*
- (iv) *Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 and SMA2 borrowers from the bank and same can be considered for selection of problematic accounts.*
- (v) *Review auditor's reports in case of borrowers having credit facilities from the banking system beyond a cut-off limit fixed by board of directors of bank.*

From the above, identify the audit procedures that Mr. Y should focus upon.

- (A) (i), (ii), (iii)
(B) (ii), (iv), (v)
(C) (ii) & (iv)
(D) (iii) & (iv)
- (2 Marks)**
11. *What is the Drawing Power (DP) available to Kiran Ltd. as of 31st March 2025?*
- (A) ₹ 1005 lakhs
(B) ₹ 1000 lakhs

(C) ₹ 945 lakhs

(D) ₹ 990 lakhs

(2 Marks)

Integrated Case Scenario - III

M/s GDP Associates, a renowned firm of Chartered Accountants consisting of 15 partners was appointed as statutory auditors for the Financial Year 2024-25 of SYNC Technology Ltd., a technology focused engineering company engaged in turnkey electronics manufacturing services, specializing in precision manufacturing for diverse end-use industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. The company's portfolio includes memory, SSDs, motherboards, power adapters, and systems integration.

In conducting an initial audit engagement, the objective of the M/s GDP Associates is to obtain sufficient appropriate audit evidence about whether Opening balances contain misstatements that materially affect the current period's financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. The company's prior year financial statements were audited by M/s JK Associates, but the predecessor auditor's report was modified due to the non-disclosure of certain liabilities. The opening balances include significant provisions and carry forward adjustments.

M/s GDP Associates decides to use sampling to test compliance with internal controls over revenue recognition. As part of the audit of SYNC Technology Ltd., M/s GDP Associates is performing sampling for tests of controls and substantive procedures. At the end of the sampling process, the auditor needed to conclude on whether the sampling results provided a reasonable basis for conclusions about the population tested.

During testing, the following scenarios arose:

- (1) A selected item could not be tested because supporting documentation was unavailable. The auditor is unable to apply the designed audit procedures since documentation relating to sales is lost, like the sales order record, sales invoice, document for dispatch.*
- (2) A deviation was identified in the sample that could potentially indicate a misstatement in the population.*

- (3) *The auditor found an item that seemed anomalous but required further procedures to confirm it was not representative of the population.*

As part of audit, to confirm the accounts receivable balances with customers, M/s GDP Associates sends confirmation requests to SYNC Technology Ltd.'s top 50 customers, whose account balances represent 80% of the company's total receivables. The auditor sends confirmation requests to confirm balances of cash held in bank accounts and outstanding loans with the bank. The auditor also sends confirmation requests to 200 small suppliers with low-value account balances.

The following events occur during the confirmation process:

- (1) Out of the 50 positive confirmation requests, 10 responses indicate agreement with the balances, 5 responses indicate discrepancies, and 35 do not respond.*
- (2) One response to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information.*
- (3) The 100 negative confirmation requests receive no responses.*
- (4) In the case of non-response, the audit firm examined subsequent cash disbursements, email correspondences, and other records like goods received notes.*

Further M/s GDP Associates engaged an external IT expert to evaluate the entity's cyber security framework, a significant area of risk identified during risk assessment. M/s GDP Associates and the expert held discussions to finalize the terms of the engagement, which included:

- (1) The expert's role in assessing the robustness of SYNC Technology Ltd.'s cyber security systems.*
- (2) The communication protocol, specifying that the expert would provide interim oral reports during the engagement and a formal written report upon conclusion.*
- (3) The need for confidentiality agreements, as the entity requested additional restrictions on the disclosure of sensitive cyber security information.*
- (4) The identification of specific audit team members responsible for liaising with the expert and facilitating communication between the expert and the entity.*

During the audit, the following issues arose:

- *The expert delayed submitting the formal report, citing unclear communication about the expected scope of work.*
- *The entity expressed concerns about the confidentiality provisions not being adequately addressed.*
- *The expert had limited interaction with the auditor, leading to misalignment on the interim findings.*

On the basis of the above details, you are required to answer the following questions (Q. Nos. 12 to 15):

12. *Considering the factors influencing audit procedures for opening balances, which of the following is the most appropriate course of action under relevant Standard on Auditing?*
- (A) *Perform audit procedures in prior period to obtain evidence relevant to opening balances or evaluate whether prior period's closing balances have been correctly brought forward.*
 - (B) *Evaluate the effect of the matter giving rise to modification in the predecessor auditors M/s JK Associates' report, with respect to the current period's financial statements.*
 - (C) *Assume the opening balances are immaterial since the predecessor auditors, M/s JK Associates issued a modified opinion and focus only on current year's transactions.*
 - (D) *Accept the accounting policies applied to the opening balances based solely on management's assertion, provided they appear consistent with current period's policies.*
- (2 Marks)**
13. *Based on SA 530, which of the following is the most appropriate response for the auditor in handling these situations while performing sampling tests and procedures?*
- (A) *If the audit procedure is not applicable to the selected item, then the auditor shall perform only the alternative procedure but not on a replacement item.*
 - (B) *In case when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high*

degree of certainty that such misstatement or deviation is representative of the population.

- (C) Rely solely on the results of the sample and assume that any deviations identified are immaterial to the population.*
- (D) If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a misstatement, in the case of tests of details. (2 Marks)*

14. Which of the following is the most appropriate for M/s GDP Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing?

- (A) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.*
- (B) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.*
- (C) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.*
- (D) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests. (2 Marks)*

15. M/s GDP Associates are concerned with SA 620, which deals with the auditor's responsibilities regarding the use of external IT expert when that work is used to assist the auditor in evaluating cyber security framework. Which of the following is incorrect option in relation to agreement with the auditor's expert?

- (A) When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, only a formal written report at the*

conclusion of that expert's work may be appropriate while oral reports as the work progresses are not required.

- (B) *Ensure that the nature, scope, and objectives of the expert's work are agreed upon in writing, including the timeline for deliverables.*
- (C) *Identification of specific partners or staff, who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.*
- (D) *It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert.*

(2 Marks)

Answer Key

MCQ No.	Correct Option
1.	(B)
2.	(A)
3.	(D)
4.	(D)
5.	(A)
6.	(B)
7.	(C)
8.	(D)
9.	(B/C)
10.	(C)
11.	(C)
12.	(B)
13.	(D)
14.	(C)
15.	(A)

PART – II Descriptive Questions

Question No.1 is compulsory.

*Candidates are required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the answer.

Question 1

(a) 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? **(5 Marks)***
- (b) 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. **(5 Marks)***
- (c) 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. **(4 Marks)***

Answer

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

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

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

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

- (a) 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
- (b) 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.

Question 2

- (a) *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.*
- (5 Marks)**

- (b) 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. **(5 Marks)**
- (c) 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. **(4 Marks)**

Answer

- (a) **Quality control system in an audit firm (SQC 1):** 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.

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.

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.

- (b) 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. 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. 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.

- (c) 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.

Question 3

(a) *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. **(5 Marks)**
- (b) M/s JAZZ & Co. is a partnership firm consisting of two partners CA J and CA Z.

CA J is exclusively associated with the firm and is not doing practice in individual capacity, whereas CA Z is doing practice in his individual capacity also.

For the financial year 2023-24, the firm has already undertaken audits and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under:

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44AD
CA J	30	60	20
CA Z	5	10	12

For the financial year 2023-24, CA Z has undertaken audits in individual capacity and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under:

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA Z	4	9	8

For the financial year 2023-24, the firm is approached further to take up the following assignments:

3 tax audit assignments under section 44AB for corporate clients.

4 tax audit assignments under section 44AD.

Advise whether the firm should accept the further tax audit assignments for the financial year 2023-24 as above in the light of professional code of conduct.
(5 Marks)

- (c) *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.

(4 Marks)

Answer

(a) (i) Reporting 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.

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.

Alternative Answer:

- (a) (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.

(b) As per Chapter VI, Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961, a member of the Institute in practice shall not accept, in a financial year, more than the "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.

Further, in the case of a firm of Chartered Accountants in practice, the "specified number of tax audit assignments" means 60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.

It may be noted that the audits conducted under Section 44AD, 44ADA, and 44AE of the Income-tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Furthermore, where any partner of a firm of Chartered Accountants in practice accepts one or more tax audit assignments in his individual capacity, the total number of such assignments which may be accepted by him shall not exceed the "specified number of tax audit assignments" in the

aggregate. In computing the "specified number of tax audit assignments", the number of such assignments, which he or any partner of his firm has accepted, whether singly or in combination with any other Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account.

According to a clarification on Tax Audit Assignments by Committee on Ethical Standards Board of the Institute, if there are 10 partners in a firm of Chartered Accountants in practice, then all the partners of the firm can collectively sign 600 tax audit reports. This maximum limit of 600 tax audit assignments may be distributed between the partners in any manner whatsoever. For instance, 1 partner can individually sign 600 tax audit reports in case the remaining 9 partners are not signing any tax audit reports.

In the instant case, M/s JAZZ & Co. is a partnership firm of Partner CA J and CA Z. CA Z is also doing practice in individual capacity. In the instant case, 60 tax audit assignments per partner in the firm, whether in respect of corporate or non-corporate assesses, in a financial year, will be considered for "specified number of tax audit assignments", i.e., $120 \text{ tax audits} = 2 \text{ Partners} \times 60 \text{ tax audits}$.

In the given situation, the number of tax audit reports signed under section 44AB are 118 (i.e., 90 reports signed by CA J [i.e., 30 reports for corporate clients and 60 reports for non-corporate clients] whereas, CA Z signed 28 reports [15 reports as a Partner of the Firm {i.e., 5 for corporate clients and 10 for non-corporate clients} and 13 Reports in individual capacity i.e. {i.e., 4 for corporate clients and 9 for non-corporate clients}] and number of tax audit reports signed under section 44AD are 40 (i.e., 20 reports signed by CA J and 20 reports signed by CA Z). It may be noted that the 40 audits conducted under Section 44AD of the Income-tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

The firm is also approached further to take up 3 tax audit assignments under section 44AB for corporate clients and 4 tax audit assignments under section 44AD.

In view of the above provisions, partner CA J and CA Z of M/s JAZZ & Co. have undertaken 118 audits, which is not more than 120 tax audits, i.e., "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961. Therefore, the firm can accept 2 more tax audit

assignments for corporate clients under section 44AB and all 4 tax audit assignments under section 44AD as there is no limit on assignments under Section 44AD.

- (c) 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.

Question 4

- (a) *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.* **(5 Marks)**
- (b) *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. **(5 Marks)**

- (c) *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.*

(4 Marks)

Answer

- (a) 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-₹ 15 = ₹ 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 $1000 \times 12\% = 120$ 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 (i) 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 (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. 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 (i.e., Tier 1 Capital - Perpetual Debt Instrument - excess of 10% of owned fund)

Considering the ₹ 120 crore = (Aggregate Risk Weighted assets $1000 \times 12\%$) 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.

- (b) 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. 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. 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.

- (c) (i) 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.

Question 5

- (a) *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. (5 Marks)*
- (b) *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. **(5 Marks)**

- (c) *M/s GSTR & Associates, Chartered Accountants, is an audit firm consisting of three partners. The partnership firm was formed in the year 2019. M/s GSTR & Associates, specialised in internal audits and tax consultancy services, admitted CA Y as partner in the year 2024. CA Y had vast experience in audit of listed companies as he was the senior audit manager of a leading audit firm before he joins M/s GSTR & Associates. Ruby Limited, a listed entity, appointed M/s GSTR & Associates, Chartered Accountants as statutory auditors for the year ended 31st March 2025. CA Y, the engagement partner signed the balance sheet of Ruby Limited for the year ended 31st March 2025 on 21st May 2025. M/s GSTR & Associates, Chartered Accountants never subjected themselves to the Peer Review process of the Institute. Comment with reference to the Chartered Accountants Act, 1949.* **(4 Marks)**

Answer

- (a) **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 an 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.
- (b)** 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.
- (c) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

This clause implies that the audit should be performed in accordance with "generally accepted procedure of audit applicable to the circumstances," and if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures.

What constitutes "generally accepted audit procedure" would depend upon the facts and circumstances of each case, but guidance is available in general terms from the various pronouncements of the Institute issued by way of Engagement and Quality Control Standards, Statements, General Clarifications, Guidance Notes Technical Guides, Practice Manuals, Studies and Other Papers.

Audit of Listed Companies: Pursuant to SEBI Notification, statutory audit of listed companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI.

In the given case of M/s. GSTR & Associates, which appointed auditors of a listed entity, Ruby Limited, for the year ended 31.03.2025, CA Y, the

proprietor, signed the balance sheet on 21.05.2025 but never subjected the firm to the Peer Review process of the Institute. CA Y would be held guilty of professional misconduct under clause (9) of Part I of the Second Schedule of the Chartered Accountants Act, 1949. Also, CA Y did not comply with the SEBI Notification, which was required to be complied with.

Alternative Answer:

- (c) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of misconduct if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. It requires every member of the institute to act within the framework of the Chartered Accountants Act, 1949, and the regulations and guidelines made by the Council thereunder.

The Statement on Peer Review shall be deemed to be a guideline of the Council under Clause (1) of Part II of the Second Schedule to the Act, and it is obligatory for the Practice Unit to comply with the provisions contained in this Statement.

As per the Statement, every Practice Unit, including its branches who has conducted Statutory Audit of Enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI(LODR) regulations, 2015, will be subject to Peer Review in accordance with this statement.

Audit of Listed Companies: Pursuant to SEBI Notification, Statutory Audit of Listed Companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI.

In the given case of M/s GSTR & Associates, which is appointed auditor of a listed entity, Ruby Limited, for the year ended 31.03.2025, Mr. Y, the engagement partner, signed the Balance sheet on 21.05.2025 but never subjected the firm to the Peer Review process of the Institute. Hence, CA Y would be held guilty of professional misconduct under clause (1) of Part II of the Second Schedule of the Chartered Accountants Act, 1949.

Question 6

- (a) *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. **(5 Marks)**

- (b) *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.*
- (5 Marks)**
- (c) *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. **(4 Marks)**

OR

- (c) *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?* **(4 Marks)**

Answer

(a) 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.
- (b)**
- (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.

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

Provided that nothing contained herein shall disentitle a Chartered Accountant from being a director of a Company, (not being a managing director or a whole-time director), unless he or any of his partners is interested in such a company as an 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.

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

OR

- (c) **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:**

1. 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.

2. 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.
3. 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.
4. 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.
5. 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).