

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Part I – Multiple Choice Questions

Integrated Case Scenario - I

A Ltd., is a top 1000 listed company engaged in manufacturing of edible oils having its registered office at Mumbai and its branches all over India. M/s HG & Co., Chartered Accountants, have been appointed as the statutory auditors of A Ltd. for the financial year 2024-25. CA H is the engagement partner for this assignment. The company's net worth is ₹ 500 crores, annual turnover is ₹ 1000 crores and net profit is of ₹ 5 crores during immediately preceding financial year 2023-24. During the course of audit, CA H made the following major observations:

- A Ltd. has constituted a Corporate Social Responsibility (CSR) Committee of the Board pursuant to Section 135 of the Companies Act, 2013. The CSR Committee has formulated and recommended to the Board a CSR Policy and has recommended the amount of expenditure to be incurred on the specified activities which shall be recognized as CSR spending. CA H observed that an amount of ₹ 20 lacs was unspent in respect of other than on-going projects relating to the CSR spending. CA H is exploring his reporting responsibilities for compliance under CARO, 2020.*
- CA H during the course of audit noticed that Enforcement Directorate had issued show-cause notices for various non-compliances of Foreign Exchange Management Act and regulatory action against the company may be expected. The Board of Directors have not mentioned the same in their report as the outcome is uncertain. This is not reflecting anywhere in the financial statements, however, CA H thinks that it is relevant for the users' understanding of the financial statements.*
- The company also has 2 subsidiaries B Ltd. and C Ltd. The auditors are required to prepare the standalone as well as the consolidated financial statements of the company. For the purpose of making current period consolidation adjustments, CA H has asked the company to provide with the*

financial statements and information of the subsidiaries. Both the subsidiaries are audited by other auditors.

- *CA H in consultation with management, decided to visit 10 out of 15 branches of A Ltd., within a period of 15-20 days, situated in various states of India. Management decided to pay CA H advance of ₹ 5 lacs against the estimated expenses of ₹ 5.25 lacs on visits to be conducted as a part of services rendered. In terms of the discussion, ₹ 5 lacs was transferred to his bank account from which he has to meet all the expenses for visiting branches for the audit. However, he failed to keep the amount received from A Ltd. in a separate bank account.*

Based on the above facts, answer the following Q Nos. 1 to 4, by choosing the right option.

1. *With regard to the unspent amount of ₹ 20 lacs, out of the following select the appropriate reporting responsibilities of M/s HG & Co. for compliance of CARO 2020:*
 - (A) *Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year.*
 - (B) *Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of six months of the expiry of the financial year.*
 - (C) *Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule VII to the Companies Act within a period of three months of the expiry of the financial year.*
 - (D) *Whether the company has transferred the unspent amount of ₹ 20 lacs to a Fund specified in Schedule III to the Companies Act within a period of three months of the expiry of the financial year.* **(2 Marks)**
2. *How will CA H report the matter relating to the non-compliances under Foreign Exchange Management Act?*
 - (A) *CA H should include the matter in Emphasis of Matter Paragraph.*
 - (B) *CA H should include the matter in Other Matter Paragraph.*
 - (C) *CA H should include the matter in Key audit matters.*

- (D) CA H should not report the matter as no regulatory action has been taken against the company as on the balance sheet date. **(2 Marks)**
3. Which of the following is not a current period consolidation adjustment?
- (A) Adjustments relating to harmonising the different accounting policies followed by A Ltd. and B Ltd. & C Ltd.
- (B) Adjustments to the financial statements for the recognized subsequent events.
- (C) Determination of goodwill or capital reserve of B Ltd. and C Ltd. as per the applicable accounting standards.
- (D) Determination of unrealised intra-group profits on assets acquired/transferred from/to B Ltd. and/or C Ltd. **(2 Marks)**
4. For failing to keep moneys in a separate bank account, will CA H be held guilty of professional misconduct under the Chartered Accountant Act, 1949 and its schedules thereto?
- (A) Yes, in this connection the Council has made specific suggestion that an advance received by a Chartered Accountant against services to be rendered and not kept in separate bank account is covered under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.
- (B) No, in this connection the Council has made suggestion that an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule and not keeping in separate bank account is valid hence CA H will not be held guilty of professional misconduct.
- (C) Yes, any amount received from the client and not kept in a separate bank account falls under Clause (10) of Part I of the Second Schedule and hence CA H will be held guilty of professional misconduct.
- (D) No, CA H will not be held guilty of professional misconduct since provisions of Clause (10) of Part I of the Second Schedule are applicable only to professional accountant in service and not to professional accountant in practice. **(2 Marks)**

Integrated Case Scenario - II

M/s SQC & Associates is a firm of Chartered Accountants, specialising in audit and assurance services for the past 2 decades, having 6 partners with its headquarters at Thiruvananthapuram and branch offices at 3 locations in Kerala.

They are appointed as statutory auditors of Kochi Branch of KLM Bank Limited for the Financial Year 2024-25. The Bank branch has granted various types of advances to its customers including export advances. The auditors want to be sure that there is no revenue leakage in the branch and the auditor has conducted a detailed verification of compliance with the bank's policies and guidelines.

The following discrepancies are identified during verification of revenue leakage:

- (i) QT Ltd. was sanctioned a term loan of ₹ 5 crores at an interest rate of 9.5% p.a. as per the sanction letter. However, due to some technical problem, the bank's Core Banking System (CBS) reflects an interest rate of 8.5% p.a. w.e.f. 01/04/2024.*
- (ii) The bank has sanctioned a working capital limit of ₹ 3 crores to NK Pvt. Ltd. The bank's circular mandates a processing fee of 1%, but only 0.5% was charged.*
- (iii) The bank has sanctioned a Cash Credit (CC) limit of ₹ 4 crores to DEF Ltd., with a condition that stock statements must be submitted monthly. DEF Ltd. has not submitted stock statements for 3 months, triggering a penal interest of 2% p.a. as per the sanctioned terms.*
- (iv) An exporter, GHI Exports, availed packing credit of ₹ 2 crore at 6% p.a. for three months but repayment has been done with 1 month delay. The overdue interest rate is 12% p.a. as per the bank's circular. However, overdue interest rate for the delayed period was not applied in the CBS.*

M/s SQC & Associates are appointed as auditors of Easy Finance Limited, which is an NBFC company for the year 2024-25 for which CA S is the engagement partner. CA S is concerned with calculating the aggregate risk adjusted value of assets for reckoning the minimum capital ratio.

Following details are available from the Balance sheet of Easy Finance Limited as on 31st March, 2025:

- (i) Cash and bank balances including fixed deposits and certificates of deposits with banks - ₹ 8 crores*

- (ii) Investments - Bonds of public financial institutions - ₹ 50 crores
- (iii) Current Assets - Loans to staff - ₹ 5 crores
- (iv) Fixed Assets (Net of Depreciation) - Furniture and Fixtures - ₹ 30 crores
- (v) Domestic Sovereign - State Government Guaranteed claims which are in default for 75 days - ₹ 60 crores

Further M/s SQC & Associates were appointed as statutory auditors of MRP Limited, a listed company, for the financial year 2024-25. It was observed during the audit that MRP Limited has carried out revaluation of its buildings and software assets. The revaluation was conducted by a Registered Valuer certified by the Insolvency and Bankruptcy Board of India (IBBI).

- As a result of the revaluation, the carrying value of its "Buildings" was increased. It represents 6% increase over the Gross carrying value of the "Buildings" class as at the beginning of the year. It represents 12% increase over the net carrying value of the "Buildings" class as at the beginning of the year.
- The "Software Assets" saw a downward revaluation adjustment. It constitutes 10% reduction over the Gross carrying value of the "software" class as at the beginning of the year. It constitutes 16% reduction over the net carrying value of the "software" class as at the beginning of the year.

M/s SQC & Associates are in the course of forming an opinion on the financial statements of MRP Limited. Based on the evaluation of the conclusions drawn from the audit evidence obtained, they have made the following observations:

- **Observation 1:** The Company procures raw materials from a large number of local and international suppliers. As on 31st March 2025, trade payables form a significant portion of total liabilities. A substantial number of supplier accounts were subject to reconciliation issues, delayed confirmations or required significant year-end adjustments. The management did not respond properly to the issues raised by the auditor. It was considered as a high risk area by the auditor. However, based on other audit procedures, it was concluded that the trade payable balances had been appropriately recorded.

- **Observation 2:** A batch of finished goods worth ₹ 1.8 crores was found to be missing during the physical verification of inventory. It constituted a significant portion of the value of inventory of finished goods. The management stated that it was due to a clerical error in location mapping and claimed to have traced the goods post year-end. However, the documentation presented was insufficient and not independently verifiable.

On the basis of the above details, you are required to answer the following questions: **(Q Nos 5 to 8)**

5. You are required to calculate the amount of revenue leakage calculated by the auditors for Kochi Branch of KLM Bank limited.

- (A) ₹ 9,50,000
- (B) ₹ 9,00,000
- (C) ₹ 8,50,000
- (D) ₹ 10,50,000

(2 Marks)

6. Select the correct option after calculating the aggregate risk adjusted value of above funded assets for reckoning the minimum capital ratio of Easy Finance Limited for the year ended on 31st March, 2025.

- (A) ₹ 110 crores
- (B) ₹ 92 crores
- (C) ₹ 115 crores
- (D) ₹ 52 crores

(2 Marks)

7. How will M/s SQC & Associates report under CARO, 2020, with reference to the revaluation of assets of MRP Limited?

- (A) Report only the revaluation of software assets, mention that valuation is done by a Registered Valuer and specify the amount of change.
- (B) Report only the revaluation of buildings, mention that valuation is done by a Registered Valuer and specify the amount of change.
- (C) Both the revaluation of buildings as well as software assets is not required to be reported.

(D) Both the revaluation of buildings as well as software assets is required to be reported, mention that valuation is done by a Registered Valuer and specify the amount of change. **(2 Marks)**

8. What type of opinion or reporting M/s SQC & Associates should issue in their auditor's report of MRP Limited considering the two observations as per the applicable Standards on Auditing?

(A) Issue an unmodified opinion as both matters have explanations from management and are not pervasive.

(B) Include Observation 1 in a Key Audit Matter (KAM) section and Observation 2 in Emphasis of Matter paragraph.

(C) Disclose Observation 1 under "Other Matter" paragraph and Qualify the opinion due to the material but not pervasive limitation of Observation 2.

(D) Disclose Observation 1 under "Key Audit Matter" and Qualify the audit opinion due to material but not pervasive limitation of Observation 2.

(2 Marks)

Integrated Case Scenario - III

Ratnesh Limited (hereinafter referred to as 'The Company'), a listed entity, is in the business of hiring of Oil Rigs, is established since 2001. The Company is having its Head Office at Mumbai and having its operations across the country. The Company appointed MPR & Co., GKS & Co., YX & Associates and ABC & Associates as joint auditors for the year 2024-25. The professional work was divided by audit firms among themselves mutually. However, work relating to "Information processing" which is a part of the control activities, a component of Internal Controls of the company was allocated to MPR & Co. specifically and was not a part of the joint audit assignment. Due to shortage of resources, MPR & Co. took the help of subordinate staff of ABC & Associates for such verification.

While verifying the controls, subordinate staff of ABC & Associates observed the following control activities:

- (i) Actual performance was reviewed against budgeted one.
- (ii) Edit checks of input data and numerical sequence checks.

- (iii) Authorisation for access to computer programs and data files.
- (iv) Controls over the implementation of new releases of packaged software applications.

During audit, one of the joint auditors GKS & Co. observed that the Company has adopted a new IND AS which will be effective from 01.04.2026. Early adoption of the aforesaid IND AS is permitted as per extant guidelines. This early adoption of the new IND AS has a material effect on the financial statements of the Company. The material effect on the financial statements was disclosed in the notes to the financial statements. GKS & Co. performed various audit procedures to verify the same and it was found to be satisfactory in nature.

YX & Associates appointed Mr. C, as an expert, to verify the actuarial valuation done by the company. They performed the following specific procedures to evaluate the relevance and reasonableness of Mr. C's findings and their consistency with other audit evidence for the audit purpose:

- (i) Performed corroborative procedures for observing Mr. C's work.
- (ii) Performed detailed analytical procedures to see whether Principles of materiality aspects considered.
- (iii) Reviewed the data for completeness and internal consistency.
- (iv) Verified the origin of the data.

Based on the above, answer the following question from **9 to 12**:

9. Which of the activities verified by the subordinate staff of ABC & Associates pertains to the Control Activities - Information processing?

Options:

- (A) (i) & (ii)
- (B) (iii) & (iv)
- (C) (ii) & (iii)
- (D) (ii) & (iv)

(2 Marks)

10. Which of the following are not the specific procedures to evaluate the relevance and reasonableness of Mr. C's finding and consistency with other audit evidence?

(A) (i) and (ii)

(B) (iii) and (iv)

(C) (ii) and (iii)

(D) (i) and (iv)

(2 Marks)

11. *The effect of early adoption of Ind-AS will be reported under which head in the Audit Report?*

Options:

(A) *Other Information*

(B) *Key Audit Matter*

(C) *Other Matter Paragraph*

(D) *Emphasis of Matter Paragraph*

(2 Marks)

12. *Which audit firm is responsible for lapses in the audit procedures for testing of control activities relating to information processing, in terms of SA 299, in case the audit procedures are not performed professionally by subordinate staff of ABC & Associates?*

(A) *MPR & Co. only*

(B) *Both MPR & Co. and ABC & Associates*

(C) *ABC & Associates only*

(D) *All the joint auditors will be responsible.*

(2 Marks)

13. *PP Ltd. wants to make disclosure on its performance against the various principles of the "National Guidelines on Responsible Business Conduct" to meet reporting requirements on ESG parameters called Business Responsibility & Sustainable Reporting (BRSR) and for this purpose, they requested their statutory auditor CA BH & Associates to provide advisory services on BRSR study to be prepared by the company. Accordingly, the audit firm agreed to be the "Assurance provider of BRSR core" for PP Ltd. While making disclosure on the performance against the various principles of BRSR, CA BH & Associates have adopted following methodology to provide assurance on BRSR for PP Ltd.*

- (a) Preliminary Review of ESG report, parameters.*
- (b) On-site Assessment/verification of ESG Report.*
- (c) Issuance of Assessment Report and Assessment Statement.*
- (d) Review of the responses and clarifications on the findings.*
- (e) Deliberations of findings of the off-site assessment and overlooking of documents.*
- (f) Recommendation of Assessment/verification report including interim result of Assessment/ Reverification.*

From the above methodology adopted which are correct?

- (A) (a), (b) & (e)*
- (B) (b), (c) & (f)*
- (C) (a), (b), (c) & (d)*
- (D) (a), (b), (e) & (f)*

(2 Marks)

14. *M/s. CP and Associates are appointed as the Peer Reviewer of M/s. RS and Co., Chartered Accountants. On going through the Profit and Loss account of the firm, it was observed that in following assignments they had charged fees which were contingent upon the findings or results of such work. In which of the below assignments undertaken, M/s. RS and Co. have violated the provisions of Regulation 192?*

- (A) In case of assignment as a liquidator, fees are charged on a percentage of the realization of the assets.*
- (B) In case of assignment as auditor of a co-operative society, the fees are charged on the percentage of the paid-up capital.*
- (C) In case of assignment for appearing before the Income Tax Appellate Tribunal on behalf of an audit client, the fees are charged based on the reduction in the demand note issued by the Income Tax Department.*
- (D) In case of assignment of cost optimization, the fees are charged on a percentage of the benefit derived.*

(2 Marks)

15. *CA X is the engagement partner of Good Work Ltd. since last 5 years. Since he is familiar with the working of the company, they have approached*

CA X to perform various other assignments for them. Which assignment out of the below can be accepted by CA X as per the recent decisions of the Ethical Standards Board?

- (A) To prepare compilation of financial information.*
- (B) To act as Authorized Representative for their foreign customer.*
- (C) To represent the company as Trademark Attorney.*
- (D) To act as a non- executive director in its Joint Venture company.*

(2 Marks)

Answer Key

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

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) *Munir & Co. is a practicing-chartered accountants' firm having its Head Office at Mumbai. Mr. A, a dedicated and capable article assistant associated with Munir & Co. for the past three years, recently qualified as a Chartered Accountant. Recognizing his strong analytical skills, attention to detail, and in-depth understanding of audit, the firm inducted him as a Partner on 1st February, 2025. On joining the firm, he accepted his first assignment to act as an Engagement Quality Control Reviewer (EQCR) for J & J Limited, a listed entity, for the financial year 2024-25. Before finalizing the Balance Sheet of the Company for the year 2024-25, CA A signed on few working papers of the engagement team as a token of review performed by him in terms of firm's policies on engagement quality control review without going through the audit file. He made no further documentation, assuming that the team who performed the audit of the company for the year 2024-25, was the same team who performed the audit of the company for the financial year 2023-24.*

Comment on the act of CA A in accordance with relevant professional standards. **(5 Marks)**

- (b) *CA Suba is a senior partner in a chartered accountancy firm in Mumbai. She and few other CA firms, each specializing in different sectors, agree to form a network to enhance their service portfolio and geographical reach. They apply to the ICAI for the network name approval, which is granted as "Suba & Affiliates". They are under the process of submitting relevant forms to the ICAI for Registration.*

Simultaneously, M/s. RS & Associates, one of the member firms in the group, signs a collaboration agreement with an international accounting network based in Singapore.

Based on above facts, you are required to:

Guide CA Suba & M/s. RS & Associates with regard to Guidelines for Networking issued by the ICAI in respect of registration of Network with entities in India and outside India. **(5 Marks)**

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

- (1) In respect of wholly owned subsidiary company viz. KK Ltd, its auditor has qualified clause 3(xv) since the company has not complied with the provisions of Section 192 of the Companies Act, 2013 while entering into non-cash transactions with the director.*
- (2) In respect of OP Ltd., being Jointly Controlled Entity, its auditor has made the adverse remark in clause 3(ix)(a) since the company has defaulted in repayment of loans to bankers.*

In respect of AZ Industries Ltd., the principal auditor has given adverse remark in the standalone financial statement of the company in respect of clause 3(i)(c) since the title deeds of some immovable properties were not held in the name of the company.

The engagement partner, CA P, is in the process of finalizing the consolidated audit report. Guide CA P how he will report on the matters stated above in terms of the reporting requirements under paragraph 3 of CARO, 2020.

(4 Marks)

Answer

- (a) Review of Audited Financial Statements:** As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", Engagement quality control reviewer is a partner, other person in the firm (who should be member of ICAI), suitably qualified external person, or a team made up of such individuals. In this regard, suitably qualified external person refers to an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

In addition, the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

In the given case, Munir & Co, admitted Mr. A, who was an articled assistant for 3 years, as a Partner on 1st February 2025 after he qualified as a Chartered Accountant. He was appointed as Engagement Quality Control Reviewer (EQCR) for J & J Limited, a listed company, for FY 2024-25. It may be considered that CA A has recently qualified as a Chartered Accountant and does not possess the competence and capability for the work assigned. Therefore, it was not appropriate for CA A to accept the assignment of Engagement and Quality Control Reviewer.

Further, the engagement quality control reviewer shall document, for the audit engagement reviewed, that:

- (i) The procedures required by the firm's policies on engagement quality control review have been performed.
- (ii) The engagement quality control review has been completed on or before the date of the auditor's report.
- (iii) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

In the given situation, there are no working papers to show that Engagement quality control reviewer has done an evaluation of conclusion reached by the engagement team. Mere signing on some working papers of the engagement team shows that Engagement and Quality Control

Reviewer has made no such evaluation and review of work performed by the engagement team. In view of above, act of CA A only signing a few working papers is not correct, and he shall maintain documentation in accordance with the Engagement and Quality Control Standards.

Alternative Solution

As per SA 220, "Quality Control for an audit of financial statements", the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

- (i) Discussion of significant matters with the engagement partner.
- (ii) Review of the financial statements and the proposed auditor's report.
- (iii) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached and
- (iv) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

Further, the engagement quality control reviewer shall document, for the audit engagement reviewed, that:

- (i) The procedures required by the firm's policies on engagement quality control review have been performed.
- (ii) The engagement quality control review has been completed on or before the date of the auditor's report.
- (iii) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

In the given situation, there are no working papers to show that Engagement quality control reviewer has done an evaluation of conclusion reached by the engagement team. Mere signing on some working papers of the engagement team shows that Engagement and Quality Control Reviewer has made no such evaluation and review of work performed by the engagement team. In view of above, act of CA A only signing a few working papers is not correct, and he shall maintain documentation in accordance with SA 220.

(b) Registration of Network with entities in India

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

Listing of Network with entities outside India

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

- (c) Reporting requirement under paragraph 3 of CARO 2020:** Clause (xxi) of Paragraph 3 of CARO 2020 requires the auditor to report whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

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

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

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

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

Question 2

- (a) *AJ Private Limited is a company involved in the business of textile manufacturing and having its factory at NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation in its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 2024-25. During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same. They are of the opinion that obtaining Fire NOC is outside the purview of the financial statements, hence, you are not required to look after this aspect. What are the auditor's responsibilities in relation to compliance with laws and regulations?* **(5 Marks)**
- (b) *F & F Associates, Chartered Accountants, are appointed as the statutory auditors of TQR Limited, an unlisted company, for the financial year 2024-25. The net-worth of the company has remained at ₹ 500 crores for last 2 years. CA F is the engagement partner for the audit of the company. During the audit, CA F became aware of an imminent breach of law that would cause substantial harm to investors, creditors and employees of the company. He discussed this matter with Mr. X, who was one of the senior-most directors of the company and who also happened to be a Chartered Accountant. He is of the view that it is the responsibility of Mr. X, being a senior professional accountant, to respond to such non-compliance of law. However, Mr. X is of the view that there is no responsibility casted on him for responding to the aforesaid non-compliance. In view of the following:*
- (i) *Comment on the contention of Mr. X in terms of relevant section of Revised Code of Ethics.* **(2 Marks)**
- (ii) *What documentations are required to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing.* **(3 Marks)**
- (c) *LNG Corporation is a government-owned entity, is engaged in operating liquefied natural Gas. The organization recently underwent a compliance audit conducted by the Comptroller and Auditor General (C&AG) of India. The audit aimed to assess whether the PSU's financial transactions,*

procurement activities and operations complied with relevant laws, regulations and internal guidelines.

In context of the above, you are required to:

- (i) Explain the concept of compliance audit and its perspective. (2 Marks)*
- (ii) What shall be the concern of the auditor when undertaking compliance audit? (2 Marks)*

Answer

(a) SA 250, “Considerations of Laws and Regulations in an Audit of Financial Statements” distinguishes the auditor’s responsibilities in relation to compliance with two different categories of laws and regulations as follows:

- (i) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and labour laws; and
- (ii) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements but compliance with which may be fundamental to the operating aspects of the business, to an entity’s ability to continue its business, or to avoid material penalties. Non-Compliance with such laws and regulations may, therefore, have a material effect on the financial statements.

For the compliance with provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements, the auditor’s responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations.

For other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements but compliance with which may be fundamental to the operating aspects of the business, the auditor’s responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

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

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

- (i) NOCLAR, under Code of Ethics, is applicable on professional accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than audit. It is applicable to Senior Professional Accountants in service, being employees of listed entities. Senior professional accountants in service ("senior professional accountants") includes directors.

In the given case, TQR Limited is an unlisted company, consequently, the provision of section 260 of NOCLAR is not applicable to Mr. X who is a senior-most director of the company and a Chartered Accountant. Thus, contention of the Mr. X that there is no responsibility cast on him for responding to the non-compliance is correct.

- (ii) Documentation Requirements in NOCLAR to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing:
- How management / those charged with governance have responded to the matter.
 - The course of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
 - How the accountant is satisfied that the responsibility of public interest has been fulfilled.

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

Perspective of Compliance Auditing: Compliance Auditing is part of a combined audit that may also include other aspects. Compliance auditing is generally conducted either-

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

(ii) Compliance auditing is concerned with:

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

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

Question 3

- (a) *M/s CES & Associates, Chartered Accountants are appointed as auditors for consolidated financial statements of King Ltd. for financial year 2024-25. Pawn Ltd., Rook Ltd., Bishop Ltd. and Queen Ltd. are the subsidiaries of King Ltd. The consolidated financial statements consist of financial statements and financial information of these subsidiaries audited by other auditors. Such financial statements, financial information and auditor's reports of subsidiaries have been furnished by management of King Ltd. to them. Following further information is also available in respect of these subsidiaries for the financial year 2024-25:*

	Total assets ₹ in crore	Total Revenues ₹ in crore	Net cash outflows ₹ in crore
<i>Pawn Ltd.</i>	300	440	15
<i>Rook Ltd.</i>	200	330	8
<i>Bishop Ltd.</i>	150	220	12
<i>Queen Ltd.</i>	250	300	10

One Subsidiary company, Queen Ltd., is located outside India whose financial statements have been prepared in accordance with accounting principles generally accepted in the respective country and which has been audited by auditors in the respective country under generally accepted auditing standards applicable.

You are required to draft a suitable paragraph based on the above information to be included in the independent auditor's report on consolidated financial statements by making necessary assumptions.

(5 Marks)

- (b) *M/s FG & Co., Chartered Accountants, have been appointed as statutory auditors of Z Ltd. for the F.Y.2024-25. During the course of audit, while carrying out risk assessment procedures and related activities for accounting estimates, CA G the engagement partner, identified provision for warranty as an accounting estimate and considered it to be at significant risk. In accordance with SA 540, explain the matters that need to be evaluated by CA G specifically with respect to estimation uncertainty.*

(5 Marks)

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

(4 Marks)

Answer

- (a) Information to be included in the independent auditor's report on consolidated financial statement where financial statements of subsidiaries are audited by other auditors.**

In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other

auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

It should be included in Other Matter paragraph of independent auditor's report. The draft "Other Matter Paragraph" is as under: -

Other Matter Paragraph

We did not audit the financial statements and other financial information, in respect of four (4) subsidiaries, whose financial statements include total assets of ₹ 900 crores as at March 31, 2025, and total revenues of ₹ 1,290 crores and net cash outflow of ₹ 45 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors, and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company.

Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and joint ventures, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the reports of such other auditors.

One subsidiary company, Queen Ltd., is located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in the respective country and which has been audited by other auditors under generally accepted auditing standards applicable in the respective country. The Holding Company's management has converted the financial statements of Queen Ltd. from accounting principles generally accepted in the respective country to accounting principles generally accepted in India.

We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiary is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.

(b) Matters that need to be evaluated with respect to estimation uncertainty as per SA 540: As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates & Related Disclosures", matters that need to be evaluated by the auditor CA G specifically with respect to estimation uncertainty, for accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330, are as under:

1. How management has: -
 - (i) Considered alternative assumptions or outcomes,
 - (ii) Why it has rejected them,
 - (iii) How management has otherwise addressed estimation uncertainty in making the accounting estimate.
2. Whether the significant assumptions used by management are reasonable.
3. Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

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

1. To enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.
2. The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing

an inappropriate conclusion when the interim financial information is materially misstated.

- 3 The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
4. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
5. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Question 4

- (a) *M/s. TZ and Associates are appointed as a statutory branch auditors of the Delhi Branch of ABC Bank Limited for the F.Y. 2024-25. CA T is the engagement partner for this assignment. He is verifying the advances and has obtained the list of advances outstanding as on 31st March, 2025. On sampling basis, he selected one account of Mr. X who has borrowed ₹ 1.00 crore in the form of housing loan in the year 2021-22. The account was operating positively till 2023-24. Since April 2024, the account was often remaining overdue. On 01.10.2024, Mr. X approached the Branch and requested to increase the repayment period and to reduce the rate of interest as he was facing some financial crunch due to sudden medical emergency in the family. On 01.11.2024, the Branch accepted the proposal of Mr. X and increased the repayment period and reduced the rate of interest. The Branch classified the account of Mr. X as a Standard Asset as on 31.03.2025. CA T insisted the Branch Manager to classify the account as Sub-standard Asset as on 31.03.2025 as there is a change in the terms of payment. CA T started to draft Memorandum of Changes (MOC) for account of Mr. X to be submitted to the Branch. The rate of provision for secured portion of Sub-standard*

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

- (i) Justify the classification insisted by CA T regarding the account of Mr. X as on 31.03.2025. (3 Marks)*
- (ii) Guide CA T in deciding the rate to be applied for secured portion of Sub-standard Asset while finalizing the Memorandum of Changes (MOC). (2 Marks)*
- (b) M/s ST & Co., Chartered Accountants, are appointed as auditors of Hitech Ltd., an IT company, engaged in providing diverse range of services like digital transformation, software development and cloud solutions. The auditors have to use online means to conduct the audit. Hence, ST & Co. decided to go for Remote Audit technology to obtain audit evidence and perform documentation review with the participation of management. The audit team got first hand evidence directly from the IT system as direct access had been provided to them. M/s ST & Co. have been developing tailored strategies to ensure that the remote audit meets the requirements and deliver results equivalent to the traditional onsite audits, they are concerned with confidentiality, Security and Data protection aspects while conducting the Remote audit. Guide them. (5 Marks)*
- (c) KLM Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to enhancing its Environmental, Social and Governance (ESG) transparency. Sustainability Reporting plays a crucial role in enhancing transparency and accountability regarding an entity's Environmental, Social and Governance (ESG) performance. The company wants to apply Sustainable development in its corporate policy. During the review of its sustainability practices, the management is keen to assess the safety of the products, its quality and labour relations.*

What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. (4 Marks)

Answer

(a) Restructuring of Advances:

- (i) Restructuring is an act in which a lender, for economic or legal reasons relating to borrower's financial difficulty, grants concessions to the borrower. It may involve modification of terms of advances including*

alteration of amount of instalments/alteration of repayment period/ rate of interest/sanction of additional credit facilities etc. to help in curing default.

Under RBI prudential norms, banks may restructure the accounts classified under standard, substandard or doubtful categories. On restructuring, the account will be downgraded from Standard to Sub-standard whereas NPAs will remain in the same category.

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

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

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

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

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

- (b) Considerations for Remote Audit: Confidentiality, Security and Data Protection:** M/s ST & Co. have been developing tailored strategies to ensure that the remote audit meets the requirements and deliver results equivalent to traditional onsite audits.

1. To ensure data security and confidentiality, access to document sharing platform should be sufficiently restricted and secured by encrypting the data that is sent across the network.
2. The information, once reviewed and documented by auditor, is removed from the platform, and stored according to applicable archiving standards and data protection requirements.
3. Auditors should take into consideration legislation and regulations, which may require additional agreements from both sides (e.g., there will be no recording of sound and images, or authorizations to using people's images).
4. Auditors should not take screenshots of auditees as audit evidence. Any screenshots of documents or records or other kind of evidence should be previously authorized by the audited organization.
5. In case of accessing the auditee's IT system auditor should use VPN (Virtual private network). VPN is a service which creates safe and encrypted online connections. It prevents unauthorized users to enter into network and allows the users to perform work remotely.

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

The Social pillar includes the following elements as under:

- Human Capital:
 - ◆ Labour Management
 - ◆ Health & Safety
 - ◆ Human Capital Development
 - ◆ Supply Chain Labour Standards
- Product Liability:
 - ◆ Product Safety & Quality
 - ◆ Chemical Safety

- ◆ Financial Product Safety
- ◆ Privacy and Data Security
- ◆ Responsible Investment
- Stakeholders Opposition:
 - ◆ Controversial Sourcing
- Social Opportunity:
 - ◆ Access to Communication
 - ◆ Access to Finance
 - ◆ Access to Health Care
 - ◆ Opportunities in Nutrition & Health

Question 5

- (a) *Gold Opportunities Fund is in the business of Mutual fund and has prepared the financial statements for the F.Y. ended on 31st March 2025. These financial statements have been audited by M/s SH & Co., Chartered Accountants, and the audit report issued is unqualified. The company has also prepared a scheme wise summary of its financial performance for the stakeholders. The management of Gold Opportunities Fund further engages M/s SH & Co. to perform an engagement to report on the abridged financial statements derived from the audited financial statements pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Describe in detail the nature of procedures that would be performed by M/s SH & Co., under relevant Standard on Auditing to provide an opinion on the abridged financial statements.* **(5 Marks)**
- (b) *ABC Limited is in the business of manufacturing of iron ore and steel bars since last decade. The company is having its registered office in Mumbai and factory in Bhiwandi. M/s. R and Associates are appointed as the statutory auditors of the company for the financial year 2024-25. While going through the trial balance of the company, they observed that the company has 50 customers and 40 vendors. They requested the company to authorise them to send the external confirmation to few of its customers and vendors. The company immediately provided them an authority letter to send the external confirmation to their customers and vendors. The auditor sent positive*

confirmation request to top 3 customers and top 3 vendors. After two days of sending positive confirmation request, the management of the company handed over to them the duly signed response received from the respective customers and vendors to whom they had sent the confirmation request. How would M/s. R and Associates proceed to deal with the situation as the auditor of the company? **(5 Marks)**

- (c) *CA Neha, a Chartered Accountant in practice, is approached by Growtech Ltd., a startup company planning to raise capital through an Initial Public Offering (IPO). The company requests her assistance in guiding them through the selection of advertising agencies, co-ordinating with bankers and brokers to issue. Besides helping the company as an advisor, she also underwrote the public issue of the company to the extent of 20% at a commission of 1%. She contends that provisions of code of conduct are not binding such services. Do you agree with the view of CA Neha? Analyse the facts and give your comments in the light of applicable code of conduct.* **(4 Marks)**

Answer

- (a) Engagements to Report on Summary Financial Statements:** As per SA 810, "Engagements to Report on Summary Financial Statements", nature of procedures to be performed by auditor M/s SH & Co. to provide opinion on the abridged financial statements are given below:
- (1) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
 - (2) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
 - (3) Evaluate whether the summary financial statements adequately disclose the applied criteria.

- (4) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- (5) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- (6) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- (7) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

(b) Reliability of External Confirmation: SA 505, "External Confirmations", states that if the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

SA 500, "Audit Evidence", indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium.

Factors that may indicate doubts about the reliability of a response include that it:

- was received by the auditor indirectly; or
- appeared not to come from the originally intended confirming party.

In the instant case, ABC Limited has 50 customers and 40 vendors in the year 2024-25. M/s R and associates sent positive confirmation letter to top 3 customers and top 3 vendors. However, after 2 days of sending request,

management of the company handed over duly signed response received from respective customers and vendors to auditor. Considering the fact that the response was received by the auditor indirectly, it raises questions on the reliability of responses received and indicates a fraud risk factor that requires evaluation.

In view of above, if the auditor has doubts regarding the reliability of these responses, it becomes necessary to obtain additional audit evidence to address those concerns. The auditor should also reassess the risk of material misstatement, including the possibility of fraud, and accordingly design further audit procedures.

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

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

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

In the given situation, CA. Neha, a practicing Chartered Accountant, is helping the company as an advisor, she also underwrote the public issue of the company Growtech Ltd., a startup company, to the extent of 20% at a commission of 1%. In view of Section 2(2)(iv) of the Chartered Accountants Act, 1949, contention of CA Neha that provision of Code of Conduct (Ethics) are not binding in providing such services is not correct.

Accordingly, CA Neha is permitted to provide the services of advisor or consultant to an issue as part of Management Consultancy and other Services under section 2(2)(iv) of the Chartered Accountants Act, 1949.

However, CA Neha would be held guilty of professional misconduct under the Chartered Accountants Act, 1949 for underwriting the public issue of the Company.

Question 6

- (a) CA Q is the engagement partner for the statutory audit of LAL Ltd. While conducting the audit he has identified some deficiencies in the internal controls. On further verification of the internal controls of the company, he has some indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with the governance and also in few cases he observed the susceptibility to loss of an asset. He determines, on the basis of the audit work performed, that identified deficiencies constitute significant deficiencies. How and to whom CA Q shall communicate identified significant deficiencies in the internal control? Which matters shall be included by CA Q in such communication? **(5 Marks)**
- (b) VPN Ltd. is a listed entity that prepares quarterly financial statements in accordance with Ind AS. The company has appointed Jack & Co., Chartered Accountants, as its statutory auditors. During Q2 of the Financial Year 2024-25, Jack & Co. undertake a review of VPN Ltd.'s interim financial information in accordance with SRE 2410. The auditor plans to obtain written representations from the management. The management has merely stated that the interim financial information is prepared and presented in accordance with the applicable financial reporting framework. As an engagement team member, you are required to specify areas that these written representations should cover for the review of interim financial information. **(5 Marks)**
- (c) SAFE Cooperative Bank shortlisted M/s VW & Colleagues, Chartered Accountants, out of the five audit firms, for assignment of Statutory Audit for the F.Y. 2024-25. Bank emailed the list of branches to the audit firms along with the maximum fee per branch and requested them to submit the quotations. M/s VW & Colleagues responded to the bank and submitted their quotations. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**

(OR)

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

Answer

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

The auditor, CA Q shall communicate significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis in writing. CA Q shall also communicate to management at an appropriate level of responsibility on a timely basis.

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

- (1) A description of the deficiencies and an explanation of their potential effects; and
- (2) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
 - (i) The purpose of the audit was for the auditor to express an opinion on the financial statements;
 - (ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for

the purpose of expressing an opinion on the effectiveness of internal control; and

- (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

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

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

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

Provided that nothing herein contained shall be construed as preventing or prohibiting -

- (i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
- (ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the Guidelines issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services. However, such a restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case, SAFE Cooperative Bank circulated a list of branches to audit firms, specifying the maximum fee per branch. In response, M/s VW & Colleagues submitted their quotation. As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, and the Guidelines issued by the Council of ICAI, such a response is not permitted, since the assignment relates to audit services exclusively reserved for Chartered Accountants, and only a maximum fee (not minimum) was prescribed. Accordingly, the concerned responsible partner of M/s VW & Colleagues, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for responding to such a quotation.

OR

- (c) **Procedure to be followed to Investigate Commission Schemes Fraud:**

- (1) Before proceeding to investigate frauds of the type aforementioned, the investigating accountant should ascertain the exact duties of the

person concerned who is suspected to have committed a fraud, his relationship to the general routine of the office and the circumstances in which any known instances of defalcation have come to light.

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