



PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS



QUESTIONS

PART A: Multiple Choice Questions

Integrated Case Scenarios

M/s BNM & Associates, Chartered Accountants, are in the completion phase of the statutory audit of M/s FES Limited, a technology company, for the financial year ended 31st March 2025.

Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (I) During last quarter of the year, company's income was significantly affected by fluctuations in foreign exchange rates, with inadequate hedging arrangements. The auditors had to evaluate the impact of these transactions on financial statements.
- (II) It was observed that the server maintenance work of company was likely prone to external access, which was an area of high risk as assessed and reported by management's expert committee.
- (III) The auditor had to make important judgments in areas where the management of the company also used significant judgment. One key point was that the company depended heavily on a few major clients. While management believed that the market of the company was growing and would bring in more new clients, the auditors had to

carefully consider this difference in view while reviewing the financial statements.

Following discussions, a mutual understanding was reached, and the audit of FES Limited was concluded smoothly.

Subsequently, BNM & Associates came to know about a tender floated by the Dwarka Municipal Corporation for computerisation of its records, requiring an earnest deposit of ₹ 85,000. BNM & Associates has one of its partners residing in Dwarka, hence he persuaded the firm to apply for the tender and paid the earnest deposit. However, another partner of the firm was of the view that such an act would lead to professional misconduct and insisted on withdrawing the tender application. The firm decided to approach an experienced CA before withdrawing the tender application and went on focusing on other assignments.

BNM & Associates also commenced the statutory audit of Cash Limited, a banking company headquartered in India. During the audit, the following observations were made:

- (i) The staff and officers of the bank were frequently transferred from one position to another, without prior notice.
- (ii) Cash was test-checked daily and counted in full occasionally by another officer of the bank, apart from the cashier.
- (iii) Physical custody of cash was solely maintained by the senior-most officer at the branch.
- (iv) Unpaid cheques received through outward clearing were securely stored in the bank's lockers.

After a detailed discussion and review of internal controls and practices, the firm finalised and issued the audit report for the financial year.

CA M, a partner at BNM & Associates, firmly believed that one should always pursue their passion, regardless of their profession or business. Driven by this belief, he engaged in the following activities beyond his Chartered Accountancy practice:

- (1) Part-time employment with a Non-Profit Organisation based in Noida.
- (2) Involved in agricultural activities on his personally owned agriculture land located outside Bangalore.

- (3) Tutorship as a part-time faculty member at a private educational institute in Chennai.
- (4) Holding an honorary office leadership in a charitable educational organisation in Trivandrum.

Based on the above facts, answer the following MCQs:

1. As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", which of the above-mentioned areas should the audit committee and the auditors consider while determining the 'Key Audit Matters'?
 - (a) (I) & (III).
 - (b) (II) only.
 - (c) (I) & (II).
 - (d) (I), (II) & (III).
2. Assuming the role of the auditor of Cash Limited, based on the above observations, which aspects would you report as control failures, and what would be your rationale for considering them as such?
 - (a) (i) & (ii) – The frequent transfer of staff without prior notice suggests a lack of adequate control within the HR department. Similarly, permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling.
 - (b) (i) only – The frequent transfer of staff without prior notice indicates that the HR department is not having a proper control in its functions.
 - (c) (ii) & (iv) – Permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. Further, any unpaid cheques received in outward clearance needs to be thrashed by the bank as they cannot be held by the bank in its custody.
 - (d) (iii) & (iv) – Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid

cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the customers should be appropriately notified to collect them from the bank.

3. Among the various passion-driven activities undertaken by CA M as discussed in the case, which of these are generally permitted by the Institute of Chartered Accountants of India (ICAI)?
 - (a) (1) & (3).
 - (b) (3) only.
 - (c) (2) & (4).
 - (d) (1), (2) & (3).
4. According to the provisions of the Chartered Accountants Act, 1949, under which clause would CA M be guilty of professional misconduct?
 - (a) Clause 10 of Part I of First Schedule.
 - (b) Clause 2 of Part IV of First Schedule.
 - (c) Clause 11 of Part I of First Schedule.
 - (d) Clause 1 of Part III of Second Schedule.
5. Is there any professional misconduct involved in the submission of the municipality tender application by BNM & Associates under the Chartered Accountants Act, 1949?
 - (a) Yes. As per Clause 6 of Part 1 of the First Schedule, a CA in practice shall be guilty of professional misconduct if he responds to any tender.
 - (b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a non-exclusive area for chartered accountants.
 - (c) Yes. Even though the Guidelines under the Act permit a member to respond to any tender where the matter relates to anything other than audit, he is not permitted to make any money deposit. Hence, the act of the firm is professional misconduct.

- (d) No. As per Guidelines under the Act, a member can respond to any tender which is requested by the Central government, State government or local government. Hence, there is no professional misconduct in this case.

Independent MCQs

6. During the audit of Tripti Chemicals Ltd., the auditors, Dishu & Co., identified unusual fluctuations in revenue while performing analytical review procedures. Upon further inquiry, they detected a misstatement in revenue recognition, which appeared to have been intentionally made by senior finance personnel. Although management contended it was a one-time error, the auditors suspected of potential fraud. In accordance with the Standards on Auditing, what would be the most appropriate course of action for the auditor?
- (a) Rely on management's assurance and proceed with issuing an unmodified audit opinion.
 - (b) Perform additional analytical procedures only if the misstatement is material.
 - (c) Evaluate whether the misstatement indicates fraud, reassess the risk of material misstatement due to fraud, and consider implications for audit evidence and management representations.
 - (d) Immediately withdraw from the audit engagement without performing further procedures.
7. VMC & Co., a firm of Chartered Accountants, has been auditing the financial statements of Reyox Ltd., a listed company, for the past 10 years. CA Rajat, an engagement partner, has led the audit team throughout this period. A recent quality control review raised concerns regarding a familiarity threat, as CA Rajat had developed a close relationship with key management personnel of the client. Which of the following would be the most appropriate course of action for VMC & Co. to mitigate the threat of independence and objectivity in this case as per SQC 1 in this scenario?
- (a) Continue with the same engagement partner, as long as documentation evidences independence in mind and appearance.

- (b) Appoint a second partner to assist CA Rajat, but allow him to continue as the lead engagement partner.
 - (c) Rotate the engagement partner and appoint another qualified partner to lead the audit engagement.
 - (d) Request Reyox Ltd. to change their finance team to reduce familiarity threats from the client's side.
8. While conducting the statutory audit of a large manufacturing company with multiple warehouses in remote locations, the audit team faced challenges in performing physical stock counts due to logistical constraints. The team decided to adopt an emerging technology that uses sensors and high-resolution cameras to carry out inventory verification without being physically present at the site.

Which of the following technologies is most appropriately suited for this purpose?

- (a) Blockchain.
- (b) Drone Technology.
- (c) Internet of Things (IoT).
- (d) Robotic Process Automation (RPA).

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Quality Control

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

Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.

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

Materiality, Risk Assessment and Internal Control

10. CA Kavya has been appointed as the statutory auditor of XYR InfraTech Ltd. for the financial year 2024-25. The company operates in two business segments: (i) a consumer electronics division that manufactures smart televisions and earns stable profits; and (ii) an infrastructure development division engaged in metro rail projects under government contracts. The infrastructure division has reported operating losses in the past two years due to delays and cost overruns.

While planning the audit, CA Kavya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division.

Reporting

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

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

As an audit engagement partner for Harsh Electronics Ltd., what additional audit procedures would you perform in respect of this land

exchange transaction, and what would be your responsibilities from a reporting perspective?

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

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

Particulars	FY 2023–24	FY 2024–25
Auditor	Gupta & Mehra LLP, Chartered Accountants	Roshan & Co., Chartered Accountants
Audit Opinion	Adverse	Audit in progress
Reason for Modified Opinion	Material misstatement in valuation and disclosure of trade receivables	Misstatement remains uncorrected
Presentation of Financial Statements	Figures presented as comparatives in FY 2024–25 audit	Comparative financial statements (current + previous year)

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

Review of Financial Information

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

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

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

Digital Auditing and Assurance

14. Sujal is appointed as the auditor of Kashish Ltd., a company heavily dependent on digital platforms for its core business operations and financial reporting. During the preliminary discussions with management, Sujal observes following gaps in the company's IT risk management framework:

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

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

Group Audits

15. CA Rajul has been appointed as the statutory auditor of the consolidated financial statements of Nemi Limited for the financial year 2024–25. The consolidated financial statements include the financial statements and financial information of 9 subsidiaries, all of which have been audited by other auditors. The management of Nemi Limited has provided CA Rajul with the audited financial statements, financial information, and audit reports of these subsidiaries. The following summary information pertains to these subsidiaries for the financial year 2024–25:

Particulars	Amount
Total Assets	₹ 2,200 crore
Total Revenue	₹ 1,400 crore
Net Cash Outflows	₹ 25 crore

Out of the 9 subsidiaries, three are located outside India. Their financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) of their respective countries and audited in accordance with the auditing standards applicable in those jurisdictions.

How should CA Rajul report this matter in the Independent Auditor's Report on the consolidated financial statements of NEMI Limited for the year 2024–25, in accordance with the applicable Standards on Auditing? Also, draft a suitable paragraph to be included in the auditor's report, making necessary assumptions.

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

16. You are auditing the branch operations of XS Bank, a scheduled commercial bank, for the year ending 31st March 2025. During the audit of the loans and advances portfolio, you observed the following:
- Advances were sanctioned without proper credit appraisal in some cases.

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

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

Internal Audit

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

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

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

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

As a professional consultant, you are required to advise:

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

Due Diligence, Investigation & Forensic Accounting

18. Navyam Limited is into the business of construction for the past 20 years. Management of the Company came to know that building material sent to construction sites is of substandard quality whereas the payment released by the accounts department of the Company is on the higher side. Forensic Accountant was asked to carry out detailed investigation. Forensic Accountant completed his investigation and now preparing his report. What are the broad areas of information that needs to be incorporated in the report of forensic accountant?

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

19. SkinGlow Ltd., an e-commerce company dealing in skincare products, promotes its newly launched cream on its official website as "100% natural and chemical-free." However, a review of the product label reveals the presence of artificial fragrance and preservatives. A customer who noticed the same tried to complain, but there was no proper complaint form or helpline available on the website. Additionally, the company's website states that its primary business objective is to offer useful products and services to customers in exchange of reasonable profits. With reference to the principles of the Business Responsibility and Sustainability Reporting (BRSR) framework, identify which principle is being referred to in this case. Also, state the core elements of this principle.

Professional Ethics & Liabilities of Auditors (New)

20. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto:

- (a) CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core.
- (b) M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months.



SUGGESTED ANSWERS

PART A: Answers to Multiple Choice Questions

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

PART B: Answers to Descriptive Questions

9. As per SQC 1, "Quality Control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the capabilities, competence, time and resources to undertake an engagement, following matters have to be taken into consideration: -
- Firm personnel have knowledge of relevant industries or subject matters;
 - Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
 - The firm has sufficient personnel with the necessary capabilities and competence;
 - Experts are available, if needed;
 - Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
 - The firm would be able to complete the engagement within the reporting deadline.

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

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

continuance of client relationships and audit engagements are appropriate.

In the given case:

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

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

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

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

- 10.** As per SA 320, determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- Whether there are items on which the attention of the users of the

particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);

- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark.

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

In the case of XYR InfraTech Ltd.:

- (i) **Consumer Electronics Division:** Since Consumer Electronics division earns stable and regular profits, CA Kavya may consider using profit before tax (PBT) or earnings as the benchmark.
- (ii) **Infrastructure Development Division (Loss-making):** The Infrastructure Development Division has reported losses due to external factors (delays, overruns). In such cases, profit-related benchmarks may not be appropriate. Instead revenue or gross profit may be used as benchmarks.

Alternatively, considering its public utility nature, benchmarks like total cost or net cost (expenses less revenues) may be suitable. Where significant assets are involved, total assets may also be relevant.

11. In the given case, Harsh Electronics Ltd. has entered into a non-cash transaction during the financial year involving a land exchange with a

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

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

The auditor is required to report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020 which states whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act, 2013 have been complied with.

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

- 12. (a)** In the given case, CA Roshan noticed that the previous year's financial statements contained an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the trade receivables. As per SA 710, "Comparative Information- Corresponding Figures and Comparative Financial Statements", if the auditor's report on the prior period, as previously issued, included an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the

current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

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

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

- (b)** When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:
- (i) That the financial statements of the prior period were audited by a predecessor auditor;
 - (ii) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (iii) The date of that report.

In the given case, the previous year's audit was conducted by Gupta & Mehra LLP, who issued an adverse opinion due to a misstatement in trade receivables. Accordingly, CA Roshan should include an Other Matter paragraph in the current year's auditor's report, disclosing that the prior year financials were audited by Gupta & Mehra LLP; an adverse opinion was expressed due to

material misstatement in trade receivables; and the date of the prior auditor's report.

- 13. (i)** A review engagement under SRE 2410 provides limited assurance, which is lower in scope than the reasonable assurance obtained in an audit. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Overview of distinctive areas between Audit and Review

<i>Audit</i>	<i>Review</i>
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion. The language of assurance opinion is positively worded.	It provides an assurance conclusion. The language of assurance conclusion is negatively worded.

- (ii)** The auditor should issue a written report that contains the following: -
- (a) An appropriate title.

- (b) An addressee, as required by the circumstances of the engagement.
- (c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.
- (d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.
- (e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.
- (f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.
- (g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
- (h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and

that accordingly no audit opinion is expressed.

- (i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.
- (j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework
- (k) The date of the report.
- (l) Place of Signature.
- (m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).
- (n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

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

14. Sujal's first step in response to the above observations should be to Identify the risk in following manner:

- The auditor has to determine whether the entity's risk assessment process considers cybersecurity risks.
- Entity should conduct a periodic risk assessment & develop a management strategy which identifies cybersecurity risks around IT system failure affecting the entity's primary business or potential

loss of data or inability to access data as required, Risk of unauthorized access to the IT network.

- The entity should maintain and periodically review an inventory of their information assets, i.e., Asset Management (e.g., intellectual property, patents, copyrighted material, trade secrets and other intangibles).
- The entity should classify and prioritise protection of their information assets based on sensitivity and business value and periodically review the systems connected to the network on which digital assets reside.
- From the governance perspective management should review how cybersecurity risks affect internal controls over financial reporting. In case of adverse attack how management is going to assess the impact on the recoverability of financial data and impact on revenue recognition.
- Management needs to identify if any established a risk-based cybersecurity program can be leveraged e.g. (NIST, ISO etc.)
- To determine overall responsibility for cybersecurity in the business environment entity should establish roles and responsibilities over cybersecurity (CISO, CIO). Further, the risk assessment should be discussed with those charged with governance (e.g., the Audit Committee or Board of Directors).

- 15.** 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, 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.

In the given situation, CA Rajul, the statutory auditor of the consolidated financial statements, is not the auditor of all components included in the consolidation and intends to refer to the work of other auditors, such

reference must be made through an Other Matter paragraph in the 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 nine (9) subsidiaries, whose financial statements include total assets of ₹ 2,200 crores as at March 31, 2025, and total revenues of ₹ 1,400 crores and net cash outflow of ₹ 25 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.

Three of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries 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 subsidiaries 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.

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

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

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

- 17.** As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-
- (A) every listed company;
 - (B) every unlisted public company having-
 - (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - (ii) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (iv) outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year; and
 - (C) every private company having-
 - (i) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.
 - (a) In the case of Jeneva Technologies Pvt. Ltd., the company recorded a turnover of ₹ 210 crores during

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

- (b) In the case of Cross Buildcon Ltd., the company has a paid-up share capital of ₹ 48 crores, a turnover of ₹ 198 crores, outstanding borrowings from a bank amounting to ₹ 110 crores, and outstanding deposits of ₹ 30 crores as per the financial year 2023–24. Although the paid-up capital and turnover are below the prescribed thresholds, the outstanding borrowings and deposits exceed the specified limits under Rule 13 of the Companies (Accounts) Rules, 2014. Therefore, Cross Buildcon Ltd. is mandatorily required to appoint an internal auditor for the financial year 2024–25.
- (c) As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.
- The internal auditor may or may not be an employee of the company.
 - To be effective, the internal auditor must be regarded as a part of the management and not merely as an assistant thereto.

18. Broad areas of information to be incorporated in the report of Forensic accountant -

Issuing an report is the final step of a forensic accounting. Accountant / Investigators will include information detailing the fraudulent activity, if

any has been found. The client will expect a report containing the findings of the investigation, including a summary of evidence, a conclusion as to the amount of loss suffered as a result of the fraud and to identify those involved in fraud.

The report may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions. The report will include schedules and graphics necessary to properly support and explain the findings.

The report will also discuss how the fraudster set up the fraud scheme, and which controls, if any, were circumvented. It is also likely that the investigative team will recommend improvements to controls within the organization to prevent any similar fraud occurring in the future.

19. In the case of SkinGlow Ltd., the misrepresentation of product contents and lack of a proper grievance mechanism are in direct conflict with Principle 9 of the BRSR framework. The company should take corrective measures to ensure alignment of its operations with responsible consumer practices as outlined in the BRSR principles 9 given below.

Principle 9 – Provide Value to the Consumers in a Responsible Manner:

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

- (a) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.
- (b) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.
- (c) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

- (d) When handling customer data, the right to privacy of the customer needs to be maintained.
 - (e) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.
 - (f) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.
 - (g) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.
 - (h) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
- 20. (a)** As per the recent decisions taken by the Ethical Standards Board of ICAI, it is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" for the same client.

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

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

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

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

In the given case by depositing the client's money of ₹ 10 lakh i.e., for the specific purpose of investment in designated securities, by M/s R & Co., a firm of Chartered Accountants, in their own savings bank account, the auditors have committed professional misconduct. Hence in the given case, M/s R & Co. will be held guilty of professional misconduct under Clause (10) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.