PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

PART – I Multiple Choice Questions

Integrated Case Scenario - I

Myra Developers Ltd. ('MDL') is a prominent, publicly listed conglomerate primarily engaged in the development of "Smart City" infrastructure and large-scale urban transit systems. The Company currently manages several high-value projects under the Service Concession Arrangement (SCA) model. Effective Financial Year 2025-26, M/s. MS & Associates, Chartered Accountants were re-appointed as the statutory auditors, for a period of five years, with CA Raja as the Engagement Partner. To comply with the firm's quality control policies for high-risk listed clients, CA Puja was designated as the Engagement Quality Control Reviewer (EQCR).

The audit environment became increasingly complex during the final quarter of the year. A primary area of concern involved the valuation of Service Concession Assets, which are valued based on discounted future cash flows from projected toll collections and government subsidies. Due to the high degree of estimation uncertainty and specialized mathematical models involved, CA Raja determined this to be a "significant risk" area. To address this, the firm engaged a third-party valuation specialist. CA Raja verified the expert's professional membership and checked two previous project reports the expert had completed for other firms. However, he chose not to delve into the specific discount rates or growth assumptions used in the current model, citing that his decade-long experience in construction auditing provided him with enough "intuitive comfort" to accept the expert's final figures without further technical challenge.

As the audit progressed into April 2026, the engagement team flagged a transaction involving an unsecured, interest-free loan of ₹ 15 crores extended to Emerald Ventures Private Ltd. Investigation revealed that the spouse of MDL's Managing Director holds a 30% equity stake in Emerald Ventures. The Board was just informed about this transaction without any specific details and the board approvals were entirely bypassed. When confronted, the CFO argued that the loan was a 'temporary bridge' for a sub-contractor and that the amount was negligible, *representing less than 1% of MDL's total asset base and thus did not warrant any disclosure.*

Concurrent with the financial review, the team evaluated MDL's compliance with broader regulatory frameworks. It was discovered that the Environmental Management Authority had issued a 'Show Cause Notice' to MDL for failing to renew the mandatory operating licenses for three major project sites. These licenses are fundamental to the Company's legal right to operate, while these projects continued to generate revenue and no financial penalties had been crystallized by the balance sheet date. CA Raja noted the non-compliance in the working papers but concluded that since it had no 'direct effect' on the calculation of the current year's depreciation or revenue, it did not require specific procedures beyond a standard management representation letter.

The audit report was formally signed dated May 15, 2026. However, a week later, on May 22, 2026, before the Company had printed and dispatched the annual reports to the shareholders, a catastrophic fire occurred at the Company's central logistics hub. The fire decimated specialized equipment and inventory worth ₹40 crores. Since the insurance policy for that specific hub had lapsed two months prior, the loss was total. When CA Raja requested management to adjust the financial statements or at least include a detailed note for the subsequent event, the Board refused, claiming that auditor's responsibility for FY 2025-26 accounts ended the moment the audit report was signed off.

Based on the above facts, answer the following ***Q. Nos. 1 to 5*** *by choosing the most appropriate option:*

1. *Considering the mandatory requirements for listed entities, which of the following represents a lapse in objective evaluation of an EQCR?*

   (A) *EQCR has made a review of the financial statements and the proposed auditor's report.*

   (B) *EQCR did not specifically evaluate and document the engagement team's assessment of the firm's independence prior to report finalization.*

   (C) *EQCR disagreed with the engagement partner's reporting conclusion but escalated the matter to the firm's technical committee as per policy.*

   (D) *EQCR restricted the detailed review to areas involving significant judgment instead of reviewing all routine audit documentation.*

(2 Marks)

2. *Regarding the "Show Cause Notice" and the expired environmental licenses, how should the auditor's responsibility be categorized under the standards on auditing?*

   (A) The auditor's responsibility is limited to performing specified audit procedures, specifically inquiry and inspection, to identify non-compliance that may have a material effect on the financial statements.

   (B) The auditor must obtain sufficient appropriate audit evidence regarding compliance because these regulations have a direct effect on the determination of material amounts and disclosures.

   (C) Since the non-compliance is "fundamental to the operating aspects," the auditor must treat this as a "direct effect" law and perform extensive substantive testing on all environmental filings.

   (D) No responsibility exists under the auditing standards because the legal non-compliance had not resulted in a quantified financial penalty or "direct" monetary misstatement by the year-end. ***(2 Marks)***

3. *Given the dispute over the ₹ 15 crore loan to a Company in which the MD's spouse held shares, what is the mandatory reporting requirement for M/s. MS & Associates under CARO 2020?*

   (A) Since the amount is less than 1% of the total assets, it is considered "immaterial" for CARO purposes and no mention is required.

   (B) The auditor must state whether the provisions of Section 185 and 186 have been complied with, and since they have not, provide the specific details of the non-compliance.

   (C) The auditor should report this under the "Related Party Transactions" clause of CARO only if the transaction was not at "arm's length," regardless of Section 185 compliance.

   (D) Because the transaction involves a spouse and not the Director directly, Section 185 is not triggered, and thus no reporting is required under CARO. ***(2 Marks)***

4. *Following the warehouse fire on May 22, 2026, and management's subsequent refusal to amend the financial statements, which is the most appropriate course of action for CA Raja?*

(A) He should issue a "Qualified Opinion" immediately, dating the new report May 22, 2026, to account for the unadjusted inventory loss.

(B) As the report is already signed, he should inform the management that he will "withdraw" his signature, effectively cancelling the previous report via a public notice.

(C) He must notify those charged with governance not to issue the financial statements to third parties; if they are still issued, he must take steps to prevent reliance on the report.

(D) He should include an "Emphasis of Matter" paragraph in the next year's audit report (FY 2026-27) to explain the loss that occurred in the previous period. ***(2 Marks)***

5. *CA Raja's reliance on the valuation expert's findings for the Service Concession Assets was based on his 'intuitive comfort' and the expert's professional credentials. With reference to relevant Standard on Auditing, which of the following statements is appropriate?*

(A) CA Raja's approach is appropriate because an auditor is not expected to review the assumptions and methods of a specialized valuer and is entitled to rely on the expert's professional membership as sufficient evidence of the reliability of the work.

(B) CA Raja failed to meet the requirements of the standards because he did not evaluate the adequacy of the expert's work, which includes evaluating the relevance and reasonableness of the expert's significant assumptions and methods.

(C) The auditor's reliance is technically deficient because the engagement of a third-party expert for a 'significant risk' area automatically requires the Engagement Quality Control Reviewer to perform an independent re-calculation of the model.

(D) CA Raja acted correctly by focusing on the expert's previous project reports for other firms, as this fulfils the requirement to obtain a sufficient understanding of the expert's field of expertise to verify the final valuation figures. ***(2 Marks)***

Integrated Case Scenario - II

Horizon Tech-Solutions Ltd. (HTSL) is a prominent, unlisted public company specializing in providing end-to-end cloud infrastructure and digital transformation services. M/s. JK & Associates, Chartered Accountants were the Statutory Auditors, with CA Vicky as the engagement partner for third consecutive year. HTSL's operations are highly decentralized, with its primary revenue driver being the 'HR-Flow' platform. To maintain cost efficiency, HTSL has outsourced its entire data processing and payroll calculation engine to Data-Sync Private Ltd. (DSPL). During the audit planning phase in October 2025, the CFO, Mr. Rane, received an urgent email from an address nearly identical to the Group Chairman's, requesting a 'discreet' $50,000 wire transfer for an undisclosed project. Simultaneously, several junior staff members in the accounts department reported receiving urgent SMS alerts claiming their corporate login credentials had expired and providing a link to a 'Security Portal' to prevent account lockout. Later, in December 2025, the IT Manager was contacted by a person claiming to be from the Company's telecom provider, who successfully convinced him to reveal the administrative password for the VoIP gateway over a recorded 'verification call'.

As the audit progressed into the finalization stage, HTSL provided CA Vicky with a Type 2 Report for DSPL. This report covered the description, design and operating effectiveness of controls at DSPL. CA Vicky's audit assistant, noting that payroll costs constitute 68% of the total expenditure, drafted an unmodified audit report including a paragraph stating: "Our opinion is based in part on the report of the service organization's auditor, which confirms the effectiveness of the payroll processing engine." To meet the reporting deadline, CA Vicky decided to utilize the internal audit function. He assigned them to trace transaction flows from the CRM to the general ledger and to attend the physical verification of high-value hardware at four remote data centers. However, he also asked them to 'independently evaluate' whether the Management's assessment of the Company's ability to continue as a going concern was 'reasonable' given a recent loss of a major contract.

Meanwhile, CA Anaya, a senior partner at the firm, was offered the role of 'Whole-time Director' at a reputable non-profit educational Trust. While she has no financial interest in the Trust, the role involves significant administrative responsibilities and a fixed monthly honorarium.

Based on the above facts, answer the following ***Q. Nos. 6 to 9*** *by choosing the most appropriate option:*

6. *Considering the various security breaches described (the Chairman's email, the SMS alerts, and the password disclosure over the phone), which of the following accurately categorizes the nature of these social engineering attacks for the purpose of the Risk Assessment and Internal Control evaluation?*

    (A) The Chairman impersonation email represents Whaling; the SMS credential reset alerts represent Smishing; and the password extraction through the verification call represents Vishing.

    (B) The Chairman impersonation email represents Spear-phishing; the SMS alerts represent Smishing; and the phone-based credential extraction represents Vishing.

    (C) The Chairman impersonation email and the phone-based password extraction both represent Whaling due to targeting employees in sensitive control positions, while the SMS alerts represent Smishing.

    (D) All three incidents represent targeted Spear-phishing attempts using different communication channels. ***(2 Marks)***

7. *CA Vicky is reviewing the audit report draft prepared by his assistant regarding the reliance on the Type 2 report of DSPL. Considering the materiality of payroll, which of the following is the most appropriate professional response?*

    (A) The assistant is correct; because the payroll cost is a material 68% a reference to the service auditor is necessary to limit M/s JK & Associates' liability.

    (B) The reference should be removed from the report; however, CA Vicky must perform additional procedures to obtain an understanding of the controls at the service organization.

    (C) The reference should be moved to an 'Emphasis of Matter' paragraph to highlight the significant reliance on the service auditor's Type 2 report without modifying the opinion.

(D) The reference is permitted only if CA Vicky issues a 'Qualified Opinion', as the use of services of DSPL constitute a limitation on the scope of the statutory audit. ***(2 Marks)***

8. *CA Vicky has assigned several tasks to the internal audit function. Evaluate the appropriateness of these assignments under the framework of using the work of internal auditors.*

   (A) All assigned tasks (tracing transactions, hardware counts, and evaluating going concern) are appropriate as they pertain to the operating effectiveness of the entity's reporting framework.

   (B) Tracing transactions and attending hardware counts are inappropriate for internal auditors as these are core substantive procedures that must be performed by the engagement team to ensure independence.

   (C) Only the evaluation of the going concern is inappropriate; however, the internal auditors can perform hardware counts only if CA Vicky provides 'direct assistance' supervision throughout the process.

   (D) Only the tracing of transactions and hardware counts are appropriate; the evaluation of the going concern assumption involves significant judgment and is the sole responsibility of the external auditor.

   (2 Marks)

9. *Regarding CA Anaya's offer to become a Whole-time Director at the educational Trust. Which of the following is most appropriate in the background of professional guidelines issued by the Institute?*

   (A) Since she holds no 'substantial interest' and the entity is a non-profit, she can accept the role without any notification to the Institute, provided the honorarium is below the prescribed limit.

   (B) She can accept the role only if she resigns as a partner from M/s. JK & Associates, as a member cannot simultaneously be in 'Full-time Practice' and 'Full-time Employment as a Director.

   (C) She may accept the role of a Whole-time Director only after obtaining the specific and prior approval of the Council, regardless of whether the entity is a business or a non-business concern.

(D) *She is permitted to accept the role under the "General Permission' category of the Institute, provided she informs the Council within 30 days of joining the trust.* ***(2 Marks)***

Integrated Case Scenario - III

M/s. Sterling & Co LLP, Chartered Accountants are the statutory auditors of Green-Horizon Infrastructure Ltd. (GHIL), a listed entity. The management has requested the firm to draft and finalize their comprehensive Business Responsibility & Sustainability Report (BRSR) for the current fiscal year.

CA Prem, the engagement partner, reviewed the section concerning the Company's influence on public and regulatory policy. The Company is a prominent "Platinum Member" of the National Infrastructure Council (NIC) and the Renewable Energy Federation (REF), paying substantial annual fees to these industry chambers. Additionally, the Company's CEO served as a key member of a Ministry-led task force that drafted the "National Green Hydrogen Policy 2024", providing extensive technical inputs on subsidies and regulatory easing. The Company also submitted a formal white paper to the Ministry of Power suggesting specific amendments to the Electricity Act regarding grid access. During the year, it had also submitted to one of the industry chambers certain key inputs on leveraging India's power infrastructure for creating renewable energy solutions as its task force member on the subject.

The Managing Director argues that since the auditors are already the designated "Assurance Provider of BRSR Core" as per SEBI requirements, having them also prepare the underlying study would ensure maximum data consistency. He further contends that the firm can legally provide both preparation and assurance services for the same BRSR framework to an audit client.

GHIL is currently undergoing an ₹ 80 crore expansion, called the 'Green Data Park'. The budget is allocated as ₹45 crore for cooling systems, ₹30 crore for civil construction (steel and cement), and ₹ 5 crore for licensing. An internal whistleblower alleged that the civil contractor, in collusion with the Project Manager, submitted invoices for 'Grade-A Steel' while installing 'Grade-B' material, pocketing the price difference. The Board is now debating the technical distinction between the two, asking CA Prem to perform 'extended audit procedures' on these construction invoices versus appointing a separate firm for a 'Forensic Accounting' engagement.

*Based on the above facts, answer the following **Q. Nos. 10 to 12** by choosing the most appropriate option:*

10. *How the above information would likely to be disclosed by GHIL in "principle-wise performance disclosures" as a part of BRSR for the current year? Select the correct option.*

    (A) *Information relating to membership of Chamber/associations is in the nature of Leadership Indicators and requires optional disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Essential Indicators and requires mandatory disclosures.*

    (B) *Information relating to membership of Chamber/associations is in the nature of Leadership Indicators and requires mandatory disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires mandatory disclosures.*

    (C) *Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires optional disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires mandatory disclosures.*

    (D) *Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires mandatory disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires optional disclosures.* ***(2 Marks)***

11. *Select the correct option with reference to professional code of conduct applicable for the M/s. Sterling & Co LLP who are involved in preparation of BRSR study, providing advisory services, and acting as BRSR Core Assurance provider?*

    (A) *Preparation of BRSR study by M/s. Sterling & Co LLP is permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services or acting as BRSR Core Assurance provider is not permissible as per SEBI framework for the same client.*

(B) Preparation of BRSR study or providing advisory services by M/s. Sterling & Co LLP is permissible by recent decisions of Ethical Standards Board for the same client. However, acting as BRSR Core Assurance provider is not permissible as per SEBI framework for the same client.

(C) Preparation of BRSR study by M/s. Sterling & Co LLP is not permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services or acting as BRSR Core Assurance provider is permissible as per SEBI framework for the same client.

(D) Preparation of BRSR study or acting as BRSR Core Assurance provider by M/s. Sterling & Co LLP is not permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services is permissible as per SEBI framework for the same client.

(2 Marks)

12. The Board is debating the forensic investigation for the steel price inflation in the "Green Data Park". Which of the following statements is inappropriate in this regard?

(A) In statutory audit individual transactions and balances play a major role irrespective of the fact whether they have a material impact on the overall financial statements,

(B) The Forensic professional does not conduct an audit using sample selection methodologies to perform substantive or compliance tests.

(C) No audit report with any opinion is issued by Forensic Professional.

(D) The Forensic Professional's mandate is limited to present his findings to a superior authority who will examine these from a legal point of view to establish whether the law has been violated or not. ***(2 Marks)***

13. Virup Global Holdings Ltd. (VGHL) is preparing Consolidated Financial Statements for the year ended March 31, 2026. VGHL owns 80% of Nexus Systems Private Ltd. (NSPL). During the year, VGHL sold goods to NSPL at a 25% markup on cost. At year end, 40% of these goods remained unsold in NSPL's inventory. The applicable tax rate is 30%.

The group prepares consolidated financial statements under Ind AS. Separately, NSPL had a customer receivable of ₹ 4 crore outstanding as at

March 31, 2026. On May 15, 2026, the customer was declared insolvent following a fire incident that occurred on March 30, 2026 in his factory.

The required consolidation adjustments and treatment of subsequent events is

(A) Unrealised profit elimination equals 10% of intercompany sales value, deferred tax adjustment is not required, and the customer insolvency is treated as a non-adjusting event requiring disclosure only.

(B) Unrealised profit elimination equals 40% of intercompany profit only, deferred tax adjustment is not required on consolidation entries, and the customer insolvency is treated as a non-adjusting event.

(C) Unrealised profit elimination equals 25% of closing inventory value, deferred tax adjustment is optional based on materiality, and the customer insolvency is treated as a disclosure event only.

(D) Unrealised profit elimination equals 8% of intercompany sales value, deferred tax adjustment is required on unrealised profit elimination, and the customer insolvency is treated as an adjusting event requiring recognition of impairment. ***(2 Marks)***

14. *During the statutory branch audit of ABC Bank for the financial year ended March 31, 2026, you are reviewing the credit portfolio of the Corporate Banking division. One significant exposure involves G-Mart Ltd., which was granted a working capital credit limit of ₹ 100 lakh on September 1, 2023. According to the bank's internal policy and regulatory norms, these limits were due for a comprehensive renewal on September 1, 2025.*

Upon scrutiny, you observe that as of March 31, 2026, the formal renewal had not been executed, despite more than 180 days having elapsed since the due date. The Branch Manager contends that the account is "perfectly healthy", noting that the balance has remained within the sanctioned Drawing Power, interest has been serviced promptly, and the account shows high turnover. The delay is attributed to the sudden demise of G-Mart Ltd.'s *statutory auditor, which stalled the finalization of audited financial statements required for renewal.*

A letter dated February 15, 2026, from the client confirms that a new auditor was appointed and the audited financial statements were finally submitted on April 10, 2026, and the bank issued the formal renewal letter on April 12, 2026, prior to the signing of your branch audit report.

Your audit assistant argues that because the 180-day grace period expired during the financial year without a formal renewal, the account's status is non-negotiable and must be downgraded to NPA.

As the Statutory Branch Auditor, how should you evaluate the asset classification of G-Mart Ltd.'s account for the year ended March 31, 2026?

(A) Classify as NPA, the 180-day grace period from the due date expired prior to the balance sheet date, making the account technically irregular regardless of the reason for delay.

(B) Classify as NPA; it is a non-adjusting event under AS 4 "Contingencies and Events Occurring after the Balance Sheet date". There is no matter of substance over form.

(C) Classify as Standard; it is an adjusting event under AS 4 "Contingencies and Events Occurring after the Balance Sheet date". It is a matter of substance over form.

(D) Classify as NPA; however, the classification can be reversed in the same financial year's audit report if the renewal is completed before the independent auditor's report is signed. ***(2 Marks)***

15. *The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking. Therefore, the Parliament and the State Legislatures have, for this purpose, constituted specialized Committees. Funds were approved to procure medical equipment*

for district hospitals. Audit reports show that 30% of the equipment remains unused due to lack of trained staff. Which Committee can bring to the notice of the house that the particular policy is not leading to the desired results or is leading to waste:

(A) Committee on Public Undertakings.

(B) Public Accounts Committee.

(C) Financial Committee.

(D) Estimates Committee. ***(2 Marks)***

Answer Key

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

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) *The statutory audit of Nizovus Pharmaceuticals Ltd., for the financial year 2025-26, is underway. During the review of "Professional and Legal Fees" ledger, the engagement team noted a significant payment to a high-profile law firm specializing in Intellectual Property (IP) disputes. The management, during initial inquiries, stated that the payment was for 'general advisory services and that no active litigation exists that requires disclosure under the applicable financial reporting framework. However, the minutes of the Board Meeting from February 2026 hint at a potential significant patent infringement claim from a global competitor.*

The engagement partner, CA Rukma, insisted on sending a letter of direct inquiry to the external legal counsel to assess the probability of an outflow of resources. The management has refused to permit this communication, citing 'confidentiality clauses' in their contract with the law firm. They have offered to provide a comprehensive written representation confirming that no material litigations are pending. CA Rukma is concerned about the management's stand and non-availability of direct confirmation from the lawyers.

Is management's written representation sufficient in place of legal confirmation? Advise CA Rukma, about the additional audit procedures and reporting implications, if legal confirmation is denied. ***(5 Marks)***

(b) *Hortiko Ltd. is a logistics company that maintains its primary inventory and research assets in a specialized cold-storage facility. On April 5, 2026, a massive technical failure in the cooling systems led to the spoilage of specialized raw materials valued at ₹ 21 crore. This event occurred after the balance sheet date but before the financial statements were authorized for issue.*

Management has determined this to be a 'non-adjusting event' and has provided a detailed disclosure in Note 28 to the Financial Statements, *explaining the financial impact and the status of the insurance claim. The statutory auditor, after performing subsequent event procedures, is satisfied with the disclosure and has concluded that the matter is fundamental to the users' understanding of the financial statements. However, the auditor has also confirmed that this event does not impact the 'Going Concern' assumption for the foreseeable future.*

Considering the above facts, state the reporting requirements under relevant Standard on Auditing and draft a suitable paragraph to be included in the Independent Auditor's Report. ***(5 Marks)***

(c) CA Pawan is engaged by M/s RK Industries, a partnership firm to compile its financial statements for the past two financial years. During performance of the engagement, CA Pawan, was not satisfied with certain significant adjustments made to inventory valuation over the years. The matter was subsequently resolved after obtaining appropriate clarifications from the management. Further, at the completion stage, CA Pawan, has provided the final compiled statements along with the compilation report to M/s RK Industries.

You are required to explain the documentation requirements that should be adhered to by CA Pawan for this type of engagement. ***(4 Marks)***

Answer

(a) SA 580 "Written Representations" deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities or about specific assertions.

Further, SA 501 "Audit Evidence - Specific Considerations for Selected Items", states that when audit procedures performed indicate that material litigation or claims may exist, the auditor shall seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.

In the given situation, significant payment to an IP litigation law firm, references in Board minutes to a possible patent infringement claim, and management's refusal to allow direct communication with legal counsel indicate a significant audit risk. As the matter may involve a contingent liability requiring disclosure or provision, she should not rely solely on management representation in this matter. The refusal to permit direct communication with external legal counsel is a significant audit concern and may indicate a scope limitation and risk of material misstatement relating to contingent liabilities and litigation disclosures.

Accordingly, CA Rukma shall design and perform additional audit procedures in order to identify litigation and claims involving the entity by:

- Inquiry of management and, where applicable, others within the entity including in-house legal counsel.
- Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel.
- Reviewing legal expense account.

CA Rukma should express the modified opinion in accordance with SA 705 "Modifications to the Opinion in the Independent Auditor's Report", if she could not communicate with external legal counsel and unable to obtain sufficient appropriate audit evidence by performing additional audit procedures.

(b) In the given case of Hortiko Ltd, a technical failure in the cold-storage facility on April 5, 2026, resulted in spoilage of raw materials worth ₹ 21 crore after the balance sheet date but before authorization of the financial statements. Management has appropriately treated the matter as a non-adjusting event and disclosed the financial impact and insurance claim details in Note 28. The statutory auditor, after performing subsequent event procedures under SA 560, is satisfied that adequate disclosure has been made and has also concluded that the event does not affect the going concern assumption. However, as the matter is fundamental to the users' understanding of the financial statements, the auditor should include an

Emphasis of Matter paragraph in accordance with SA 706, while expressing an unmodified opinion.

When the auditor includes an Emphasis of Matter Paragraph in the auditor's report, the auditor shall:

(i) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";

(ii) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and

(iii) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Emphasis of Matter

We draw attention to Note 28 of financial statements regarding the technical failure in the cooling systems at the Company's specialised cold-storage facility on 5th April, 2026, subsequent to the Balance Sheet date, which resulted in spoilage of specialized raw materials valued at ₹ 21 crore. This event has been considered by the Management as a non-adjusting event and appropriate disclosure has been made explaining the financial impact and status of the insurance claim.

Our opinion is not modified in respect of this matter.

(c) As per SRS 4410 "Compilation Engagements", the practitioner shall include in the engagement documentation: -

(i) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner;

(ii) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management; and

(iii) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

(iv) The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

Question 2

(a) CA Ravi is the engagement partner of PQR Ltd. for conducting the Statutory audit for the FY 2025-26. During the audit of PQR Ltd., he had the following observations:

(i) Management used an outdated discount rate (12% as against 8%) leading to ₹ 2 crore understatement of recoverable amount/ overstatement of impairment loss, which in the auditor's view is not appropriate.

(ii) Management delayed providing expected inventory records for 10 days, causing extensive extra effort.

You are required to:

(i) State with reasons how each of the above constitutes a significant finding requiring communication to "Those charged with governance" as per relevant Standard on Auditing.

(ii) State, apart from the above, other significant findings that an auditor should communicate to "Those charged with governance". ***(5 Marks)***

(b) CA Vinit, a practicing Chartered Accountant, after attending various courses in Data Analytics and Artificial intelligence designates as "Al Professional" in his visiting cards and letter heads. He wants to advertise through a write up, setting out the professional services provided by him and consequently he has included the basic details such as his name, membership number, professional address, website, email, details of employees and various services provided. In the Profile section of write up, he includes the following details:

(i) Disclosure of client MNP Ltd.'s turnover figures from recent audit as '₹ 500 crores audited' to show case expertise in large-scale statutory audits.

(ii) A mention of the 'Outstanding Accountant of the Year 2025' award received from the local Rotary Club in the previous year;

(iii) The firm's tagline "Precision in Every Calculation" which CA Vinit believes is an honest description of his work.

Analyze and comment whether the act of CA Vinit is in compliance with the guidelines and provisions of the Chartered Accountants Act, 1949. ***(5 Marks)***

(c) G-Tech Solutions Ltd. is a large multinational corporation engaged in providing cloud-based financial services. The company's operations are heavily reliant on proprietary software applications and extensive databases containing sensitive client financial information.

During the statutory audit for the financial year 2025-26, the engagement partner, CA Harsh, observes that the company has recently integrated multiple new digital platforms to automate revenue recognition processes and safeguard its trade secrets. Further, the company has disclosed that an incident involving an attempted unauthorized access to its network occurred approximately six months prior to the year end, although management has described the incident as minor.

As the statutory auditor, CA Harsh is in the planning stage of the audit and wants to evaluate the entity's risk assessment process with specific reference to cybersecurity risks. Explain the key aspects that CA Harsh would evaluate in identifying the entity's risk assessment process relating to cybersecurity. ***(4 Marks)***

Answer

(a) (i) Whether the given matters constitute significant findings requiring communication to TCWG: As per SA 260 "Communication with Those Charged with Governance", the auditor is required to communicate the following matters:

I. The auditor shall communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity. In this case, Management used a discount rate of 12% instead of 8%, resulting in understatement of recoverable amount by ₹ 2 crore; and overstatement of impairment loss. Use of an outdated discount rate indicates deficiency in management's estimation process and affects the appropriateness of accounting estimates. The incorrect discount rate resulted in a ₹ 2 crore overstatement of impairment loss/understatement of recoverable amount. Such a material error is a significant audit finding. Therefore, the inappropriate use of outdated discount rate constitutes a significant audit finding that must be communicated to TCWG under SA 260.

II. The auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit. Management delayed providing inventory records for 10 days, causing extensive extra effort to the auditor. This also constitutes a significant finding requiring communication to TCWG under SA 260.

(ii) Other significant findings that an auditor should communicate to "Those charged with governance":

- Unless all of those charged with governance are involved in managing the entity: -
  - Significant matters arising during the audit that were discussed, or subject to correspondence, with management;
  - Written representations the auditor is requesting;
- Circumstances that affect the form and content of the auditor's report, if any and
- Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

(b) As per Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he advertises his professional attainments or services or uses any designation or expressions other than "Chartered Accountant" on professional documents, visiting cards, letterheads or sign boards, except as permitted under the Act and the Guidelines issued by the Council.

However, the proviso to the clause permits advertisement through a write-up setting out the services provided and particulars of the member or firm subject to the ICAI Guidelines for Advertisement, 2008.

In the given case, CA Vinit has circulated a write-up containing his name, membership number, professional address, website, email address, employee details and services provided. Such particulars are specifically permitted under the ICAI Advertisement Guidelines, 2008. Further, mention of website, employee details and services rendered is permissible under the list of particulars allowed in the write-up. Hence, inclusion of these details is in compliance with the Guidelines.

Further, CA Vinit describes himself as an "AI Professional" after attending various courses in Data Analytics and Artificial Intelligence. Under Clause (7), use of designations other than "Chartered Accountant" is generally prohibited unless it is a recognized qualification or title permitted by ICAI. The expression "AI Professional" is not a recognized qualification approved by ICAI or the Central Government. Therefore, use of such expression on visiting cards and letterheads may amount to violation of Clause (7) of Part I of the First Schedule.

Furthermore, disclosure of client MNP Ltd.'s turnover figure of ₹ 500 crores audited by him is not permissible. ICAI Advertisement (Write-up) Guidelines specifically prohibit mention of names of clients, whether past or present, in the write-up. Moreover, disclosure of turnover details obtained during professional engagement breaches client confidentiality and may amount to professional misconduct under Clause (1) of Part I of the Second Schedule, which prohibits disclosure of confidential information acquired in the course of professional engagement without client consent or legal requirement.

In addition to above, mention of the "Outstanding Accountant of the Year 2025" award received from the local Rotary Club is also not permissible. ICAI Advertisement (Write-up) Guidelines prohibit inclusion of information regarding achievements or awards except those given by the Central

Government, State Government or Regulatory Bodies. Since the award has been granted by a local Rotary Club, its inclusion violates the Guidelines and consequently attracts Clause (7) of Part I of the First Schedule relating to impermissible advertisement of professional attainments.

Similarly, the tagline "Precision in Every Calculation" is not permissible. ICAI Advertisement (Write-up) Guidelines specifically prohibit use of monograms, catch words or similar promotional expressions. The tagline used by CA Vinit is a promotional catch phrase and therefore violates the Guidelines, thereby attracting Clause (7) of Part I of the First Schedule.

Accordingly, while inclusion of basic professional particulars and services rendered is permissible under the ICAI Advertisement Guidelines, use of the expression "AI Professional", disclosure of client turnover details, mention of Rotary Club award and use of the promotional tagline are not in compliance with the Chartered Accountants Act, 1949 and the ICAI Advertisement Guidelines, 2008.

(c) The auditor has to determine whether the entity's risk assessment process considers cybersecurity risks.

While planning the audit in accordance with SA 315, key aspects CA Harsh would evaluate in identifying the entity's risk assessment process relating to cybersecurity are:

- 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 prioritize 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).

Since G-Tech Solutions Ltd. is highly dependent on proprietary software applications, automated revenue recognition systems and sensitive financial databases, the cybersecurity environment assumes significant importance from an audit perspective. Further, the attempted unauthorized access incident indicates the possibility of heightened cybersecurity risks. Therefore, CA Harsh should carefully evaluate the adequacy and effectiveness of the entity's cybersecurity risk assessment process, governance framework and related internal controls to identify risks of material misstatement and determine the nature, timing and extent of further audit procedures.

Question 3

(a) FinBridge Digital Lending Ltd., a non-deposit taking financial intermediary registered with the financial sector regulator, operates an online platform that enables individual lenders to fund retail borrowers after performing onboarding, credit scoring, documentation, and recovery support functions. During the audit, CA Mehta, the engagement partner, observed that certain borrower accounts with overdue instalments were internally tagged as "watchlist" instead of being migrated to non-performing categories pending expected recovery from collection agents.

Further, income relating to such stressed accounts continued to be recognised based on contractual schedules. The Board has approved broad risk policies, however, detailed operational guidance and periodic monitoring reports were not consistently documented.

Mr. Mehta wants to assess whether FinBridge Digital Lending Ltd., is complying with the Prudential Norms. Guide Mr. Mehta in this regard. ***(5 Marks)*** *(b) CA Jiva, a practicing Chartered Accountant since last five years, is providing various advisory services to a wide range of clients. One of his client ASP Ltd. is a subsidiary of an overseas conglomerate. CA Jiva is providing advisory services in the field of taxation, GST consultancy, issuing Form 15CB for foreign remittances. All services were being smoothly provided to ASP Ltd. until after a certain period it was revealed on an enquiry from the Regulator that the overseas conglomerate had invested in ASP Ltd. to use it for carrying out money laundering and crypto laundering. The regulator directed CA Jiva to provide details about ASP Ltd. for the ongoing enquiry. CA Jiva contended that he was providing only taxation, GST consultancy and certification to ASP Ltd. and therefore was not required to keep detailed information about the company.*

Based on the guidelines issued by ICAI comment on the contentions of CA Jiva? ***(5 Marks)***

(c) CA Deepa is the statutory auditor of SGP Textiles Ltd. for the FY 2025-26 and is in the process of finalizing the audit report.

During the course of the audit CA Deepa obtained information indicating that SGP Textiles Ltd. is experiencing severe liquidity crisis arising from a sudden shift in market demand and cancellation of its largest export order. As at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. Management has disclosed in the notes to the financial statements that these events or conditions indicate material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However, the financial statements for the FY 2025-26 have been prepared on going concern basis, based on management's expectation that a proposed merger with a larger conglomerate will be completed and will stabilize the company's financial position.

Analyze and state the reporting responsibilities of CA Deepa in the Independent Auditor's Report of SGP Textiles Ltd. in accordance with the relevant applicable Standard on Auditing. ***(4 Marks)***

Answer

(a) Mr. Mehta should assess the compliance of Prudential Norms by applying the following audit procedures:

(i) Check compliance with prudential norms encompassing income recognition, income from investments, accounting standards, accounting for investments, asset classification, provisioning for bad and doubtful debts, capital adequacy norms, prohibition on granting of loans by NBFC against its own shares, prohibition on loans and investments for failure to repay public deposits and norms for concentration of credit/investments.

(ii) An auditor should ensure that the Board of Directors of every NBFC granting/intending to grant demand/call loans shall frame and implement a policy for the company.

(iii) An auditor should assess on the basis of examinations conducted by him whether the NBFC has complied with the prudential norms. In particular, he should verify that advances and other credit facilities have been properly classified as standard/substandard/doubtful/loss and that proper provision has been made in accordance with the Directions.

Assess whether overdue borrower accounts have been correctly classified as Standard, Sub-standard, Doubtful or Loss Assets in accordance with the Prudential Norms. Mere internal tagging of accounts as "watchlist" cannot override regulatory asset classification requirements.

(iv) In respect of Non-Performing Assets, an auditor should check whether the unrealised income in respect of such assets has not been taken to the Profit & Loss Account on an accrual basis. Income from NPAs should be accounted for on realisation basis only.

(v) Check whether all accounts which have been classified as NPAs in the previous year also continue to be shown as such in the current year also. If the same is not treated as an NPA in the current year, the auditor should specifically examine such accounts to ascertain whether the account has become regular and the same can be treated as performing as per the Directions.

Considering the facts of the case, Mr. Mehta should critically examine whether overdue borrower accounts were deliberately retained in "watchlist" categories to avoid NPA classification and provisioning requirements. He should also verify whether income from such stressed accounts has been incorrectly recognised on accrual basis contrary to Prudential Norms. If material non-compliance is identified, appropriate adjustments, additional disclosures and reporting implications should be considered in the audit report.

(b) The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC norms). Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI issued such norms to be observed by the members of the profession who are in practice.

In the given situation, CA Jiva provided advisory services in the field of taxation, GST consultancy and issuing Form 15CB for foreign remittances to ASP Ltd., which was a subsidiary of an overseas conglomerate. Later, it was revealed that the overseas conglomerate had invested in ASP Ltd. to use it for carrying out money laundering and crypto laundering. CA Jiva was asked to provide details about ASP Ltd. for the ongoing enquiry. The contention of CA Jiva that he provided only taxation, GST consultancy and certification to ASP Ltd. and therefore was not required to keep detailed information about the company is not valid as CA Jiva should have kept following information in compliance with KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attestation functions.

In the given case of ASP Ltd., a Corporate Entity, CA Jiva should have kept following information:

A. General Information

- Name and Address of the Entity
- Business Description
- Name of the Parent Company in case of Subsidiary
- Copy of last Audited Financial Statement

B. Engagement Information

- Type of Engagement

C. Regulatory Information

- Company PAN No.

- Company Identification No.
- Directors' Names & Addresses
- Directors' Identification No.

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

In the given case, SGP Textiles Ltd. is experiencing severe liquidity crisis arising from sudden shift in market demand and cancellation of its largest export order. Further, as at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. These conditions indicate existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

However, the management has disclosed these matters in the notes to the financial statements for FY 2025-26 and has prepared the financial statements on going concern basis based on expectation that a proposed merger with a larger conglomerate is expected to stabilize the company's financial position.

As such, considering that the going concern assumption is appropriate but a material uncertainty exists, CA Deepa should:

(1) Express an unmodified opinion; and

(2) Include in his audit report, a separate section under the heading "Material Uncertainty Related to Going Concern" to:

(i) Draw attention to the note in the financial statements that discloses the matters; and

(ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Thus, CA Deepa should report the matter in her Independent Auditor's Report in the above manner in accordance with SA 570.

Question 4

(a) *Evershine Refineries Ltd. has recognized a substantial provision towards decommissioning and environmental restoration obligations relating to its offshore drilling operations. The measurement of this provision requires complex assumptions involving long-term discounting, engineering life-cycle estimates, and evolving environmental compliance costs. For the current financial year, the Company has relied on a technical assessment prepared by its internal Chief Technical Officer (CTO), who is a qualified environmental engineer and has been associated with the organization for over two decades. Based on internally developed operational efficiency measures, the CTO's report recommends a 15% reduction in the existing provision.*

During the audit, the engagement partner, CA Meera, has identified the provision as a significant matter due to the significant estimation uncertainty and its material effect on the profitability of the Company. Although the CTO possesses relevant technical competence, CA Meera has noted that the CTO's performance incentives are linked to the Company's profitability targets. Further, the audit team does not possess specialized engineering expertise to independently validate the technical assumptions underlying the revised provision estimate, and no comparable external market benchmarks are available for similar offshore decommissioning projects.

Analyse the case and guide CA Meera whether to rely on CTO'S recommendations with reference to the relevant Standard on Auditing.

(5 Marks)

(b) *CA Pranav is engaged to perform a review of the historical financial statements of LAN Innovations Ltd. for the financial year 2024-25. While performing analytical procedures, CA Pranav identifies several significant payments made to a newly incorporated entity. Based on the nature and pattern of transactions, CA Pranav suspects that the entity may be a related party. Upon inquiry, management provides only a vague oral explanation, asserting that the entity is an independent third party vendor. To corroborate management's assertions, CA Pranav requests written representations, confirming identity, completeness and appropriate disclosure of all related party relationships and transactions. However, management refuses to* *provide written representations, stating that oral explanations are sufficient for a limited review engagement.*

In the context of SRE 2400, explain the course of action CA Pranav should take in response to management's refusal to provide written representations. Discuss the circumstances under which CA Pranav would be required to disclaim a conclusion or withdraw from the engagement. ***(5 Marks)***

(c) MK Steel Manufacturing Ltd. is a listed company among the top 1000 entities in India, leading in steel production and related products. The company has been expanding its operations over the past four years and is now operating five large manufacturing units across different industrial belts in the country.

The steel manufacturing process generates substantial waste including slag, dust and chemical residues, majority of which is disposed of in landfills without proper treatment. The company's energy consumption has also increased by 50% over the last three years, which is met mostly through coal-based thermal power, thereby contributing significantly to carbon emissions.

Outline the BRSR principle which is most relevant to the above scenario mentioning the core elements associated with it. ***(4 Marks)***

Answer

(a) In the case of Evershine Refineries Ltd., the Company reduced its decommissioning and environmental restoration provision by 15% based on a technical assessment prepared by its internal CTO, who is a management expert. Since the provision involves significant estimation uncertainty and materially impacts profitability, and the CTO's incentives are linked to profitability targets, there is a risk of management bias affecting objectivity. Accordingly, as the assessment is prepared by management's expert, the provisions of SA 500 relating to evaluation of information prepared by management's expert are applicable.

As per SA 500 "Audit Evidence", when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes,

(i) Evaluate the competence, capabilities and objectivity of that expert;

(ii) Obtain an understanding of the work of that expert; and

(iii) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

The auditor may obtain information regarding the competence, capabilities and objectivity of a management's expert from a variety of sources, such as personal experience with previous work of that expert; discussions with that expert; discussions with others who are familiar with that expert's work; knowledge of that expert's qualifications; published papers or books written by that expert.

Aspects of the management's expert's field relevant to the auditor's understanding may include what assumptions and methods are used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes.

The auditor may also consider the following while evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion:

(i) The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements.

(ii) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and

(iii) If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data.

In view of above, despite the CTO's technical competence, CA Meera cannot rely solely on the CTO's assessment due to the possible threat to objectivity and significant estimation uncertainty involved. She should evaluate the assumptions, methods, and supporting data in accordance with SA 500 and obtain sufficient appropriate audit evidence before concluding on the reasonableness of the provision.

(b) As per SRE 2400 "Engagements to Review Historical Financial Statements", if management does not provide one or more of the requested written representations, CA Pranav, the practitioner shall:

- Discuss the matter with management and those charged with governance, as appropriate;

- Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
- Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.

CA Pranav shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:

- The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable or
- Management does not provide the required representations in respect of its responsibilities for preparation of financial statements and recording of all transactions in financial statements.

(c) In the given case, MK Steel Manufacturing Ltd. is involved in large-scale steel production, which results in substantial waste generation, high energy consumption, and increased carbon emissions. Therefore, the most relevant BRSR principle applicable to the company is Principle 6 – Protection and Restoration of Environment. This principle looks at the environmental responsibility as a basic requirement for the economic prosperity and sustainability.

The core elements associated with this principle are:

(i) The entities should have policies, procedures, and practices in place to assess and rectify impacts to the environment. This should cover the whole life cycle of the product.

(ii) The entities have to make use of natural and manmade resources in an optimum manner to ensure their sustainability by taking feedback from the stakeholders.

(iii) The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.

(iv) The entities have to contribute towards climate change resilience in line with India's commitment to various international mechanisms such as, Paris Agreement and National Action Plans for Climate Change.

(v) The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/ recover materials, resources.

(vi) The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.

Question 5

(a) TOOLS Limited is a Public company engaged in manufacturing of industrial components. During the course of statutory audit for the FY 2025-26, CA Vasu, the engagement partner, identified a serious discrepancy on 15th April 2026 involving misappropriation of funds amounting to ₹ 75 lakhs, perpetrated by the senior accountant through the creation of fictitious vendor invoices. Subsequent verification and inquiry revealed that the accountant had acted independently, without the involvement of other employees. The management acknowledged the failure of internal controls and requested CA Vasu not to highlight this in the audit report, contending that the amount was immaterial in context of the company's turnover of ₹ 500 crore.

Evaluate the scenario and elaborate the duties of CA Vasu under the Companies Act, 2013 with respect to the fraud and reporting requirements, if any, in accordance with CARO, 2020.

You are also required to state the responsibility cast on the Board of Directors in relation to the fraud which has occurred. ***(5 Marks)***

(b) QR Ltd., a listed company, has appointed CA Suba as its Chief Internal Auditor, and she is continuing in this role for the third consecutive year.

The following unresolved issues were reported in the Internal audit reports for quarter ended June 2025 and September 2025:

- *Lack of adequate segregation of duties in inventory procurement cycle.*
- *Persistent delays in reconciliation of vendor balances.*
- *Deficiencies in IT user access controls.*

During a recent meeting, the Audit Committee expressed concern over the *recurrence of these issues and asked CA Suba to present a list of corrective actions taken by management against the above-mentioned findings.*

In context of the applicable Standards on Internal Audit, answer the following:

(1) Explain the responsibilities of CA Suba with regard to the above reported issues.

(2) Identify the most appropriate report that should be submitted to the Audit Committee in this situation and briefly outline the key matters that should be covered in such a Report? ***(5 Marks)***

(c) CA Karan, a practicing Chartered Accountant, was approached by Greentech Solutions Ltd. requesting him to issue a certificate regarding the utilization of term loan funds for their expansion project. The company had received ₹ 25 crores from a financial institution and needed to submit a utilization certificate within 60 days of disbursement. CA Karan issued the utilization certificate, stating that the entire loan amount was properly utilized for the intended purpose. However, his verification process was limited to reviewing the summary reports provided by the finance manager and brief discussions with the managing director. He did not examine the bank statements, supporting documents like purchase invoices, contracts, payments, etc. The certificate did not mention any limitations or assumptions made during the verification process.

Four months later, it was discovered that ₹ 5 crores of the loan amount were diverted for purposes other than the approved project, leading to regulatory action against the company.

Comment on the action of CA Karan with reference to the Chartered Accountants Act, 1949 and Schedules thereto. ***(4 Marks)***

Answer

(a) In the given case of TOOLS Limited, CA Vasu identified a fraud involving misappropriation of funds amounting to ₹ 75 lakhs through fictitious vendor invoices created by the senior accountant. Although management has argued that the amount is immaterial considering the company's turnover of ₹ 500 crore and requested that the matter should not be highlighted in the audit report, the auditor's reporting responsibilities under the Companies Act, 2013 and CARO 2020 are independent of management's views.

As per sub-section (12) of section 143 of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving lesser than the specified amount [i.e. less than ₹ 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

In this regard, sub-rule (3) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that in case of a fraud involving lesser than the amount specified in sub-rule (1) [i.e. less than ₹ 1 crore], the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than 2 days of his knowledge of the fraud and he shall report the matter specifying the following:

(i) Nature of Fraud with description;

(ii) Approximate amount involved; and

(iii) Parties involved.

In the instant case, since the fraud amount in the present case is ₹ 75 lakhs, reporting to the Audit Committee constituted under section 177 or to the Board is required on immediate basis in the abovementioned prescribed manner.

The auditor CA Vasu is also required to report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020 on whether any fraud by the company or any fraud on the Company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

Thus, CA Vasu must report fraud in the CARO Report irrespective of materiality considerations raised by management.

In this regard, sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the company is required to disclose in the Board's Report the following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year:

(a) Nature of Fraud with description;

(b) Approximate Amount involved;

(c) Parties involved, if remedial action not taken; and

(d) Remedial actions taken.

(b) (1) As per SIA 390 Monitoring and Reporting of Prior Audit Issues, the Chief Internal Auditor CA Suba is responsible for continuously monitoring the closure of prior audit issues through timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance. The responsibility to implement the action plans remains with the management.

In monitoring and reporting of prior audit issues, the responsibility of the Internal Auditor is usually in the form of an "Action Taken Report (ATR) of previous audits". The internal auditor should review whether follow-up action is taken by the management on the basis of his report. If no action is taken within a reasonable time, he should draw the management's attention to it. Where the management has not acted upon his suggestions or not implemented his recommendations, the internal auditor should ascertain the reasons thereof.

Where the management has accepted his recommendations and initiated the necessary action, the internal auditor should periodically review the manner and the extent of implementation of the recommendations and report to the management, highlighting the recommendations which have not been implemented fully or partly.

In the given situation, CA Suba is responsible not only for reporting internal control weaknesses but also for following up on the status of corrective actions taken by management. Since the deficiencies relating to segregation of duties, vendor reconciliations, and IT access controls were repeatedly reported in earlier internal audit reports and still remain unresolved, she should evaluate the adequacy and effectiveness of management's corrective measures, assess the risk arising from continued non-compliance, and communicate the status of unresolved issues to the Audit Committee. She should also highlight delays or failure by management in implementing recommendations and assess whether the recurring weaknesses increase the risk of fraud, errors, or control failures within the organization.

(2) In the given situation, the most appropriate report to be submitted is a Follow-up Internal Audit Report / Action Taken Report (ATR) to the Audit Committee with the status of corrective actions taken by management on previously reported observations. Action Taken Report may include the following:

(i) Reference to the previous audit reporting containing the reported issues.

(ii) Implementation Action agreed by the management along with target implementation date.

(iii) Status of action taken by management. The same may be classified under Implemented/ Not Implemented.

(iv) Residual risk and rating for any unimplemented action.

(v) Audit findings not implemented for long period of time.

(vi) Any critical audit finding that requires immediate action for action or implementation.

(c) According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

It is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

Further, as per Clause (8) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

In the given case, CA Karan issued a utilization certificate for a term loan of ₹ 25 crores stating that the entire amount was utilised for the intended expansion project without conducting adequate verification procedures.

His review was restricted to summary reports provided by the finance manager and discussions with the managing director, while he failed to examine supporting documents such as bank statements, invoices, contracts, and payment records. The certificate also did not disclose any limitations or assumptions in the verification process. Subsequently, it was discovered that ₹ 5 crores had been diverted for purposes other than the approved project. This indicates gross negligence and lack of due diligence in the discharge of professional duties, as the certificate was issued without obtaining sufficient appropriate information which is necessary for expression of an opinion.

Therefore, CA Karan is guilty of professional misconduct under Clause (7) and Clause (8) of Part I of Second Schedule of the Chartered Accountants Act, 1949.

Question 6

(a) ED Motors Ltd., a leading manufacturer of high-performance electric bikes, is planning to expand its operations globally. In order to obtain a long-term loan working capital funding of ₹ 450 crores from a consortium of banks, the company has prepared Prospective Financial Information (PFI) covering the next three years.

CA Madhu, who has been the statutory auditor of the company for the past four years, has been appointed to examine and report on the PFI prepared by the management. During her preliminary discussions, CA Madhu noted the following matters:

(i) The management is completely new to the complexities involved in international marketing projections.

(ii) The financial projections are significantly dependent on hypothetical assumptions that the company will achieve a 20% market share in Europe, within the first year. This assumption would require productions levels exceeding the current installed capacity of their domestic manufacturing facility.

(iii) Management has relied on a combination of internal budgetary data and external reports from independent industry analysts to justify their growth projections.

On the basis of above information determine the nature, timing and extent *of examination procedures that CA Madhu would perform on the Prospective Financial Information in accordance with applicable Standard on Assurance Engagements.* ***(5 Marks)***

(b) *QRT Electricals Ltd. is a mid-sized manufacturing company with a substantial investment in Fixed Assets comprising of Plant & machinery and Land. UV Ltd. is proposing to acquire QRT Electricals Ltd. and for this purpose it has considered various aspects like studying the overall picture, Statement of Profit and Loss, Balance Sheet. You have been appointed as an investigating accountant to carry out the business investigation and it was found that some machinery owned by the company is over 15 years old. Furthermore, the company has revalued its fixed assets two years ago, increasing their book values. Maintenance expenses have also declined over the years. The machinery related to packaging line has remained idle from past 2 years.*

As an investigating accountant, you are required to highlight the considerations that shall be taken into account while evaluating the Fixed Assets item shown in the Balance Sheet of QRT Electricals Ltd. ***(5 Marks)***

(c) *CA Alok is the auditor of VT Limited, an unlisted public company, which has a turnover of ₹ 100 crore during the FY 2025-26. The statutory audit fee for the year is fixed at ₹ 10 lakh. During the year, the company also offered CA Alok, the following further assignments:*

(i) *Tax audit of the company u/s 44AB of the Income-tax Act, 1961, for which the fees is fixed at ₹ 5 lakh.*

(ii) *Various certification work for which fees is fixed at ₹ 2 lakh.*

(iii) *Representation before GST authorities for which fees is fixed at ₹ 4 lakh.*

CA Alok seeks your advise for accepting the above assignments. Comment with reference to the provisions of the Chartered Accountants Act, 1949.

OR

(c) *The Ministry of Information Technology of the Government of India has initiated a large-scale infrastructure project to improve rural connectivity under its "Digital Connect" programme. As part of the audit team, you are assigned to conduct a performance audit of this project with a focus on assessing its efficiency. While auditing the efficiency of the project, what key aspects should the auditor consider to determine whether resources are used efficiently.* ***(4 Marks)***

Answer

(a) As per SAE 3400 "The Examination of Prospective Financial Information", when determining the nature, timing and extent of examination procedures, the following matters should be considered by CA Madhu:

- the knowledge obtained during any previous engagements;
- management's competence regarding the preparation of prospective financial information;
- the likelihood of material misstatement;
- the extent to which the prospective financial information is affected by the management's judgment;
- the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;
- the stability of entity's business; and
- the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.

(b) Consideration that shall be taken into account while evaluating the Fixed Assets item shown in the Balance Sheet -

(i) Fixed assets, usually, are shown in accounts at cost less depreciation but the accounts do not show the ages of different assets. It is desirable, therefore, to obtain age analysis of various items of fixed assets.

(ii) Assets which are old or are obsolete would naturally have to be replaced. It should be seen that their values are not in excess of the value of service that they could be expected to render to the business during the balance period of their active life and the amount they would fetch on sale as scrap.

(iii) Title deeds should be verified to ascertain the extent of enterprise's ownership in such assets, like land and building jointly owned by two or more companies or their subsidiaries.

(iv) In addition, from a study of the maintenance expenses incurred from year to year, it should be judged whether the assets have been properly maintained. If not, it might be necessary to incur heavy expenditure on repairs to put them in a proper working order. In such a case, an allowance for this factor should be made in the value of assets.

(v) More particularly, it should be seen that if assets have been revalued, the increased depreciation charge has been adjusted against profit.

(vi) Further, investigator has to assure whether assets whose recoverable amount is less than carrying amount are impaired and requirement of AS 28, "Impairment of Asset", has been complied.

(vii) It would be the duty of the investigating accountant to eliminate idle assets after proper identification from the net worth of the business. However, proper value of the idle assets may be separately added to the value of the business.

(c) Appointment as a Statutory Auditor of a PSUs'/Govt Company(ies)/ Listed Company(ies) and Other Public Company(ies): As per the Council General Guidelines 2008, under Chapter IX on appointment as statutory auditor a member of the Institute in practice shall not accepts the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 50 crores or more in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking.

For this purpose, the term "other work(s)" or "service(s)" or "assignment(s)" shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include

(a) audit under any other statute;

(b) certification work required to be done by the statutory auditors; and

(c) any representation before an authority;

In the given case, turnover of the VT Limited, which is a public company, is having turnover ₹ 50 crore or more, therefore CA Alok statutory auditor is covered under the provision of Chapter IX of the Council Guidelines 2008.

Fees for tax audit work under u/s 44AB of the Income-tax Act, 1961 for ₹ 5 lakh, certification work for ₹ 2 lakh and representation fees before GST authority for ₹ 4 lakh totaling to ₹ 11 lakh exceeds statutory audit fees ₹ 10 lakh. However, all these three services are excluded from the term "other work(s)" or "service(s)" or "assignment(s)".

Therefore, there is no restriction for CA Alok to accept offer of these services, hence there is no misconduct on the part of CA Alok under the Chartered Accountants Act, 1949.

OR

(c) Efficiency is the input-output ratio. In the case of public spending, efficiency is achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output. When the audit objective of efficiency considers outputs, focus is usually on processes by which an organisation transforms inputs into outputs.

While conducting a performance audit of "Digital Connect" programme, the following key aspects should be considered by the auditor to determine whether resources are used efficiently:

(i) sound procurement practices are followed;

(ii) resources are properly protected and maintained;

(iii) human, financial and other resources are efficiently used;

(iv) optimum amount of resources (staff, equipment, and facilities) are used in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;

(v) public sector programmes, entities and activities are efficiently managed, regulated, organised and executed;

(vi) efficient operating procedures are used; and

(vii) the objectives of public sector programmes are met cost-effectively.