

CA Final Paper 3 – Advanced Auditing

Suggested Answers: Sep. 2025 Exams (Part II – Descriptive Questions)

Question 1

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

Comment on the act of CA A in accordance with relevant professional standards.

(5 Marks)

Ans: Engagement Quality Control Review (EQCR):

- SQC 1 states that EQC reviewer is a partner, other person in firm (member of ICAI), a suitably qualified external person, or a team made up of such individuals with sufficient and appropriate experience and authority to evaluate objectively, before report is issued, significant judgments the engagement team made and the conclusions they reached in formulating the report.
- It also states that EQC reviewer for an audit of the F.S. of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.
- In addition, work of EQC Reviewer involves objective evaluation of the significant judgments made by engagement team and ensuring that the conclusions reached by the team in formulating audit reports are appropriate. It is necessary for EQC Reviewer to have requisite technical expertise and experience to enable him to perform the assigned role of evaluating the work of the engagement team so that any possible misstatement can be avoided. Without ensuring the appropriate technical expertise and experience, the whole purpose of EQCR is defeated. Therefore, it was not appropriate for him to accept an appointment as ECQ Reviewer for the listed entity.
- Further, SA 220 states that EQC reviewer shall document, for the audit engagement reviewed, that the procedures required by the firm's policies on engagement quality control review have been performed. It also states that it shall also be documented that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.
- In the given situation, CA A signed on few working papers of the engagement team as a token of review performed by him in terms of firm's policies on engagement quality control review without going through the audit file. He made no further documentation, assuming that the team who performed the audit of the company for the year 2024-25, was the same team who performed the audit of the company for the financial year 2023-24.

Conclusion: Approach of CA A was not proper in performing the work of EQC Reviewer.

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(b)	CA Suba is a senior partner in a chartered accountancy firm in Mumbai. She and few other CA firms, each specializing in different sectors, agree to form a network to enhance their service portfolio and geographical reach. They apply to the ICAI for the network name approval, which is granted as "Suba & Affiliates". They are under the process of submitting relevant forms to the ICAI for Registration. Simultaneously, M/s. RS & Associates, one of the member firms in the group, signs a collaboration agreement with an international accounting network based in Singapore. Based on above facts, you are required to: Guide CA Suba & M/s. RS & Associates with regard to Guidelines for Networking issued by the ICAI in respect of registration of Network with entities in India and outside India. (5 Marks)
	Ans.: Guidelines for Networking: (a) Registration of Network with entities in India: • After the name is approved, Institute shall reserve such name for a period of three (3) months from the date of approval. • Network shall get itself registered with the Institute within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period. • Registration of Network with Institute is mandatory. • If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network. (b) Listing of Network with entities outside India • Duly authorised representative(s) of Indian Member firm (s)/Member constituting Network with entities outside India shall file a declaration with the Institute for Listing of such Network within 30 days from the date of entering into the Network arrangement. • Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that they are allowed to join only one network and firms having common partners shall join only one such network.
(c)	AZ Industries Ltd., an Indian pharmaceutical company having its corporate office in Mumbai is engaged in developing, manufacturing and globally marketing a broad range of pharma products. During the F.Y. 2024-25, in pursuit of company's research & development drive for developing their core product portfolios, two companies viz KK Ltd., a wholly owned subsidiary company, and OP Ltd., a Jointly Controlled Entity, were amalgamated with AZ Industries Ltd. PPP & Associates, Chartered Accountants, are the principal auditors of the company. The audit of KK Ltd. and OP Ltd. was conducted by the respective auditors of those companies. The consolidated financial statements of AZ Industries Ltd. consists of financial statements and financial information of both these companies, to whom CARO 2020 is applicable. The auditors of the said companies have given qualifications in their CARO report on the standalone financial statements for the F.Y.2024-25 as under: (1) In respect of wholly owned subsidiary company viz. KK Ltd, its auditor has qualified clause 3(xv) since the company has not complied with the provisions of Section 192 of the companies Act while entering into non-cash transactions with the director. (2) In respect of OP Ltd., being Jointly Controlled Entity, its auditor has made the adverse remark in clause 3(ix)(a) since the company has defaulted in repayment of loans to bankers.

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

The engagement partner, CA P, is in the process of finalizing the consolidated audit report. Guide CA P how he will report on the matters stated above; in terms of the reporting requirements under paragraph 3 of CARO, 2020. (4 Marks)

Ans: Reporting requirement as per CARO, 2020:

AZ Industries Limited is the parent company, and it has a wholly owned subsidiary named KK Limited and a jointly controlled entity named OP Limited. PPP & Associates are statutory auditor for AZ industries Limited for the financial year 2024-25 and their report on CARO includes adverse remark in respect of clause 3(i)(c). The audit of KK Ltd. and OP Ltd. was conducted by the respective auditors of those companies and auditors have given qualifications in their CARO Report regarding non-compliance of Sec. 192 of Companies Act, 2013 and default in repayment of loans to bankers.

Provision of Paragraph 2 of CARO 2020: CARO provisions do not apply to the auditor's report on consolidated financial statements except for clause (xxi) of Paragraph 3.

Clause (xxi) of Paragraph 3 of CARO 2020: Clause (xxi) of Paragraph 3 of CARO 2020 mandates the auditor to comment on whether there are any qualifications or adverse remarks in the CARO reports of companies included in the consolidated financial statements. If such qualifications or adverse remarks exist, the auditor is required to provide details of the companies and the paragraph numbers of the CARO report containing those qualifications or adverse remarks.

CA P's Responsibility: Considering the provisions stated above, CA P, as the auditor of AZ Industries Limited's consolidated financial statements, is required to follow these steps:

- (a) **Report under Clause (xxi) of Paragraph 3 of CARO 2020:** CA P must include a comment in the consolidated F.S. audit report regarding whether there are any qualifications or adverse remarks in the CARO reports of the companies included in the consolidated financial statements.
- (b) **Incorporate Qualification and Adverse Remarks:** CA P should incorporate:
- qualification made by auditor of KK Ltd. (regarding not compliance with the provisions of Sec. 192 of the companies Act while entering into non-cash transactions with the director);
 - adverse remarks made by auditor of OP Ltd. (regarding default in repayment of loans to bankers)
 - adverse remarks made in CARO Report of AZ Industries Limited (that the title deeds of some immovable properties were not held in the name of the company.
- into the auditor's report for AZ Industries Limited's consolidated financial statements.
- (c) **Mention Paragraph Number:** CA P must also provide the paragraph number of CARO report of standalone financial statements, where the qualification/adverse remarks are stated.

Question 2

- (a) AJ Private Limited is a company involved in the business of textile manufacturing and having its factory at NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation in its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 2024-25.

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During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same. They are of the opinion that obtaining Fire NOC is outside the purview of the financial statements; hence you are not required to look after this aspect. What are the auditor's responsibilities in relation to compliance with laws and regulations? (5 Marks)

Ans.: Auditor's Responsibility for consideration of other Laws:

- As per SA 250 "Considerations of Laws and Regulations in an Audit of Financial Statements", auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. For compliance with provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements, auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations.
- For other laws and regulations, auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.
- In the instant case, company is not having Fire NOC. When auditor approached TCWG regarding this matter and requested them to provide their justification on the same, they are of the opinion that obtaining Fire NOC is outside the purview of the financial statements; hence auditor is not required to look after this aspect. Such reply by the TCWG is not acceptable as such situation may have a material effect on the financial statements.

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

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

(i) Comment on the contention of Mr. X in terms of relevant section of Revised Code of Ethics.

(2 Marks)

(ii) What documentations are required to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing.

(3 Marks)

Ans.: Non-compliance with Laws and Regulations (NOCLAR):

(i) **Applicability of NOCLAR:**

- Section 260 of Revised Code of Ethics states that "Responding to Non-Compliance with Laws and Regulations" is applicable to Senior Professional Accountants in service, being employees of listed entities.

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- Senior professional accountants in service (“senior professional accountants”) are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization’s human, financial, technological, physical and intangible resources.
- In given case of **TQR Limited, an unlisted company**, auditor became aware of an imminent breach of law that would cause substantial harm to investors, creditors and employees of the company. Auditor is of the view that it is the responsibility of Mr. X, being a senior professional accountant, to respond to such non-compliance of law. However, Mr. X is of the view that there is no responsibility casted on him for responding to the aforesaid non-compliance.

Conclusion: Mr. X contention seems to be valid considering that TQR Limited is an unlisted company.

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

Revised Code over and above require the professional accountant to follow the additional documents requirements as under:

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

This documentation is in addition to complying with the documentation requirements under applicable auditing standards.

- (c) **LNG Corporation is a government-owned entity, is engaged in operating liquefied natural Gas. The organization recently underwent a compliance audit conducted by the Comptroller and Auditor General (C&AG) of India. The audit aimed to assess whether the PSU's financial transactions, procurement activities and operations complied with relevant laws, regulations and internal guidelines.**

In context of the above, you are required to:

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

Ans.: Compliance Audit:

- (i) **Concept of Compliance Audit and its perspective:**

Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable criteria.

This audit is carried out by assessing whether activities, financial transactions and information comply in all material respects with the regulatory and other rules which govern the audited entity.

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

- (a) in relation with the audit of financial statements, or
- (b) separately as individual compliance audits, or
- (c) in combination with performance auditing.

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(ii) **Auditor's concern when undertaking compliance audit:**

Compliance auditing is concerned with:

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

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

Question 3

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

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

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

You are required to draft a suitable paragraph based on the above information to be included in the independent auditor's report on consolidated financial statements by making necessary assumptions. (5 Marks)

Ans.: Reporting Consideration - Parent's Auditor is not the Auditor of all of its components:

- In a case where the parent's auditor is not the auditor of all the components included in the CFS, then as per SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the CFS should disclose clearly the magnitude of the portion of the F.S. audited by the other auditors.
- This may be done by stating aggregate rupee amounts or %age of total assets, revenues and cash flows of components included in the CFS not audited by the parent's auditor.
- It should be included in Other Matter paragraph of independent auditor's report.

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- The draft “Other Matter Paragraph” is as under:

Other Matter Paragraph

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

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

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

We have audited these conversion adjustments made by the Holding Company’s management. Our opinion in so far as it relates to the balances and affairs of such 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.

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

(5 Marks)

Ans.: Evaluation of Accounting Estimates which involves significant Risks:

- As per SA 540 “Auditing Accounting Estimates including Fair Value Accounting Estimates and Related Disclosures” for accounting estimates that give rise to significant risks in addition to other procedures to meet the requirements of SA 330, the auditor shall evaluate the following:
 - (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
 - (b) Whether the significant assumptions used by management are reasonable.
 - (c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management’s intent to carry out specific courses of action and its ability to do so.

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- If, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate.

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

(4 Marks)

Ans.: Objective of Review Engagement of Interim Financial Information:

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

Question 4

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

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Bank Limited is 20% whereas the requirement as per IRAC norms is 15% for secured portion. In this context:

(i) Justify the classification insisted by CA T regarding the account of Mr. X as on 31.03.2025.

(3 Marks)

(ii) Guide CA T in deciding the rate to be applied for secured portion of Sub-standard Asset while finalizing the Memorandum of Changes (MOC).

(2 Marks)

Ans.: (i) Classification of Advances in case of restructuring:

- Restructuring is an act in which a lender, for economic or legal reasons relating to borrower's financial difficulty, grants concessions to the borrower. It may involve modification of terms of advances including alteration of amount of instalments/alteration of repayment period/rate of interest/sanction of additional credit facilities etc. to help in curing default.
- RBI has given revised guidelines for treatment of restructured accounts by its circular. The auditor should verify compliance with the requirements of the circular issued in this regard.
- Once the bank receives an application/proposal in respect of an account for restructuring, it implies that the account is intrinsically weak. On restructuring, the account will be downgraded from Standard to substandard. NPAs will remain in the same category.
- In the given case, on 01.11.2024, the branch restructured the housing loan by Increasing the repayment period and reducing the rate of interest due to financial difficulty of borrower. The Branch classified the account of Mr. X as a Standard Asset as on 31.03.2025. CA T insisted the Branch Manager to classify the account as Sub-standard Asset as on 31.03.2025 as there is a change in the terms of payment.

Conclusion: CA T is correct in insisting that the account of Mr. X should be classified as Sub-standard as on 31.03.2025.

(ii) Provisioning Rate for Secured portion:

- RBI has prescribed objective norms for determining the quantum of provisions required in respect of advances. However, these norms should be construed as laying down minimum provisioning requirements and wherever a higher provision is warranted in the context of the threats to recovery, such higher provision should be made.
- In the given case, rate of provision for secured portion of Sub-standard Assets as prescribed by the Board of ABC Bank Limited is 20% whereas the requirement as per IRAC norms is 15% for secured portion.

Conclusion: CA T should apply the higher rate of 20% for the secured portion, as prescribed by the Board of ABC Bank Limited, while preparing the Memorandum of Changes (MOC) as bank's internal provisioning norms are stricter than the RBI's minimum requirement.

(b) M/s ST & Co., Chartered Accountants, are appointed as auditors of Hitech Ltd, an IT company, engaged in providing diverse range of services like digital transformation, software development and cloud solutions. The auditors have to use online means to conduct the audit. Hence, ST & Co. decided to go for Remote Audit technology to obtain audit evidence and perform documentation review with the participation of management. The audit team got first hand evidence directly from the IT system as direct access had been provided to them. M/s ST & Co. have been developing tailored strategies to ensure that the remote audit meets the requirements and deliver results equivalent to the traditional onsite audits. They are concerned with confidentiality, Security and Data protection aspects while conducting the Remote audit. Guide them.

(5 Marks)

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Ans.: Considerations as to Confidentiality, Security & Data Protection while conducting remote audits:

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

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

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

Ans.: Pillars of Sustainable Development:

Sustainable development can be applied to corporate policy in the business world as it encompasses following three pillars of sustainability: (i) Environment; (ii) Social; and (iii) Governance.

To assess the safety of the products, its quality and labour relations falls within purview of Social Pillar. It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business, and the value chain involved. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

Key Elements included in Social Pillar:

(a) Human Capital:

- (i) Labour Management
- (ii) Health & Safety
- (iii) Human Capital Development
- (iv) Supply Chain Labour Standards

(b) Product Liability:

- (i) Product Safety & Quality
- (ii) Chemical Safety
- (iii) Financial Product Safety
- (iv) Privacy and Data Security
- (v) Responsible Investment

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- (c) **Stakeholders Opposition:**
 - (i) Controversial Sourcing
- (d) **Social Opportunity:**
 - (i) Access to Communication
 - (ii) Access to Finance
 - (iii) Access to Health Care
 - (iv) Opportunities in Nutrition & Health

Question 5

- (a) **Gold Opportunities Fund is in the business of Mutual fund and has prepared the financial statements for the F.Y. ended on 31st March 2025. These financial statements have been audited by M/s SH & Co., Chartered Accountants, and the audit report issued is unqualified. The company has also prepared a scheme wise summary of its financial performance for the stakeholders. The management of Gold Opportunities Fund further engages M/s SH & Co. to perform an engagement to report on the abridged financial statements derived from the audited financial statements pursuant to SEBI regulations and in accordance with format prescribed by SEBI. Describe in detail the nature of procedures that would be performed by M/s SH & Co., under relevant Standard on Auditing to provide an opinion on the abridged financial statements. (5 Marks)**

Ans.: Nature of Procedures to be performed on Abridged Financial Statements:

As per SA 810 "Engagements to Report on Summary Financial Statements" the auditor shall perform the following procedures, and any other procedures, that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

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

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- (b) ABC Limited is in the business of manufacturing of iron ore and steel bars since last decade. The company is having its registered office in Mumbai and factory in Bhiwandi. M/s. R and Associates are appointed as the statutory auditors of the company for the financial year 2024-25. While going through the trial balance of the company, they observed that the company has 50 customers and 40 vendors. They requested the company to authorise them to send the external confirmation to few of its customers and vendors. The company immediately provided them an authority letter to send the external confirmation to their customers and vendors. The auditor sent positive confirmation request to top 3 customers and top 3 vendors. After two days of sending positive confirmation request, the management of the company handed over to them the duly signed response received from the respective customers and vendors to whom they had sent the confirmation request. How would M/s. R and Associates proceed to deal with the situation as the auditor of the company? (5 Marks)

Ans.: Responses to Confirmation Requests:

- SA 505 “External Confirmations” states that if auditor determines that a response to a confirmation request is not reliable, auditor shall evaluate implications on the assessment of the relevant risk of material misstatement, including risk of fraud, and on the related nature, timing and extent of other audit procedures.
- In the instant case, auditor requested the company to authorise them to send the external confirmation to few of its customers and vendors. The company immediately provided them an authority letter to send the external confirmation to their customers and vendors. The auditor sent positive confirmation request to top 3 customers and top 3 vendors. After two days of sending positive confirmation request, the management of the company handed over to them the duly signed response received from the respective customers and vendors to whom they had sent the confirmation request. **It raises questions on the reliability of responses received.**
- SA 500 “Audit Evidence” indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form or by electronic or other medium.
- Factors that may indicate doubts about the reliability of a response include that it:
 - (a) was received by the auditor indirectly or
 - (b) appeared not to come from the originally intended confirming party.

Conclusion: Keeping in view circumstances as described, there is a doubt as to reliability of response as it was not received directly by the auditor; there is risk that the response has not come from the originally intended confirming party. Unreliable responses may indicate a fraud risk factor that requires evaluation.

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

Ans.: Advising on Portfolio Management Services:

- The Council of the ICAI pursuant to Section 2(2)(iv) of the CA Act, 1949 has passed a resolution permitting “Management Consultancy and other Services” by a CA in practice.

Suggested Answers: Sep. 2025 Exams (Part II – Descriptive Questions)

- A clause of the aforesaid resolution allows CAs in practice to act as advisor or consultant to an issue of securities including such matters as drafting of prospectus, filing of documents with SEBI, preparation of publicity budgets, advice regarding selection of brokers, etc.
- It is, however, specifically stated that CAs in practice are not permitted to undertake the activities of broking, underwriting and portfolio management Services. Thus, a CA in practice is not permitted to render underwriting services to his clients.

Conclusion: CA Neha would be guilty of misconduct under the Chartered Accountants Act, 1949 as a practicing CA is not permitted to render underwriting services.

Question 6

- (a) CA Q is the engagement partner for the statutory audit of LAL Ltd. While conducting the audit he has identified some deficiencies in the internal controls. On further verification of the internal controls of the company, he has some indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with the governance and also in few cases he observed the susceptibility to loss of an asset. He determines, on the basis of the audit work performed, that identified deficiencies constitute significant deficiencies. How and to whom CA Q shall communicate identified significant deficiencies in the internal control? Which matters shall be included by CA Q in such communication? (5 Marks)

Ans.: Communication of Significant Deficiencies in Internal Control:

- As per SA 265, “Communicating Deficiencies in Internal Control to TCWG and Management”, a deficiency in internal control exists when:
 - (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis or
 - (ii) A control necessary to prevent, or detect and correct, misstatements in the F.S. on a timely basis is missing.
- In given situation, auditor has some indications that significant transactions in which management is financially interested are not being appropriately scrutinised by TCWG and also in few cases he observed the susceptibility to loss of an asset. He determines, on the basis of the audit work performed, that identified deficiencies constitute significant deficiencies.
- Auditor shall communicate in writing significant deficiency in internal control to TCWG.
- Auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:
 - (a) In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and
 - (b) Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor’s professional judgment, are of sufficient importance to merit .
- **Matters to be included:**

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

Suggested Answers: Sep. 2025 Exams (Part II – Descriptive Questions)

	(a) A description of the deficiencies and an explanation of their potential effects and (b) Sufficient information to enable TCWG and management to understand the context of the communication. In particular, the auditor shall explain that: (i) The purpose of the audit was for the auditor to express an opinion on the financial statements; (ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.
(b)	VPN Ltd. is a listed entity that prepares quarterly financial statements in accordance with Ind AS. The company has appointed Jack & Co., Chartered Accountants, as its statutory auditors. During Q2 of the Financial Year 2024-25, Jack & Co. undertake a review of VPN Ltd.'s interim financial information in accordance with SRE 2410. The auditor plans to obtain written representations from the management. The management has merely stated that the interim financial information is prepared and presented in accordance with the applicable financial reporting framework. As an engagement team member, you are required to specify areas that these written representations should cover for the review of interim financial information. (5 Marks) Ans.: Areas to be covered by written representations in relation to review of interim financial information: Auditor should Obtain written representations from management that: (1) It acknowledges its responsibility for design and implementation of internal control to prevent and detect fraud and error. (2) Interim Financial Information is prepared and presented in accordance with applicable FRF. (3) It believes uncorrected misstatements aggregated by auditor during review are immaterial, both individually and in the aggregate, to Interim Financial Information. (4) It has disclosed to the auditor: (a) all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity. (b) results of its assessment of the risks that the IFI may be materially misstated as a result of fraud. (c) all known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the Interim Financial Information. (d) all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in Interim Financial Information.
(c)	SAFE Cooperative Bank shortlisted M/s VW & Colleagues, Chartered Accountants, out of the five audit firms, for assignment of Statutory Audit for the F.Y. 2024-25. Bank emailed the list of branches to the audit firms along with the maximum fee per branch and requested them to submit the quotations.

Suggested Answers: Sep. 2025 Exams (Part II – Descriptive Questions)

M/s VW & Colleagues responded to the bank and submitted their quotations. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. (4 Marks)

OR

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

Ans.: Roving Enquiries:

- As per Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.
- Provided that nothing herein contained shall be construed as preventing or prohibiting:
 - (i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice, or
 - (ii) A member from responding to tenders or enquiries issued by various users of professional services or organizations from time to time and securing professional work as a consequence.
- However, as per the guideline issued by Council of the ICAI, a member in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for CAs, such as audit and attestation services.
- However, such restriction shall not be applicable where minimum fee of assignment is prescribed in the tender document itself or where the areas are open to other professionals along with CAs.
- In the given case of SAFE Cooperative Bank, Bank mailed the list of branches to the audit firms along with maximum fees per branch, in response to which VW & Colleagues responded and submitted their quotation.

Conclusion: Keeping in view the facts, clause 6 and guideline issued by the council, it can be concluded that VW & Colleagues is guilty of Professional misconduct.

OR

Procedure for investigation of frauds:

- Before proceeding to investigate any type of fraud, the investigating accountant should ascertain the exact duties of the person concerned who is suspected to have committed a fraud; his relationship to the general routine of the office, and the circumstances in which any known instances of defalcation have come to light. Such an enquiry would give a clue to promising avenues of investigation.
- Greater the authority of the individual suspected of a fraud, wider would be the field which would have to be covered by the investigation.
- At times, an accountant is called upon to investigate a suspected fraud, the details or the nature whereof is not known. In such a case, for localising the source of the fraud, the investigating accountant will have to study the financial and accounting structure of the organisation.

Suggested Answers: Sep. 2025 Exams (Part II – Descriptive Questions)

- As a first step, he should examine the line of responsibility between the various members of the staff. He should have a look at the system of internal control in operation for spotting out the weaknesses, if any, that may exist in it.
- Relying on the above study, he should direct his enquiry towards those aspects of the business where there has been excessive control in the hands of single persons/ employee, without any supervision by any other person/employee or, any other inherent weakness that may be in existence in the system.

Note: Alternate Answers Possible with different Assumptions

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