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CA. Sarthak Niraj Jain

SUPPLEMENTARY
QUESTION BANK
For Nov-2026

CA FINAL

ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question Bank

CA. Sarthak Niraj Jain

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CA Final AUDIT

Exam-Sept-2025

Chapter 1

Quality Control

14A.



Engagement Quality Control Review

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.

(Sept-2025)

Ans.

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

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

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

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

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

In the given situation, there are no working papers to show that Engagement quality control reviewer has done an evaluation of conclusion reached by the engagement team. Mere signing on some working papers of the engagement team shows that Engagement and Quality Control(a) Review of Audited Financial Statements: As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", Engagement quality control reviewer is a partner, other person in the firm (who should be member of ICAI), suitably qualified external person, or a team made up of

such individuals. In this regard, suitably qualified external person refers to an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

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

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

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

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

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

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

Alternative Solution

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

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

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

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

- (i) The procedures required by the firm's policies on engagement quality control review have been performed.
- (ii) The engagement quality control review has been completed on or before the date of the auditor's report.

- (iii) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

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

Chapter 2

GENERAL AUDITING PRINCIPLES AND AUDITOR'S RESPONSIBILITIES

10A.



Scope

AJ Private Limited is a company involved in the business of textile manufacturing and having its factory a NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation in its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 2024-25. During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same, They are of the opinion that obtaining Fire NCC 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? **(Sept-2025)**

Ans.

SA 250, "Considerations of Laws and Regulations in an Audit of Financial Statements" distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:

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

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

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

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

**Chapter
3**
AUDIT PLANNING, STRATEGY & EXECUTION

41A.


Accounting Estimate - Significant Risk -EU

M/s FG & Co, Chartered Accountants, have been appointed as statutory auditors of Z Ltd. for the FY.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. **(Sept-2025)**

Ans.

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

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

**Chapter
4**
MATERIALITY, RISK ASSESSMENT AND INTERNAL CONTROL

33A.


Communication of Sign. Deficiencies

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?

(Sept-2025)

Ans.

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

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

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

- (1) A description of the deficiencies and an explanation of their potential effects; and

- (2) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
- (i) The purpose of the audit was for the auditor to express an opinion on the financial statements;
 - (ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
 - (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

Chapter 5

AUDIT EVIDENCE

19A.



Response to ECR

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?

(Sept-2025)

Ans.

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

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

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

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

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

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

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

**Chapter
7**
REPORTING

106A.


CARO: CFS

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.

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,

(Sept-2025)
Ans.

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

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

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

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

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

**Chapter
8**
SPECIALISED AREAS

7A.


Summary FS - AP

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.

(Sept-2025)

Ans.

Engagements to Report on Summary Financial Statements: As per SA 810, "Engagements to Report on Summary Financial Statements", nature of procedures to be performed by auditor M/s SH & Co. to provide opinion on the abridged financial statements are given below:

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

**Chapter
10**
REVIEW OF FINANCIAL INFORMATION

3A.


Objective of Review

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.

(Sept-2025)

Ans.	Objective of engagement to review interim financial information: As per SRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, the objective of an engagement to review interim financial information is: - 1. To enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor’s attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. 2. The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing materially misstated. 3. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework. 4. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 5. A review may bring significant matters affecting the interim financial information to the auditor’s attention, but it does not provide all of the evidence that would be required in an audit.
9B.	WR Content 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. (Sept-2025)
Ans.	Review of Interim Financial Information: As per SRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, specific areas that written representations should cover for the review of interim financial information are given below: (i) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error. (ii) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework. (iii) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations. (iv) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity. (v) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud. (vi) It has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and (vii) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.

Chapter
12

DIGITAL AUDITING AND ASSURANCE

11A.

**Remote Audit**

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 audit. They are concerned with confidentiality, Security and Data protection aspects while conducting the Remote audit. Guide them. **(Sept-2025)**

Ans.

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

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

Chapter
13

GROUP AUDITS

27B.

**Group Audit - Reporting – Foreign Subsidiary, Different GAAPs**

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 Total assets
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. **(Sept-2025)**

Ans.

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

In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

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

Other Matter Paragraph

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

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

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

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

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

**Chapter
14A**

SPECIAL FEATURE OF AUDIT OF BANK

24A.



NPA - Substandard asset - Provisioning Rates and Classification

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. CAT is the engagement partner for this assignment. He is verifying the advances and has obtained the list of advances outstanding as on 31 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. CAT insisted the Branch Manager to classify the account as Sub-standard Asset as on 31.03.2025 as there is a change in the terms of payment. CA T started to draft Memorandum of Changes (MOC) for account of Mr. X to be submitted to the Branch. The rate of provision for secured portion of Sub-standard Assets as prescribed by the Board of ABC Bank Limited is 20% whereas the requirement as per IRAC norms is 15% for secured portion. In this context:

- (i) Justify the classification insisted by CA T regarding the account of Mr. X as on 31.03.2025.
- (ii) Guide CAT in deciding the rate to be applied for secured portion of Sub-standard Asset while finalizing the Memorandum of Changes (MOC).

(Sept-2025)

Ans.**Restructuring of Advances:**

- (i) Restructuring is an act in which a lender, for economic or legal reasons relating to borrower's financial difficulty, grants concessions to the borrower. It may involve modification of terms of advances including alteration of amount of instalments/alteration of repayment period/ rate of interest/sanction of additional credit facilities etc. to help in curing default.

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

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

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

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

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

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

Chapter
15
AUDIT OF PUBLIC SECTOR UNDERTAKINGS
8A.**Compliance Audit**

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

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

(Sept-2025)

Ans.

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

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

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

(ii) Compliance auditing is concerned with:

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

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

Chapter 17

DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING

31A.



Investigation of Fraud - Inflated commission

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? **(Sept-2025)**

Ans.

Procedure to be followed to Investigate Commission Schemes Fraud:

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

**Chapter
18**
**SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT,
SOCIAL AND GOVERNANCE (ESG) ASSURANCE**

1A.

**ESG Pillars**

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. **(Sept-2025)**

Ans.

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

The Social pillar includes the following elements as under:

- Human Capital:
 - ◆ Labour Management
 - ◆ Health & Safety
 - ◆ Human Capital Development
 - ◆ Supply Chain Labour Standards
- Product Liability:
 - ◆ Product Safety & Quality
 - ◆ Chemical Safety
 - ◆ Financial Product Safety
 - ◆ Privacy and Data Security
 - ◆ Responsible Investment
- Stakeholders Opposition:
 - ◆ Controversial Sourcing
- Social Opportunity:
 - ◆ Access to Communication
 - ◆ Access to Finance
 - ◆ Access to Health Care
 - ◆ Opportunities in Nutrition & Health

**Chapter
19**
Professional Ethics & Liabilities of Auditors

7A.

**NOCLAR**

F&F Associates, Chartered Accountants, are appointed as the statutory auditors of TOR 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.
- (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. **(Sept-2025)**

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

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

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

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

13A.



S.2(2) - MCS

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 23% 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.

(Sept-2025)

Ans.

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

A clause of the aforesaid resolution allows Chartered Accountants in practice to act as advisor or consultant to an issue, including preparation of publicity budget, advice regarding arrangements for selection of

- (i) ad-media,
- (ii) centres for holding conferences of brokers, investors, etc.,
- (iii) bankers to issue,
- (iv) collection centres,
- (v) brokers to issue,
- (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material.

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

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

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

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

180A.**Minimum Audit Fees**

SAFE Cooperative Bank shortlisted M/s VW & Colleagues, Chartered Accountants, out of the five audit firms, for assignment of Statutory Audit for the F.Y. 2024-25. Bank emailed the list of branches to the audit firms along with the maximum fee per branch and requested them to submit the quotations. M/s VW & Colleagues responded to the bank and submitted their quotations. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto.

(Sept-2025)**Ans.**

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

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

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

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

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

195B.**Guidelines for Networking**

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.

(Sept-2025)

Ans.**Registration of Network with entities in India**

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

Listing of Network with entities outside India

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

Notes

CA Final AUDIT

RTP-Jan-2026

Chapter 12

DIGITAL AUDITING AND ASSURANCE

4B.

ID dependencies

During the audit of Long Ltd., the auditor came across the following instances:

- (i) The finance team relies on a system-generated customer ageing report while reviewing overdue balances of trade receivables.
- (ii) The payroll module is designed in such a way that the person entering employee attendance cannot approve the salary disbursement thereby enforcing segregation of duties.
- (iii) The purchase order system of the company does not allow processing of duplicate vendor codes and automatically rejects entries where the vendor GST number is already present.
- (iv) The ERP system automatically computes depreciation on fixed assets by applying straight-line method based on input values of cost, residual value and useful life.

Identify the type of IT dependency involved in each of the above scenarios.

(RTP-Jan-2026)

Ans.



S. No.	Particulars	Type	Description
(i)	The finance team relies on a system-generated customer ageing report while reviewing overdue balances of trade receivables.	Reports	System generated reports are information generated by IT systems. These reports are often used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for testing, performing substantive tests of details or performing a substantive analytical procedure. E.g. (Vendor master report, customer ageing report)
(ii)	The payroll module is designed in such a way that the person entering employee attendance cannot approve the salary disbursement, thereby enforcing segregation of duties.	Security	Security including segregation of duties is enabled by the IT environment to restrict access to information and to determine the separation of roles and responsibilities that could allow an employee to perpetrate and conceal errors or fraud, or to process errors that go undetected.
(iii)	The purchase order system of the company does not allow processing of duplicate vendor codes and automatically rejects entries where the vendor GST number is already present.	Automated Controls	Automated controls are designed into the IT environment to enforce business rules. For example, Purchase order approval via workflow or format checks (e.g., only a particular date format is accepted), existence checks (e.g., Duplicate customer number cannot exist), and/or reasonableness checks (e.g., maximum payment amount) when a transaction is entered.
(iv)	The ERP system automatically computes depreciation on fixed assets by applying the straight-line method based on the input values of cost, residual value, and useful life.	Calculations	Calculations are accounting procedures that are performed by an IT system instead of a person. For example, the system will apply the 'straight-line' depreciation formula to calculate depreciation of an asset (i.e., cost of the asset, less the residual value of the asset at the end of its useful life divided by the useful life of the asset) or the system will calculate the value of the amount invoiced to a customer by multiplying the item price times the quantity shipped.

**Chapter
14A**
SPECIAL FEATURE OF AUDIT OF BANK

27A.

Claims against the Bank Not Acknowledged as Debts

Fair Bank has appointed CA Riya as statutory auditor for the financial year 2024–25. During the audit, she observed the following:

- Pending cases with suppliers amounting to ₹ 2.5 crore.
- Disputes with ex-employees regarding retirement benefits with claims of ₹ 1.2 crore.
- Ongoing tax litigation with a potential liability of ₹ 3 crore.

Considering the above, CA Riya is concerned regarding claims not acknowledged as debts. State the audit procedures that CA Riya should perform to verify the 'Claims Not Acknowledged as Debts'. **(RTP-Jan-2026)**

Ans.



Audit procedures to be performed by CA Riya for verifying claims against the bank not acknowledged as debts are:

- Examine the relevant evidence, e.g., correspondence with lawyers/ others, claimants, workers/officers, and workmens' unions/officers' unions.
- Review the minutes of meetings of board of directors/committees of board of directors, contracts, agreements and arrangements, list of pending legal cases, and correspondence relating to taxes, and duties, etc. to identify claims against the bank.
- Ascertain from the management the status of claims outstanding as at the end of the year.
- A review of subsequent events would also provide evidence about completeness and valuation of claims.

**Chapter
17**
DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING

27A.

Fraud Indicators & Fraud Diamond

During the course of audit of Limca Ltd., CA Ranjan observed frequent changes in accounting estimates of receivables, delays in providing information requested by management including altered documents. He also noticed discrepancies between the company's records and external party confirmations. These factors made him suspect the possibility of fraud in the entity.

Identify the common indications that may alert an auditor to the existence of fraud considering the given situation. Also, explain the four elements of fraud, often referred to as the "Fraud Diamond."

(RTP-Jan-2026, MTP-Jan-2026)

Ans.



The given situation presents several indications that may alert an auditor to possible fraud, which include the following:

- (i) Discrepancies in Accounting Records including non-recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
- (ii) Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
- (iii) Unacceptable management responses such as – denial of access to records/facilities/employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.
- (iv) Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

In the given case, the altered documentation, discrepancies in records, and management's delayed cooperation clearly point to above mentioned fraud indicators.

Fraud Diamond: Four Elements of Fraud are:

- Incentive: I want to, or have a need to, commit fraud.
- Opportunity: There is a weakness in the system that the right person could exploit. Fraud is possible.
- Rationalization: I have convinced myself that this fraudulent behavior is worth the risks.
- Capability: I have the necessary traits and abilities to be the right person to pull it off. I have recognized this particular fraud opportunity and can turn it into reality.

Chapter 18

SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ASSURANCE

14C.

Core Principles

GreenTech Manufacturing Ltd., engaged in production of electronic appliances, has been facing criticism from environmental activists and local communities for its high energy consumption, discharge of untreated industrial waste and dependence on non-renewable resources. Considering the same, the company's management now wants to strengthen its environmental responsibility practices and align them with national and international commitments such as Paris Agreement and National Action Plan on Climate Change.

Identify the principle which is being referred to in this case. Also, state the core elements associated with this principle. **(RTP-Jan-2026)**

Ans.



Principle 6 – Protection and Restoration of Environment is being referred to in the given case. The sixth principle looks at the environmental responsibility as a basic requirement for economic prosperity and sustainability. The core elements associated with the principle are:

- 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.
- 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.
- The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.
- 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.
- The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/ recover materials, resources.
- The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.

Chapter 19

Professional Ethics & Liabilities of Auditors

11A.

Management Consultancy Services

Aditya & Co., a firm of Chartered Accountants in practice has been approached by Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. Scope of work of the same includes reviewing the efficiency of operations, utilisation of funds, quality of training imparted and suggesting measures for improvement. In this context, the partners of the

firm are concerned about the permissibility of accepting such an engagement. Would accepting this assignment amount to a service prohibited for members in practice under the Chartered Accountants Act, 1949? **(RTP-Jan-2026)**

Ans.

As per the recent decisions taken by the Ethical Standards Board of ICAI, it is permissible for members in practice to engage in the services assessment/performance audit of the centres of skill development council of Government of India as these are permissible under Management Consultancy and other services issued under section 2(2)(iv) of the Chartered Accountants Act, 1949.

In the given case, Aditya & Co., a firm of Chartered Accountants in practice has been approached by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. The scope of work includes reviewing the efficiency of operations, utilization of funds, quality of training imparted, and suggesting measures for improvement.

Thus, from above it can be concluded that Aditya & Co. can accept the offer given by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country.

50A.**Educational Video**

Puran, a practicing Chartered Accountant, uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals. In these videos, he introduced himself as a Partner in Puran & Associates, Chartered Accountants and displayed the firm's website address and his contact details in the description of the videos. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(RTP-Jan-2026)**

Ans.

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

The Council has further clarified that certain acts may amount to solicitation, including the use of Educational Videos. While members are permitted to upload videos of educational nature on the internet, no reference should be made to the Chartered Accountants Firm wherein the member is a partner/ proprietor. Further, it should not contain any contact details or website address.

In the given case, CA Puran has uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals wherein he introduced himself as a Partner in Puran & Associates, Chartered Accountants. He also displayed the firm's website address and his contact details in the description of the abovementioned videos.

In light of the above, it is evident that CA Puran's actions i.e., introducing himself as a Partner in Puran & Associates and display of the firm's website and contact details in the video description constitute solicitation of professional work. Thus, CA Puran would be held guilty for professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Notes



CA Final AUDIT

MTP1-Jan-2026

Chapter 7

REPORTING

11A.

Exemption from KAM reporting

R & J Associates, Chartered Accountants, are the statutory auditors of Trikon Ltd., a listed manufacturing company. During the audit for F.Y. 2024-25, the engagement team identified areas such as valuation of obsolete inventory, impairment of plant assets, and a major tax dispute pending before the appellate authority that required significant auditor attention. The Audit Committee, however, expressed concern that highlighting the tax dispute in the auditor's report could attract negative publicity and advised the auditors not to include it in their report. As the engagement partner, evaluate the professional considerations and reporting implications in this situation.

In the given case, R & J Associates are required to determine and communicate Key Audit Matters (KAMs) in accordance with SA 701. **(MTP-Jan-2026)**

Ans.



The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the matters were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

However, the auditor shall describe each key audit matter in the auditor's report unless in extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter.

Chapter 9

AUDIT - RELATED SERVICES

13A.

Mr. Agam, the practitioner, has been approached by Bluesky Pvt. Ltd. for the financial year 2024-25. Before accepting the engagement, Mr. Agam wants to ensure that all necessary terms are clearly agreed upon with management in accordance with the requirements of the Engagement and Quality Control Standards. What are the terms of engagement that Mr. Agam must agree upon with management and, the engaging party if different, before accepting the compilation engagement? **(MTP-Jan-2026)**

Ans.


As per SRS 4410, "Compilation Engagements", the practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:

- The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable;
- Identification of the applicable financial reporting framework;
- The objective and scope of the compilation engagement;
- The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements;
- The responsibilities of management for:
 - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
 - (ii) Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
 - (iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
 - (iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and
- The expected form and content of the practitioner's report.

Chapter 19

Professional Ethics & Liabilities of Auditors

104A.
Directorship and Auditor

CA Ratan, a member in practice, is invited to join the Board of Directors of Sathi Co-operative Bank Ltd. as an Independent Director. The Bank assures him that the position is honorary, and he will not be involved in any day-to-day activity of the bank.

At the same time CA Mihir, one of the partners of CA Ratan, is approached by the Bank's management to conduct the statutory audit of the same Co-operative Bank for the current financial year. Comment on above with reference to provisions of the Chartered Accountants Act, 1949. **(MTP-Jan-2026)**

Ans.


As per the recent decision taken by the Ethical Standards Board of ICAI, a member in practice may be a non-executive/independent director in a Co-operative Bank, provided he is not involved into day to day activity of the organisation, nor he or any of his partners are interested in the Bank as an auditor.

In the present case, CA Ratan, a member in practice, has been invited to join Sathi Co-operative Bank Ltd. as an Independent Director, and the position is honorary with no involvement in daily management. This is permissible, subject to the condition that neither he nor his partners undertake the audit of the same bank. However, the Bank's management has approached CA Mihir, a partner of CA Ratan, to conduct the statutory audit of the same Bank for the current year. As per abovementioned recent decision of Ethical Standards Board, if any partner of the firm is appointed as auditor, the member cannot simultaneously hold the position of independent/non-executive director in that same entity.

In view of the above, CA Ratan cannot accept or continue as an Independent Director if his partner, CA Mihir, accepts the statutory audit of the same Co-operative Bank. Conversely, if CA Ratan accepts directorship, the firm must decline the statutory audit assignment. Thus, both positions cannot be held simultaneously, and the firm should choose between the directorship and the audit engagement in order to comply with the decision of Ethical Standards Board of ICAI.

CA Final AUDIT

MTP2-Jan-2026

Chapter 14A

SPECIAL FEATURE OF AUDIT OF BANK

36A. CC Loan: Stock Statement

PARK Bank Ltd. is reviewing the Cash credit limit worth ₹ 3 crores of Manish Manufacturing Pvt. Ltd. During the quarterly review, the credit officer noticed that the latest stock statement available was more than three months old. Based on this old statement, the drawing power (DP) calculations showed that the outstanding amount exceeded the permissible limit. Further, the sanction limits were due for renewal, but the renewal process had not been completed on time. However, the excess outstanding was only temporary and resulted from a short-term timing mismatch in receipts. The officer is unsure whether the account should be classified as a Non-Performing Asset (NPA) in light of these observations. Evaluate the situation and determine, with reasons, whether the bank should classify the account as NPA. (MTP-Jan-2026)

Ans.



Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily and non-renewal of limits on the due date. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months. The outstanding in the account based on drawing power calculated from stock statements older than 3 months are considered as irregular.

Although the account reflects irregularity due to reliance on outdated stock statements, the deficiencies identified are temporary and do not independently justify NPA classification. The bank must obtain an updated stock statement promptly and continue monitoring the account, but NPA recognition is not warranted at this stage.

Chapter 17

DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING

26A. Cash Payment Frauds

You are the auditor of Om Manufacturing Ltd. for the financial year 2024-25. During the audit, you notice significant year-end withdrawals of cash and frequent payments made through bearer cheques. The company maintains a petty cash imprest system, and wages are paid partly in cash. On further scrutiny, you observe the following red flags:

- Several cash vouchers relate to “miscellaneous purchases” and “advertising expenses” supported only by acknowledgements on plain paper.
- A few receipts issued by suppliers appear to contain overwritten or altered figures.
- Wage sheets show rounding off differences and certain employee names do not appear in the HR master records.
- Reversal of certain customer credit balances as “refunds processed” without any customer communication.

(MTP-Jan-2026)

Ans.



The audit procedure to detect and address possible inflation of cash payments and fraud in cash disbursements in the above circumstances are as follows:

- All evidence as regards cash payments made, including acknowledgement by parties for payments shown to have been made to them, should be carefully scrutinised.

- In the case where a figure appears to have been erased or altered on the receipts issued by the party, on making reference to the party concerned, the actual amount paid to him should be confirmed. The same procedure should be applied in respect of amounts acknowledged on blank papers.
- All payments by bearer cheques should be examined.
- The system of recording of wages should be reviewed, specially as regards possible over-totalling of wage sheets, and the inclusion of dummy workmen.
- The system of ordering and receiving goods should be reviewed so as to confirm that no payment has been made in respect of supplies which have not been received.
- Confirmations should be obtained from partners or Directors in respect of amounts shown to have been paid to them.
- The Petty Cash Book should be vouched and totalled.
- Special attention should be paid to payments made on account of salaries and wages; confirmation should be obtained from the management that all payments of such salaries and wages were made to persons who were actually in the service of the company.
- All the withdrawals from the bank should be checked with reference to entries in the bank's pass book.
- All the bills receivable or payable should be checked with reference to the Bills Books.

**Chapter
18**
**SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT,
SOCIAL AND GOVERNANCE (ESG) ASSURANCE**
1B.
ESG Pillar

ALP Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to improving its Environmental, Social and Governance (ESG) transparency. Sustainability reporting plays a crucial role in enhancing accountability for the entity's ESG performance. The company has been discharging untreated chemical water into a nearby river, adversely affecting aquatic life. Management now plans to install an effluent treatment plant.

What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. **(MTP-Jan-2026)**

Ans.


Environment Pillar: The ESG pillar highlighted here is the "Environment" pillar which stands for corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on. Thus, one is dependent on the environment for carrying out its operations.

The Environment pillar includes the following elements as under:

- **Climate Change:**
 - Carbon Emissions
 - Product Carbon FootPrints
 - Financing Environmental Impact
 - Climate Change Vulnerability
- **Natural Resources:**
 - Water Stress
 - Bio-diversity & land use
 - Raw Material sourcing
- **Pollution & Waste:**
 - Toxic emission and waste
 - Packing Material and waste
 - E- Waste
- **Environment Opportunity:**
 - Clean Tech
 - Green Building
 - Renewable Energy

CA Final AUDIT

Exam-Jan-2026

Chapter 1

Quality Control

1A.

Quality in all the engagements

XYZ & Co., a mid-sized audit firm, has recently expanded its operations and taken on several large clients. To manage the growing workload, the firm's CEO has delegated operational responsibilities for the firm's quality control system to two senior partners. However, certain concerns have been raised:

- (1) One of the partners, though commercially successful in bringing in new clients, has limited experience in audit quality oversight.
- (2) The firm's new incentive system heavily rewards partners and staff based on revenue generation, and client acquisition, with little emphasis on audit quality or compliance with professional standards.
- (3) Due to rapid expansion, the firm has allocated most of its resources towards marketing and client development.

The aforesaid concerns reflect on which element of quality control within the firm as per SQC 1? What are the considerations one should exercise to achieve quality in all the engagements that the firm performs?

(Jan-2026)

Ans.



SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," requires firms to establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer or the firm's managing partners to assume ultimate responsibility for the firm's system of quality control. The example set by firm's leadership encourages an inner culture that recognizes high quality audit work.

It has been laid down clearly that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Essentially, it implies that audit quality is paramount in all engagements. It is non-negotiable.

In the given situation, XYZ & Co., a mid-sized audit firm, has recently undergone rapid expansion and taken several large clients. In order to manage the increased workload, the firm's CEO has delegated operational responsibilities for the firm's system of quality control to two senior partners. However, concerns have emerged regarding the competence of the personnel entrusted with quality oversight, the firm's incentive structure being heavily revenue-oriented, and the disproportionate allocation of resources towards marketing activities. These issues raise questions about the firm's commitment to audit quality and compliance with professional standards and primarily reflect weaknesses in the "Leadership responsibilities for quality within the firm" element of quality control as per SQC 1.

Overall, such a situation reflects lack of proper establishment of quality control framework at top of the firm. Following considerations should be taken into account while upholding quality of firm: -

- (i) The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed.
- (ii) The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel are designed to demonstrate the firm's overriding commitment to quality and
- (iii) The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.

**Chapter
2**
**GENERAL AUDITING PRINCIPLES AND AUDITOR'S
RESPONSIBILITIES**
7B. Fraudulent Financial Reporting

As the Senior Audit Manager for "Alpha Tech Ltd.", a listed technology company with significant debt financing, you are planning the audit for the financial year ending March 31, 2025. Your previous two audits resulted in an unmodified opinion. However, the company has recently been in the media spotlight due to allegations of manipulating share prices and not disclosing all related party transactions. The company is under intense pressure from external stakeholders to meet aggressive earnings targets.

During your preliminary risk assessment, you identify that:

- A significant portion of the senior management's compensation is tied to achieving unrealistic profitability targets.
- The company's financial results show rapid, unusual profitability compared to its competitors.
- A number of significant, complex, and unusual transactions occurred very close to the year-end.
- You also notice that there has been a high turnover of senior management and legal counsel in the past year.

Based on the above facts and with reference to relevant SA, you are required to identify and explain the specific fraud risk factors present in the scenario that suggest a heightened risk of material misstatement due to fraudulent financial reporting. **(Jan-2026)**

Ans.


As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Specific Fraud Risk Factors Present in Alpha Tech Ltd.:

Incentives/Pressures:

- **A significant portion of the senior management's compensation is tied to achieving unrealistic profitability targets:** Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as rapid growth or unusual profitability especially compared to that of other companies in the same industry.
- **The company's financial results show rapid, unusual profitability compared to its competitors:** Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as high degree of competition or market saturation, accompanied by declining margins.

Opportunities:

- **A number of significant, complex, and unusual transactions occurred very close to the year-end:** The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
- **High turnover of senior management and legal counsel in the past year:** High turnover of senior management and legal counsel creates low morale among senior management.

7C. PMP Industries Ltd. is a listed manufacturing company. CA F is the statutory auditor for the F.Y. 2024-25. During the course of audit CA F and his audit team made the following observations:

- Fictitious sales of ₹ 20 crores through fake invoices
- Missing inventory worth ₹ 8 crores with forged records

On communicating the observations with the Management and those charged with governance they refused to take corrective action. Instead of making the corrections, the Managing Director threatened legal action if disclosures are made in the Audit Report. The Board of Directors is divided, with promoter directors supporting the Managing Director and others agreeing to the auditor's contention.

Since the fraud is material to the financial statements, CA F finds it difficult to continue the audit engagement due to these exceptional circumstances. State with reference to the relevant Standard on Auditing the course of action CA F will take. **(Jan-2026)**

Ans.

As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" if, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (I) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (II) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (III) If the auditor withdraws:
 - (i) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal and
 - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

In the given case, CA F has identified material misstatements arising from fraud, namely fictitious sales of ₹ 20 crores and missing inventory of ₹ 8 crores supported by forged records. Despite due communication, both management and those charged with governance have refused to take corrective action, and the Managing Director has further attempted to intimidate the auditor by threatening legal action. These circumstances clearly constitute exceptional circumstances that cast serious doubt on the auditor's ability to continue the audit engagement with integrity and independence. Accordingly, CA F should take the abovementioned actions in compliance with SA 240 under the given circumstances.

Chapter 3

AUDIT PLANNING, STRATEGY & EXECUTION

52A.

AXO Automobiles Limited, a leading manufacturer of electric vehicles, appoints WYZ & Co. Chartered Accountants as the statutory auditors for the financial year ended March 31, 2025. CA W, the engagement partner, during the course of audit identifies the following misstatements:

- An amount of ₹ 4 lakhs of rent income has not been recorded due to oversight.
- An expense of ₹ 6 lakhs pertaining to F.Y. 2023-24 has been charged to Profit and Loss Account in F.Y. 2024-25.
- In a sample testing of warranty provisions, projected misstatement in the population is ₹ 10 lakhs.

CA W is of the opinion that the above misstatements need to be rectified to portray the correct financial results of the company. The management of AXO Automobiles Ltd. refused to make the necessary corrections on the contention that these amounts were not material in relation to the company's turnover of ₹ 250 crores.

With reference to the relevant Standards on Auditing analyze the circumstances faced by CA W and guide him how he should evaluate the effect of these misstatements which are not corrected by the management.

What communication requirements are applicable for the auditor in this situation? **(Jan-2026)**

Ans.

SA 450 "Evaluation of Misstatements Identified During the Audit", deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

In the given situation, the auditor CA W should categorize the identified misstatements to evaluate their nature and impact in case of rent income of 4 lakhs not recorded due to oversight, expenses of 6 lakhs pertaining to F.Y. 2023-24 charged to Profit & Loss Account in F.Y. 2024-25, and for projected misstatement in the

population sample test of warranty provisions of 10 lakhs. However, after insisting for rectification to reflect the correct financial results of the company, Management of AXO Automobiles Ltd. refused to make necessary corrections. Therefore, CA W shall evaluate the effect of these misstatements which are not corrected by management in following manner:

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial results.

The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
- The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Communication: The auditor shall communicate with those charged with governance, in accordance with SA 260, uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

Further, the auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Chapter 4

MATERIALITY, RISK ASSESSMENT AND INTERNAL CONTROL

12A. Internal Check System

You have been appointed as internal auditor of a Company manufacturing and trading in Chemicals. You have asked your team to review the internal controls and get the first hand information of each department and their heads and note their respective roles in the company's procurement and inventory processes.

Your team has observed that –

- (i) The Head of Purchase department, a relative of the promoter, has for several years been in-charge of purchasing and sanctioning payments, without allowing anybody to question him.
- (ii) There has been no rotation of duties for several years of most of the employees, in particular, the Chief Accountant who has a good rapport with majority customers.
- (iii) The Storekeeper also has not kept adequate stock records since he joined the company without carrying out physical verification of the assets.

Analyse the specific violations of the principles of an adequate internal check system. Evaluate how these control deficiencies, individually and collectively, increase the inherent and control risk for the entity.

(Jan-2026)

Ans.

Based on the observations made by the internal audit team, the following violations of the principles of an adequate internal check system are identified:

- (i) The Head of the Purchase Department, being a relative of the promoter, has been entrusted with both purchasing and sanctioning of payments for several years without allowing anybody to question him. This violates the fundamental principle that no single person should have complete control over any important aspect of business operations and that every employee's actions should come under the review of another



person. It also breaches the principle relating to distribution of financial and administrative powers and their periodic review.

- (ii) There has been no rotation of duties for several years of most of the employees, in particular, the Chief Accountant, who has a good rapport with major customers. This violates the principle that staff duties should be rotated from time to time so that employees do not perform the same function for a considerable length of time.
- (iii) The Storekeeper has failed to maintain proper stock records and no physical verification of assets has been carried out since his appointment. This violates the principle that those with physical custody of assets should not have access to accounting records. It also violates the principle that there should exist an accounting control in respect of each class of assets, in addition there should be periodical inspection so as to establish their physical condition.

Impact of Control Deficiencies on Inherent and Control Risk:

Increased Inherent Risk: The nature of the procurement and inventory functions makes them inherently susceptible to fraud such as fictitious purchases, overbilling, or theft of stock. The lack of proper controls means that these inherent risks are not mitigated.

Increased Control Risk: Non-rotation of accounting staff increases the risk of collusion and manipulation of receivables, while absence of stock records and physical verification exposes the company to theft, pilferage, and incorrect inventory valuation. The identified deficiencies demonstrate that the company's internal control system is not operating effectively. This leads to a high control risk in the procurement

Chapter 7

REPORTING

30A.

DEF Apparels Ltd. is a manufacturing company with its business having a global outreach. The company appoints CA Y as the statutory auditor for the F.Y. 2024-25. During the audit, CA Y encountered the following issues:

- (1) The company has a large manufacturing facility with Fixed Assets of the value of ₹ 250 crores, which constitutes 60% of the total assets. The facility was significantly damaged in flash floods during the year. Management refused to allow an independent valuer to assess the damage, claiming internal estimates are sufficient. The company has not made any provision for impairment despite visible damage to machinery and buildings. Insurance claims are pending with disputes regarding coverage.
- (2) The company has entered into multiple transactions with related parties totaling ₹ 120 crores during the year. However, the management has refused to provide complete documentation regarding these transactions, citing confidentiality agreements. The audit team was denied access to board meeting minutes discussing these transactions and could not verify the commercial rationale or arm's length nature of these deals.

In view of the observations made, what kind of opinion should CA Y give in the Audit Report? Justify your answer citing the above scenarios. On the basis of opinion decided by CA Y, you are required to draft the Opinion and Basis of Opinion paragraph to be given in the Independent Audit Report. **(Jan-2026)**

Ans.



In the present case, CA Y, the statutory auditor of DEF Apparels Ltd. for the financial year 2024-25, is unable to obtain sufficient and appropriate audit evidence in respect of following matters that are material and pervasive to the financial statements:

1. The company's fixed assets amounting to ₹ 250 crores constitute about 60% of the total assets and were significantly damaged due to flash floods during the year. However, management refused to permit an independent valuation of the damaged assets and relied solely on internal estimates. Despite visible damage to machinery and buildings and pending insurance claims with disputes regarding coverage, the company has not made any provision for impairment loss. Due to this management-imposed limitation,

the auditor is unable to assess the impairment, if any, and consequently cannot ascertain the carrying value of fixed assets.

2. The company entered into related party transactions aggregating to ₹ 120 crores during the year. Management refused to provide complete documentation relating to these transactions and denied access to board meeting minutes citing confidentiality agreements. As a result, the audit team was unable to verify the commercial rationale, arm's length nature, completeness, and adequacy of disclosure of such related party transactions. The auditor was therefore unable to obtain sufficient appropriate audit evidence in respect of these transactions.

In the above two circumstances the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive as per SA 705.

Thus, CA Y should give a *Disclaimer of Opinion*.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We were engaged to audit the financial statements of DEF Apparels Ltd. ("the entity"), which comprise the balance sheet as at

March 31, 2025, the statement of Profit and Loss, [the statement of changes in equity (where applicable)] and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of DEF Apparels Ltd. because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Company's manufacturing facility, carrying a value of ₹ 250 crores (representing 60% of total assets), sustained significant physical damage due to flash floods during the year. The management has neither allowed an independent valuation nor recorded any impairment provision. In the absence of a formal assessment and given the pending insurance disputes, we were unable to determine the extent of the required write-down and its consequential impact on the financial statements.

We were unable to verify the completeness, commercial rationale, and arm's length nature of related party transactions totalling ₹ 120 crores. Management refused to provide supporting documentation and denied us access to the minutes of the meetings of the Board of Directors citing confidentiality agreements. Consequently, we were unable to verify the commercial rationale, arm's length nature, and completeness of disclosures of these related party transactions.

106B. CARO Various

You have been appointed as the statutory auditor of KYM Pvt. Ltd. for the F.Y. 2024–25. The company has a Paid-up capital and Reserves & Surplus of ₹ 2 Cr, total borrowings of ₹ 9 Cr, and total revenue of ₹ 9 Cr (excluding revenue of ₹ 2 Cr from discontinuing operations during F.Y. 2024–25).

You are required to state additional matters, as may be applicable, besides the report u/s 143 of the Companies Act, 2013, with regard to the following aspects:

- (i) The company has incurred cash losses of ₹ 50 lakh during F.Y. 2024–25 and ₹ 75 lakh during F.Y. 2023–24 with negative working capital. The suppliers have reduced the credit period while some customers have delayed payments beyond the credit period. A few customers have been declared insolvent.
- (ii) The company has been continuously in profits since inception. Because of the losses incurred during the last two F.Y.s, the management suspected certain financial irregularities. Subsequently, a fraud was discovered through proper mechanism and was being addressed by the management on certain complaints filed with them. You have been informed of such a case.

- (iii) The company has been awarded certain projects during F.Y. 2023-24 of Metro lines, Monorail and Coastal Roads for which the company had borrowed funds of ₹ 4 Cr from a bank. Metro lines and Monorail were ongoing projects but the Coastal Road project was yet to commence to-date and the amount unspent is ₹ 4 Cr sanctioned for this project.
- (iv) In the case of ongoing projects of Metro lines and Monorail, there was an unspent amount of ₹ 2 Cr as on 31-03-2025.
- Is there any reporting responsibility cast on you regarding the above matters of KYM Pvt. Ltd. under CARO 2020 for F.Y. 2024-25? If no, where and how would the above matters be dealt with in your audit report for F.Y. 2024-25?
- (Jan-2026)**

Ans.

CARO 2020 is an additional reporting requirement applicable to all companies unless specifically exempted. In the given case, KYM Pvt. Ltd. is a private limited company and is not a banking company, insurance company, Section 8 company, One Person Company or a small company. Further, although its paid-up capital and reserves are 2 crore, its total borrowings are ₹ 9 crore, which exceeds the exemption limit of ₹ 1 crore prescribed for private companies. Accordingly, KYM Pvt. Ltd. does not fall under the exempted category, and therefore, CARO 2020 is applicable to the company for the F.Y. 2024-25.

- (i) In the given situation, Company has incurred cash losses of ₹ 50 lakh during F.Y. 2024-25 AND ₹ 75 lakh with negative working capital. The auditor is required to report under Clause (xvii) of Paragraph 3 of CARO, 2020, that whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.
- (ii) In respect of the fraud discovered by the management, the auditor is required to report under Clause (xi) (c) of Paragraph 3 of CARO, 2020, which requires the auditor to state whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;
- (iii) KYM Pvt Ltd has obtained term loans of ₹ 4 crores for the Metro lines, Monorail and Coastal Roads from the Bank in the year 2023-24. Coastal Road project has not commenced as on 31-03-2025 and hence the loan remains unutilised. Under Clause 3(ix)(c) of CARO, 2020, the auditor is required to report on the application of term loans which requires the auditor to state whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported; Mere non- utilisation due to non-commencement of the project does not constitute diversion or misuse of funds. Accordingly, no adverse reporting or qualification is required, though an explanatory statement is to be included in the CARO report indicating non-utilisation of the term loan. Subject to adequate disclosure in the notes, the audit opinion remains unmodified.
- (iv) With regard to the Metro lines and Monorail projects, which are ongoing in nature, the existence of an unspent amount of ₹ 2 crores as on 31-03-2025 represents normal timing differences in the execution of long-term infrastructure projects. Under Clause 3(ix)(c) of CARO, 2020, the auditor is required to report on the application of term loans for their intended purposes. Where term loans are not fully utilised due to the stage of execution of the project, an explanatory remark is required in the CARO report. Since the funds are intended to be applied for the stated purpose and there is no diversion, misuse or default, no adverse reporting under CARO, 2020 is warranted.

The auditor is also required to evaluate the entity's ability to continue as a going concern as per SA 570 and express the opinion in his report accordingly.

**Chapter
8**
SPECIALISED AREAS

8A.

SA 810 – Audit Reports

CA Rohan is the engagement partner for the audit of Horizon Ltd.'s complete set of financial statements for the year ended March 31, 2025. During the audit, he identified a material misstatement concerning the valuation of a specific class of inventory. As a result, CA Rohan concluded that it was necessary to express a qualified opinion on the complete set of financial statements

Subsequently, Horizon Ltd. prepared summary financial statements derived from these audited financial statements and requested CA Rohan to issue a report on them. After performing the required procedures, CA Rohan is satisfied that the summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

- (i) Based on the requirements of relevant SA, advise CA Rohan on the specific additional disclosures he must include in the auditor's report on the summary financial statements, considering the qualified opinion on the audited financial statements.
- (ii) In the above case, if the auditor's report on the audited financial statements contains an adverse report, then which additional elements are required to be disclosed in the auditor's report on the summary financial statements?

(Jan-2026)

Ans.



- (i) As per SA 810 "Engagements to Report on Summary Financial Statements", if the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall
 - State that the auditor's report on the audited financial statements includes a qualified opinion.
 - Describe the basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements
- (ii) If the auditor's report on the audited financial statements contains an adverse opinion, the auditor's report on the summary financial statements shall, in addition to the elements:
 - State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
 - Describe the basis for that adverse opinion; and
 - State that, as a result of the adverse opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements.

**Chapter
10**
REVIEW OF FINANCIAL INFORMATION

6A.

Analytical Procedures

M/s RSP & Associates, a firm of Chartered Accountants, has been engaged to conduct a review of the financial statements of AR Pvt. Ltd. for the quarter ended 30th September 2025.

During the review, the engagement partner, CA R, explained to the audit team that unlike a full-scope audit, a review primarily relies on inquiries and analytical procedures to obtain limited assurance about whether the financial statements are prepared in accordance with the applicable financial reporting framework.

Explain how performing analytical procedures assists the practitioner in a review of financial statements.

(Jan-2026)

Ans.

As per SRE 2400, "Engagements to Review Historical Financial Statements", In a review of financial statements, performing analytical procedures assists the practitioner in:



- (i) Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- (ii) Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- (iii) Providing corroborative evidence in relation to other inquiries or analytical procedures already performed.
- (iv) Serving as additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.

Chapter 11

PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

8A. Examining the Prospective Financial Information

RBR Infrastructure Pvt. Ltd. is bidding for a long-term government project involving construction of smart highways. As part of the bidding documents, the company is required to present Prospective Financial Information (PFI) for the next five years to demonstrate its financial viability. CA J has been engaged to examine the Prospective Financial Information.

While examining the PFI, CA J observes that the Management has assumed zero increase in construction material costs over five years, even though industry reports predict a steady 6–8% annual increase due to inflation. Further, the company has based its revenue projections on the assumption that it will win two additional large contracts, even though bids are yet to be submitted. Elaborate on the duties of CA J while examining the Prospective Financial Information. (Jan-2026)

Ans.



As per SAE 3400 "The Examination of Prospective Financial Information", in an engagement to examine prospective financial information, CA J, the auditor should obtain sufficient appropriate evidence as to whether:

- (i) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;
- (ii) the prospective financial information is properly prepared on the basis of the assumptions;
- (iii) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and
- (iv) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

While examining prospective financial information, principles laid down in other Standards on Auditing should be applied to the extent practicable.

Chapter 12

DIGITAL AUDITING AND ASSURANCE

21A. RPA - Key Audit Implications

Everfresh Beverages Limited has recently implemented Robotic Process Automation (RPA) across various business processes to enhance operational efficiency and reduce manual errors. The company has deployed RPA bots in key areas, namely, invoice processing, payroll generation and purchase order processing. This has resulted in significant time saving and improved accuracy in routine processes.

As the statutory auditor of Everfresh Beverages Limited, discuss the key audit implications and the common risks associated with RPA. **(Jan-2026)**

Ans.



RPA - Key Audit Implications:

- It is of utmost importance for auditors to understand RPA processes, which include data extraction, aggregation, sanitization and cleansing. Unless auditors understand these processes, they will not be in a position to initiate an audit.
- A comprehensive assurance process might demand review of the source code.
- To perform substantive testing, auditors must have an understanding of the tools used to develop and maintain RPA. This will be helpful when auditors review logs, configuration controls, privileged access controls and the like. General IT controls are applicable as always.

Common Risks of RPA:

Operational and execution risks: Robots are deployed without proper operating model. Buying the wrong tool, making wrong assumptions, taking shortcuts, and jeopardizing security and compliance. Assigning proper responsibilities, training and clearly stating about changing roles also can help you reduce operational risk to a great extent.

Change management risks: Not following the change management implementation lifecycle, improper and incomplete testing (not covering all scenarios) leads to inaccurate results.

RPA Strategy Risk: Setting wrong expectations, improper KPIs, and unrealistic business goals creates an environment of uncertainty. Management should discuss, and analyze the complete working characteristics, potential, and limitations of RPA before drafting a robotic process automation.

**Chapter
14A**

SPECIAL FEATURE OF AUDIT OF BANK
first attempt success tutorials

9A. Investments

SDI Bank Ltd. is finalizing its financial statements for the year ended 31st March, 2025. PAM & Associates, Chartered Accountants are appointed statutory auditors of SDI Bank Ltd. for the financial year 2024-25. CA M is the engagement partner for conducting the audit.

During the course of audit, the audit team seeks guidance of CA M, the engagement partner for the following observations made while conducting the audit of investments:

- (i) The bank holds ₹ 450 crores in government securities, ₹ 250 crores in debentures, ₹ 95 crores in shares and ₹ 75 crores in bonds. During the audit, it is noticed that the investment team comprising of 4 staff members, is responsible for all investment functions.
- (ii) There are 5 Bank Receipts (BRs) with other banks totaling ₹ 35 crores at the year end. Out of these 3 BRs have been outstanding for more than 8 months.
- (iii) The audit team observes during the course of audit that during the year the Bank has re-classified ₹ 80 crores of investments from AFS (available for sale) to HTM (held to maturity) on the basis of a resolution passed by Asset Liability Committee, but without explicit approval from the Board of Directors.

Outline the audit procedures that CA M, the engagement partner will advise the audit team to be undertaken to address each of these observations. **(Jan-2026)**

Ans.

CA M, the engagement partner, will advise the audit team to undertake the following audit procedures to address the given observations:

(i) Concentration of Investment Functions with Four Staff Members



- Review the investment policy of the bank to ascertain that the policy conforms, in all material respects, to the RBI's guidelines as well as to any statutory provisions applicable to the bank.
- Check the segregation of duties within the bank staff in terms of executing trades, settlement and monitoring of such trades, and accounting of the same (generally termed as front office, middle office and back-office functions' segregation).
- Assess whether the concentration of all investment functions with a limited number of staff members indicates a weakness in internal controls, necessitating increased audit attention.

(ii) Outstanding Bank Receipts (BRs) for More Than Eight Months:

- In respect of BRs issued by other banks and on hand with the bank at the year-end, the auditor should examine confirmations of counterparty banks about such BRs.
- Where any BRs have been outstanding for an unduly extended period, the auditor should obtain written explanation from the management for the reasons thereof.
- The auditor should examine the reconciliation of BRs issued by the bank.
- BRs should not be issued in respect of transactions in government securities for which SGL facility is available.

(iii) Re-classification of Investments from AFS to HTM without explicit approval from the Board of Directors.

- Examine that entire investment portfolio of bank is classified under three categories i.e. HTM, HFT and AFS and shifting of securities is as per regulatory norms and laid down policy.
- Examine whether the shifting of the investments from 'available for sale' to 'held to maturity' is duly approved by the Board of Directors of the bank.
- Examine whether the investments have been properly classified into the three categories at the time of acquisition based on such intention as evidenced by the decision of the competent authority such as the Board of directors, Asset Liability Committee (ALCO) or Investment Committee.

**Chapter
15**

AUDIT OF PUBLIC SECTOR UNDERTAKINGS

17A. Determination of Type of Audit

The Comptroller and Auditor General of India (C&AG) appointed M/s. VR & Associates, a firm of Chartered Accountants, to conduct the audit of Sunshine Ltd., a Public Sector Undertaking (PSU) under the Government of India and intimated to the auditors about the following concerns in respect of the PSU.

Sunshine Ltd. proposed to set up a solar panel manufacturing project in North Gujarat with an estimated cost of ₹ 5,750 crores, which included ₹ 2,000 crores earmarked for Research and Development (R&D). While all approvals, documentation, and statutory requirements were duly complied with, the C&AG expressed concern that the proposed R&D expenditure appeared wasteful and lacking justification on the tests of public interest, as several established companies were already engaged in similar activities in that region.

Identify the type of audit that the C&AG expects M/s. VR & Associates to conduct in this context. Also explain the principles of this audit. **(Jan-2026)**

Ans.



The type of audit that the Comptroller and Auditor General of India (C&AG) expect M/s. VR & Associates to conduct in this context is Propriety Audit since C&AG expressed concern that the proposed R&D expenditure of ₹2,000 crores appeared wasteful and lacking justification on the test of public interest. Propriety audit stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.

Propriety requires transactions, and more particularly expenditure, to conform to certain general principles. The following principles should be applied by M/s. VR & Associates:

- (i) that the expenditure is not prima facie more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money;
- (ii) that the authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage;
- (iii) that funds are not utilised for the benefit of a particular person or group of persons and
- (iv) that, apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.

Chapter 17

DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING

1B. Steps & Due Diligence

M/s. AKP & Co., Chartered Accountants, have been engaged by Tech Systems Ltd. (TSL), a listed company engaged in cloud computing solutions and enterprise software services, to conduct a Due Diligence Review in connection with its proposed acquisition of a 70% stake in Code Technologies Pvt. Ltd. (CTPL), a fast-growing start-up specializing in artificial intelligence (AI) and data analytics.

The management of TSL believes that CTPL's proprietary AI models and client portfolio could provide significant strategic advantage, but its finance and legal teams have expressed concerns regarding revenue projections, compliance with data protection laws, cybersecurity regulations, and corporate filings.

You are the senior audit manager at M/s. AKP & Co. and are responsible for planning and conducting the due diligence engagement. The audit staff is new to this kind of work. You are required to explain the steps involved in conducting due diligence to the audit team. (Jan-2026)

Ans. Steps involved in conducting the due diligence:



- (i) Start with an open mind. Do not assume that anything wrong will be found and look for it. What needs to be done is to identify trouble spots and ask for explanations.
- (ii) Get the best team of people. If you do not have a group of people inside your firm that can do the task (e.g. lack of staff, lack of people who know the new business because you are acquiring a business in an unrelated area, etc.), there are due diligence experts that you can hire. When hiring such professionals, look for their experience record in the industry.
- (iii) Get help in all areas like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment so that you get a 360-degree view of the acquisition candidate.
- (iv) Talk to customers, suppliers, business partners, and employees are great resources.
- (v) Take a risk management approach. So, while you want to do your research, you also want to make sure that you do not antagonise the team of people of the target company by bogging them down with loads of questions.
- (vi) Prepare a comprehensive report detailing the compliances and substantive risks/issues.

Chapter 18

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

4A. Capitals of Integrated Reporting

Global Techno Systems Limited is among the top 1000 listed companies in the country. The company is preparing and presenting its Integrated Report in line with the internationally recognized Integrated Reporting Framework. The company continues to align its BRSR disclosures with its Integrated Report to demonstrate how it creates value over the short, medium, and long term through effective use of the six capitals.

Following further information is provided in respect of the above company:

- (i) The company has implemented a structured leadership development programme for its employees across all divisions. This initiative focuses on enhancing professional skills, innovation capabilities, and ethical decision-making, resulting in improved employee engagement and alignment with the organization's long-term strategy.
 - (ii) The company has commissioned a new, fully automated production line equipped with modern machinery and smart control systems. This has significantly improved production efficiency, reduced wastage, and enhanced product quality, leading to overall improvement in operational performance.
- Discussing the above information, identify and explain which of the capitals of Integrated Reporting are being referred to at (i) and (ii) respectively.

(Jan-2026)

Ans.



Capitals of Integrated Reporting

- (i) The capital referred to here is **Human Capital**.
People's skills and experience, their capacity, and motivations to innovate, including their:
 - Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.
 - Ability to understand and implement an organization's strategy.
 - Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate.
- (ii) The capital referred to here is **Manufactured Capital**.
 - Seen as human-created, production-oriented equipment and tools.
 - Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants).

Chapter 19

Professional Ethics & Liabilities of Auditors

50B. M/s. Arora & Taneja, a firm of Chartered Accountants with four partners, has recently been recognized for its strong commitment to professional development and community service. During the F.Y. 2024-25, the following instances came to light during a peer review:

- (1) Support to ICAI Programme Organizing Unit (PoU):
The firm contributed funds to the "Financial Reporting Update Seminar" organized by one Program Organising Unit of the ICAI. The event had prior approval from the CPE Directorate, and the firm's name was included among the sponsors in the official ICAI circular and event signage.
- (2) CSR Activity by Partner:
One of the partners, CA Anjali Taneja, personally financed a Clean Water Drive under her company's CSR initiative. The posters and banners displayed the following:
"An initiative supported by CA Anjali Taneja (Partner, Arora & Taneja)" (Firm's logo displayed at the bottom corner of the banner)

Analyse the professional and ethical implications of the above situations in light of the ICAI Code of Ethics.

(Jan-2026)

Ans.



Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, or personal communication or interview or by any other means.

There are some forms of soliciting work which the council has prohibited, which includes Sponsoring Activities:

- Member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI.
 - Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.
- (1) In the given situation, M/s. Arora & Taneja, a firm of Chartered Accountants, contributed funds to the "Financial Reporting Update Seminar" organized by one Program Organising Unit of the ICAI with prior approval from the CPE Directorate. Therefore, M/s Arora & Taneja shall not be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 since member or firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI with the prior approval of Continuing Professional Education (CPE) Directorate.
- (2) In the given situation, CA Anjali Taneja, a partner of firm who personally financed a clean water drive under her company's CSR initiative, displayed the name, designation and Firm Logo in the posters and banners at the bottom corner of the banner. Therefore, she will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 as members sponsoring activities relating to CSR may mention their individual name with the prefix "CA" but mention of Firm name or CA Logo is not permitted.

78A.

MNP Manufacturing Ltd., a listed company with a turnover of ₹ 2,500 crores, appointed three joint auditors: CA Anil & Associates, CA Raman & Co. and CA Reena & Associates to undertake the statutory audit of the company. The joint auditors divided the work amongst themselves in accordance with SA 299. CA Anil & Associates were responsible for fixed assets and related depreciation, CA Raman & Co. took the area of cash, bank and investments and CA Reena & Associates handled inventory and receivables.

At the Annual General Meeting held on 30th September 2025, the company decided not to reappoint CA Reena & Associates due to disagreements over certain audit observations regarding valuation of inventory. The shareholders passed a special resolution appointing CA Neha & Associates in place of CA Reena & Associates, while retaining the other two joint auditors - CA Anil & Associates and CA Raman & Co.

CA Neha accepted the appointment immediately upon receiving the company's appointment letter and a certificate regarding compliance of provisions of the Companies Act, 2013. However, she later discovered that the company had not sent any special notice to the shareholders regarding her appointment as required under the Companies Act, 2013. She also found that CA Reena & Associates had not been given an opportunity to make representations to the shareholders regarding her non-reappointment.

Analyze the professional conduct of CA Neha in light of the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

(Jan-2026)

Ans.


As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Further, as per Clause (9) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with.

Under this clause it is obligatory on the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

For the purpose of ascertaining whether the Company has complied with the provisions of Section 140 of the Companies Act the incoming auditor should verify the records of the Company that whether a member of the Company has given special notice of the resolution as required under Section 140 (4) of the Companies Act,

2013 and to ensure that whether this special notice has been sent to all the members, of the Company as required under the Companies Act, 2013.

In the given case, CA Neha accepted the audit appointment immediately on receipt of the company's appointment letter and certificate of compliance, without first ensuring that proper professional communication had been made with the outgoing auditor, CA Reena & Associates, who was not reappointed due to disagreements over certain audit observations.

Therefore, CA Neha will be held guilty of professional misconduct under the Clause (8) and Clause (9) of Part I of First Schedule to the Chartered Accountants Act, 1949, if she accepts the appointment without communicating with previous auditor as well as for not verifying the compliance of statutory requirements.

- 83A.** A practicing Chartered Accountant, Mr. P, is approached by a prominent retail chain to conduct "Mystery Audits" at their stores. The goal of the audit is to evaluate compliance with internal policies and service standards. Mr. P accepts the assignment and structures his professional fees to be contingent upon the number of operational lapses and non-compliances he identifies, with a higher fee for more significant findings. Discuss whether Mr. P is guilty of professional misconduct under the Chartered Accountants Act, 1949, with specific reference to the relevant schedules. **(Jan-2026)**

Ans.



According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

Further, as per Recent Decisions of Ethical Standards Board, it is permissible for a member in practice to accept the assignment of Mystery Audit.

In the given case, Mr. P, a practicing Chartered Accountant, has accepted the assignment of Mystery Audit and structured his professional fees to be contingent upon the number of operational lapses and non-compliance he identifies, with higher fee for more significant findings. While acceptance of the Mystery Audit assignment per se is permissible, the fee arrangement being contingent upon the findings is not allowed.

Accordingly, Mr. P would be held guilty of professional misconduct under Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for charging fees which are contingent upon the findings.

- 168A.** CA Amit, the auditor of KRT Pvt. Ltd, also undertakes statutory compliance related to Income Tax, GST and MCA for the client. For carrying out the compliances within the time limits KRT Pvt. Ltd. transfer ₹ 3,00,000 to CA Amit with an email that clearly earmarks the utilization of the said amount:
- (1) ₹ 1,20,000 is paid as an advance towards professional fees for ongoing audit and taxation work.
 - (2) ₹ 1,80,000 is to be utilized to make statutory payments of TDS, GST, MCA filing and DIN renewals falling due within 1 month.

CA Amit receives the above amount of ₹ 3,00,000 in his regular savings account.

From the amount of ₹ 1,80,000, he deposits ₹ 50,000 towards TDS payable and ₹ 60,000 against GST liability on the due dates that fall within 1 month from the date of receiving the money from the client.

The balance ₹ 70,000 pertaining to MCA filings and DIN renewals was deposited after 3 months due to portal issues. In between, CA Amit paid his office rent of ₹ 40,000 from this amount and deposited it back in that account within 2 weeks.

Analyse the actions of CA Amit and comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(Jan-2026)**

Ans.



As per Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

In the course of his engagement as a professional accountant, a member may be entrusted with money belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate

banking account, and to utilize such funds only in accordance with the instructions of the client or for the purposes intended by the client.

In this connection the Council has considered some practical difficulties of the members and the following suggestions have been made to remove these difficulties:

- (i) An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.
- (ii) Moneys received for expenses to be incurred, for example, payment of prescribed statutory fees, purchase of stamp paper etc., which are intended to be spent within a reasonably short time need not be put in a separate bank account. For this purpose, the expression; “reasonably short time”, would depend upon the circumstances of each case.
- (iii) Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time as aforesaid, should be put in a separate bank account immediately.

In the given situation, CA Amit receives ₹ 3,00,000 from KRT Pvt. Ltd. in his regular savings account. An analysis of CA Amit's actions with reference to the above provisions are as under: -

- ₹ 1,20,000 received as advance towards professional fees is correctly kept in savings account by CA Amit.
- ₹ 70,000 which was not paid within one month for MCA filings and DIN renewals should have been transferred to a separate bank account as the payment was delayed for more than a reasonably short time.
- ₹ 40,000 which was utilized for payment of office rent of CA Amit and later on replaced, is against the instructions of the client.

In view of above, CA Amit is guilty of professional misconduct under Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act for not keeping the amount of ₹ 70,000 in a separate bank account and for utilizing an amount of ₹ 40,000 which was not in accordance with the instructions of the client.

Notes



CA Final AUDIT

RTP-May-2026

Chapter 1

Quality Control

20A. Engagement Performance, Consultation and Engagement Quality Control Review

M/s KRM & Associates, Chartered Accountants, is the statutory auditor of Velocity Engineering & Projects Ltd., a listed company engaged in execution of large-scale infrastructure projects under Engineering, Procurement and Construction (EPC) contracts across India and overseas.

The firm has an experienced partner designated as Engagement Quality Control Reviewer for listed entity audits.

During the audit for the year ended 31st March 2025, the engagement team noticed the following matters:

- Revenue of ₹ 1,250 crores recognised under long-term EPC contracts using percentage of completion method based on cost-to-cost input method under Ind AS 115. Significant variation claims and escalation clauses were included in transaction price based on management's assessment of "high probability of recovery".
- Impairment testing of investments in step-down foreign subsidiaries executing overseas EPC contracts, where cash flow projections were based on aggressive assumptions about future contract awards.
- Disagreement between the senior member of the audit team and the engagement partner regarding inclusion of variation claims as part of transaction price, with the senior member recommending external technical consultation.
- The firm did not have internal infrastructure specialists. However, external consultation was obtained, and the matter was resolved without formal documentation of consultation process.
- The Engagement Quality Control Reviewer was informed about the audit but:
 - o The review was conducted only at a summary level.
 - o Detailed evaluation of significant judgments relating to revenue recognition and impairment was not performed.
 - o The audit report was signed before completion of formal EQCR documentation.
 - o Differences of opinion, if any, were not formally documented or resolved.
- The working papers contain general review notes but no detailed documentation evidencing depth of consultation or completion of objective EQCR procedures prior to issuance of the audit report.

You are required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1.

(RTP-May-2026)

Ans.



In the given case, the auditor is required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" as follows:

Engagement Performance: Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

In the given case, though complex and high-risk areas such as revenue recognition under long-term EPC contracts and impairment of overseas investments were involved, adequate documentation and supervision procedures are not evidenced.

Consultation should take place in difficult or contentious matters pertaining to an engagement. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter. It helps to promote quality and improves the application of professional judgment. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or outside the firm) on significant technical, ethical and other matters and appropriate documentation and implementation of conclusions resulting from consultations.

A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional and regulatory bodies. Complete and proper documentation should be maintained on issues involved and results of consultation.

In the given case, disagreement existed within the engagement team regarding inclusion of variation claims, and the firm lacked internal infrastructure specialists. In the absence of above, external consultation was obtained to resolve the matter. Though matter got resolved, no documentation for consultation process was maintained. This indicates non-compliance with consultation requirements.

Engagement Quality Control Review (EQCR): Significant judgments made in an engagement should be reviewed by an engagement quality control reviewer for taking an objective view before the report is issued. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.

Engagement quality control review is mandatory for all audits of financial statements of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.

In the present case, although the firm had an Engagement Quality Control Reviewer, the review was not adequately performed, significant judgments were not objectively evaluated in depth, and the audit report was issued before completion of proper EQCR procedures. This indicates non-compliance with the requirements relating to Engagement Quality Control Review.

Conclusion: In the given case, the audit involved significant judgments relating to revenue recognition under long-term EPC contracts and impairment of foreign investments, which constitute difficult and contentious matters requiring consultation at an appropriate professional level. Failure to document such consultation indicates non-compliance with engagement performance requirements.

Further, since Velocity Engineering & Projects Ltd. is a listed entity, Engagement Quality Control Review was mandatory. Though an Engagement Quality Control Reviewer existed in the firm, the review was not properly performed and was not completed before issuance of the audit report. Hence, the firm has failed to comply with the requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review.

**Chapter
6**
COMPLETION AND REVIEW

7A.

Cash Flow Forecast

CA Kanishka is auditor of a company engaged in poultry farming and egg production. The company has performed very well since its incorporation in 2015. Its sales had also grown and the company had expanded its operations from its home state in North India to eastern regions of the country.

However, over the past two years, the company's financial performance has deteriorated significantly due to:

- The impact of the pandemic; and
- Three consecutive outbreaks of bird flu within a span of two years, resulting in substantial loss of livestock.

Consequently, the company's turnover declined sharply from ₹ 80 crores to ₹ 18 crores.

The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensuing year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers.

The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff.

Further, the company is facing allegations from nearby villagers regarding environmental pollution.

The management has prepared a cash flow forecast for her examination. Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.

(RTP-May-2026)

Ans.

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.

Where the entity has prepared a cash flow forecast, and analysis of forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions, it includes -

- Evaluating the reliability of the underlying data generated to prepare the forecast and
- Determining whether there is adequate support for the assumptions underlying the forecast.

In the above situation, cash flow forecast has been prepared by management. Therefore, the auditor should carefully evaluate assumptions underlying forecast and also reliability of data to prepare the forecast. For example:

- She should verify assumption regarding new batch of livestock. The bankers have not provided fresh credit facilities. How funds from the same would be arranged? The reasonability of assumption in cash flow forecast needs to be looked into.
- She needs to check loan sanction letters/agreement to verify when repayments are beginning to see their accuracy in cash flow forecasts.
- The company plans to avail longer credits from animal feed suppliers. In the downturn situation of the company, how would suppliers extend longer credits? This is going to have effect on the cash flow forecast.
- Whether company has accounted for increased expenditure on preventive health check-up, vaccination and more frequent visits of veterinary staff in cash flow forecast.
- Since villagers have alleged the company of spreading air pollution, how does the company plan to deal with the same? Whether any proposed expenditure in this regard is accounted for in the cash flow statement. She may also consider other implications of this issue and possible effect on cash flows.

**Chapter
7**
REPORTING

12A.

Reporting

ABC Limited is a listed manufacturing company engaged in heavy engineering activities. During the audit of its financial statements for the year ended 31st March 2025, the statutory auditor noted the following:

- The company has overstated closing inventory by ₹ 8.75 crore due to incorrect valuation of obsolete stock, which has resulted in overstatement of profit before tax by the same amount.
- The company has not disclosed a material pending litigation of ₹ 12 crore relating to environmental penalties, which is required to be disclosed under applicable financial reporting framework.

The auditor has obtained sufficient appropriate audit evidence in respect of both the matters. However, management has refused to adjust the inventory valuation and has also declined to disclose the pending litigation. The auditor has concluded that the misstatements are material but not pervasive to the financial statements.

Required:

- (a) Explain how the auditor should report the above matters in the audit report, with specific reference to the "Basis for Opinion" section.
- (b) State the relevant reporting requirements applicable in this case.
- (c) Conclude the type of audit opinion that should be issued.

(RTP-May-2026)

Ans.


Since the auditor has identified material misstatements in the financial statements and management has refused to rectify the same, the auditor is required to modify the audit opinion in accordance with SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

Amendment in Heading: When the auditor modifies the opinion, the auditor shall amend the heading "Basis for Opinion" to "Basis for Qualified Opinion", since the misstatements are material but not pervasive.

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Description of the Matter: Within this section, the auditor shall include a description of the matter giving rise to the modification.

In case of overstated closing inventory, the auditor shall describe that closing inventory is overstated by ₹ 8.75 crore due to incorrect valuation of obsolete stock, resulting in overstatement of profit before tax by ₹ 8.75 crore.

Further, this relates to specific amounts in the financial statements, the auditor shall include a description and quantification of the financial effects of the misstatement (₹ 8.75 crore overstatement of inventory and profit).

Non-Disclosure of Required Information: In respect of the non-disclosure of pending litigation of ₹ 12 crore, the auditor shall:

- (i) Discuss the non-disclosure with those charged with governance.
- (ii) Describe in the "Basis for Qualified Opinion" section the nature of the omitted information (i.e., pending environmental litigation of ₹ 12 crore required to be disclosed); and
- (iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

Since the auditor has obtained sufficient appropriate audit evidence, and assuming it is not prohibited by law, the auditor may include the omitted disclosure in the report. The auditor shall also communicate to those charged with Governance in accordance with SA 260.

Conclusion: Since the misstatements relating to inventory overstatement and non-disclosure of litigation are material but not pervasive, the auditor shall issue a Qualified Opinion and include a properly titled section "Basis for Qualified Opinion" containing:

- Description of the matters giving rise to modification,
- Quantification of financial effects (₹ 8.75 crore),
- Explanation of the omitted disclosure (₹ 12 crore litigation), and
- Inclusion of omitted disclosure, where practicable and not prohibited by law.

Chapter 10

REVIEW OF FINANCIAL INFORMATION

2A. Acceptance and Continuance of a Review Engagement

CA Amar has been approached by a company to undertake a review of its historical financial statements under SRE 2400. During preliminary discussions, the practitioner observes that:

- Certain key financial information may not be available.
- Management has imposed restrictions on the scope of work.
- There are concerns regarding management's integrity and compliance with ethical requirements, including independence.

In the above circumstances, explain the factors affecting the acceptance and continuance of a review engagement. Also state the situations in which, unless required by law or regulation, the practitioner should not accept the review engagement. **(RTP-May-2026)**

Ans.



As per SRE 2400 "Engagements to Review Historical Financial Statements", the practitioner shall comply with relevant ethical requirements, including those pertaining to independence and the engagement partner is responsible for overall quality of each review engagement.

Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements

Unless required by law or regulation, the practitioner shall not accept a review engagement if:

- The practitioner is not satisfied:
 - That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.
It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.
 - That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.
- The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.

- (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
- (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
- (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

**Chapter
12**
DIGITAL AUDITING AND ASSURANCE
16A. Blockchain Technology

Impression Pvt. Ltd. is an e-commerce company that has recently started using blockchain technology to record customer payments made through cryptocurrency and to execute smart contracts with suppliers. The system is connected to the company's existing accounting software through Application Programming interfaces (APIs).

Management believes that blockchain is fully secure because transactions cannot be altered once recorded. However, the auditor is concerned about issues such as loss of private keys, inability to reverse incorrect transactions, cyber-attacks on network nodes, data privacy compliance, and changing legal regulations relating to cryptocurrency.

What are the common risks associated with the use of blockchain technology? Also discuss the probable audit implications when an organisation uses blockchain technology. **(RTP-May-2026)**

Ans.


Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. All blocks are sequenced so that any modification or deletion of a block disqualifies the information. first attempt success tutorials

Despite resistance, the benefits associated with blockchain technology are being recognized across a variety of other industries. Some of the example of Blockchain includes Bitcoin, cryptocurrency transfer application - Blockchain in money transfer, blockchain smart contracts.

Common risks for blockchain technology: The strengths of blockchain can also be its weaknesses. The inability to reverse transactions and to access data without the required keys make the system secure, but also mean that organisations need specific protocols and management processes to ensure that they are not locked out and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important. Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The regulatory landscape is still evolving for blockchain, so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

Audit Implications: Auditors should consider the appropriate governance and security around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain interacts with legacy systems and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored.

Weak blockchain application development protocols are something auditors cannot overlook. Similarly, data privacy laws and regulations may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on blockchain will expose the enterprise for noncompliance with applicable laws and regulations.

**Chapter
14A**
SPECIAL FEATURE OF AUDIT OF BANK
16A. NPA Classification

During the statutory audit of Fair Bank, you are examining the Cash Credit account of M/s Bright Traders as at 31st March, 2025.

The following facts are observed:

- Sanctioned Limit: ₹ 4 crore
- Outstanding as on 31st March, 2025: ₹ 4.10 crore
- Excess over limit: ₹ 10 lakh for 15 days
- Latest stock statement available: dated 31st January 2025
- Renewal of limit was due on 28th February 2025 and is under process
- Interest is regularly serviced and no amount is overdue beyond 90 days
- Drawing Power is properly calculated based on the stock statement less than 3 months old

The Branch Manager has treated the account as Standard Asset. Examine whether the account requires classification as NPA. **(RTP-May-2026)**

Ans.


In the given case, the borrower is enjoying a cash credit facility of ₹ 4 crore and the outstanding balance as on 31st March 2025 is ₹ 4.10 crore. The excess over limit has continued only for 15 days. The latest stock statement available with the bank is dated 31st January 2025, which is within three months from the balance sheet date. The renewal of the limit, though due, is under process. Interest is being serviced regularly and no amount is overdue beyond 90 days.

Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily and non-renewal of limits on the due date. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months. The outstanding in the account based on drawing power calculated from stock statements older than 3 months are considered as irregular.

Since the deficiencies in the account are purely temporary in nature, drawing power is based on stock statement not older than three months, and the account has not remained out of order for more than 90 days, the account should not be classified as NPA. Accordingly, the treatment of the account as a Standard Asset by the branch is in accordance with RBI IRAC norms.

**Chapter
17**
DUE DILIGENCE, INVESTIGATION & FORENSIC ACCOUNTING
6A. Investigation – Steps and Report

PMO Ltd., a manufacturing company, has received complaints of overstocking of raw materials and irregular payments to suppliers. The management has appointed SPY & Co. to investigate these issues and submit a report. Preliminary review shows that inventory records are incomplete, some purchase approvals were bypassed and supporting documents for payments are missing.

- (a) State the key steps the investigator should follow to conduct this investigation.
- (b) Explain the important considerations the investigator must keep in mind while preparing the investigation report. **(RTP-May-2026)**

Ans.

- (a) As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:
Step 1. Determination of objectives and establishment of scope of investigation.



Step 2. Formulation of the investigation programme.

Step 3. Examination and study of various records by reference to appropriate evidence.

Step 4. Analysis, processing and interpretation of findings.

Step 5. Preparation of report and drawing up of conclusions.

(b) The important issues to be kept in mind by the investigator while preparing his report are as follows:

- (i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.
- (ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimized.
- (iii) Relevant facts and conclusions should be properly linked with evidence.
- (iv) Bases and assumptions made should be explicitly stated. Reasonableness of the bases and assumptions made should be well examined and care should be taken to see that none of the bases and assumptions can be considered to be in conflict with the objective of the investigation. For example, in an investigation into over-stocking of raw materials, inventories and spares etc. it should not be assumed that the ordering levels indicated on bin cards provide fair guidance about acquisition of further materials. Also, since investigation is a fact-finding assignment, assumptions should be made only when it is unavoidably necessary.
- (v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.
- (vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.
- (vii) The report should also state restrictions or limitations, if any, imposed on the instructions given by the client. Preferably the reasons for placing such restrictions and their impact on the final result should also be stated.
- (viii) The opinion of the investigator should appear in the final paragraph of the report.

Chapter 19

Professional Ethics & Liabilities of Auditors

39A.

Tender

Mr. Ajit, a practicing Chartered Accountant, started a coaching institute for CA aspirants in Delhi. He displayed large hoardings across the city stating: "Coaching by CA Ajit – Also Undertaking Audit, Tax Audit and Attestation Assignments. Contact for Professional Services."

He also circulated pamphlets in nearby commercial areas inviting businesses to appoint him as statutory auditor.

Further, CA Ajit responded to a tender floated by a listed company for statutory audit work. The tender document did not prescribe any minimum fee. Furthermore, audit and attestation services were exclusively reserved for Chartered Accountants.

Examine whether CA Ajit is guilty of professional misconduct under the Chartered Accountants Act, 1949. Give reasons. **(RTP-May-2026)**

Ans.

Advertisement through Hoardings and Pamphlets: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from soliciting clients or professional work either directly or indirectly by circular, advertisement, personal communication, interview or by any other means.

In the present case, CA. Ajit displayed hoardings advertising his audit and attestation services. He also circulated pamphlets inviting businesses to appoint him as statutory auditor.



Such acts clearly amount to direct solicitation by advertisement and circular, which is expressly prohibited. Further, as per Council Guidelines, advertisement of coaching/teaching activities in a manner that indirectly promotes professional practice (e.g., linking coaching with audit services) amounts to indirect solicitation and is also violative of Clause (6).

Although a member may display a signboard outside coaching premises mentioning the name of the institute, contact details and subjects taught, large hoardings promoting professional services are not permitted.

Responding to Tender for Statutory Audit: Clause (6) permits a member to respond to tenders or enquiries issued by users of professional services.

However, as per Council Guidelines a member shall not respond to any tender in areas exclusively reserved for Chartered Accountants (such as audit and attestation services), unless the tender document prescribes a minimum fee, or the services are open to other professionals also.

In the given case, the tender is related to statutory audit which is exclusively reserved for Chartered Accountants. Also, minimum fee was not prescribed in the tender document.

In view of above, CA Ajit is guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for directly and indirectly solicitation of professional work through hoardings and pamphlets and responding to the tender for statutory audit.

Notes



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MTP-May-2026

Chapter 1

Quality Control

24A.

Loyal & Co., a Chartered Accountant firm, has recently experienced significant growth and started auditing several large corporate entities. During a periodic internal assessment of the firm's quality control system, the following observations were made:

- Loyal & Co. often accept new audit engagements based on referrals from existing clients, without conducting a proper evaluation of the client's reputation, integrity of management, or potential risks associated with the engagement.
- The firm is following the same quality control policies for several years without updating them for recent changes in professional standards and regulatory requirements.

Identify the elements of the system of quality control under SQC 1 that are affected in the above situation and briefly explain how these elements contribute to ensuring quality in audit engagements performed by the firm.

(MTP-May-2026)

Ans.



As per SQC 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", a firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances.

In the given situation, the following specific elements of quality control are affected:

(i) Acceptance and continuance of client relationships and specific engagements: A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about:

- Integrity of Client, promoters and key managerial personnel.
- Competence (including capabilities, time and resources) to perform engagement.
- Compliance with ethical requirements.

In the present case, Loyal & Co. often accepts new engagements based solely on referrals without proper evaluation, which is a clear deficiency in this element.

(ii) Monitoring: The firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. In this case, the firm has been following the same quality control policies for several years without updating them for changes in professional standards and regulatory requirements, indicating a lapse in monitoring.

Therefore, accepting engagements without properly assessing client integrity and continuing with outdated quality control policies by Loyal & Co. highlights deficiencies in the acceptance and continuance of client relationships and monitoring elements of SQC 1. These elements are crucial to ensure that the firm undertakes only appropriate engagements and its quality control framework remains updated, effective, and compliant with professional and regulatory standards. Strengthening these areas will help the firm in maintaining consistent audit quality, especially in view of its recent growth and engagement with large corporate clients.

**Chapter
19**
Professional Ethics & Liabilities of Auditors
117A.

Mr. Rohan, a practicing Chartered Accountant in Rohan Arjun & Associates is an Associate member of the Institute of Chartered Accountants of India (ICAI) but he started using the designation "FCA" on his visiting cards and professional correspondence to create a better professional image.

During scrutiny of certain records, the ICAI sought clarification from Mr. Rohan regarding activities that appeared unrelated to his professional practice. Despite multiple letters and reminders from the Institute, he failed to respond or provide the requested information.

Mr. Arjun, another partner of firm, whose name had been removed from the Register of Members of the Institute, continued to train an articled assistant and also failed to respond to the Institute's letters seeking clarification.

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(MTP-May-2026)**

Ans.


As per Clause (1) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct, if a Chartered Accountant, in practice or not, not being a fellow of the Institute, acts as a fellow of the Institute.

Further, as per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct if he, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

In the given case, Mr. Rohan being an Associate member of the Institute of Chartered Accountants of India, incorrectly used the designation "FCA" on his visiting cards and professional correspondence. He also failed to respond to the Institute's letters regarding his involvement in activities unrelated to his practice despite multiple reminders.

Further, Mr. Arjun, another partner of the firm, continued to train an articled clerk though his name was removed from the Register of Members of the Institute. Also, he had failed to send any reply to the Institute asking him to send his explanation as to how he was training as his articled clerk when he was not a member of the Institute.

In view of above, Mr. Rohan will be held guilty of professional misconduct under Clause (1) & Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949. Whereas Mr. Arjun is guilty of professional misconduct under Clause (2) of Part III of the First Schedule of the Chartered Accountants Act, 1949.

7A.

M/s LMN & Co., Chartered Accountants, has been appointed as the statutory auditors of Integrity Bank Ltd. for the financial year 2024-25. While reviewing the loans and advances portfolio of one of the major branches of the bank, the audit team examined certain credit files and operational records.

During the course of audit, the following observations were made:

- (i) A cash credit facility of ₹ 12 crore was granted to Bright Metals Pvt. Ltd. mainly on the recommendation of the branch credit officer. The credit file did not contain adequate evidence regarding appraisal of the borrower's creditworthiness or approval of the competent sanctioning authority.
- (ii) In another borrower account of Rajul Enterprises, the loan amount was disbursed before execution of certain loan documents such as the demand promissory note and letter of hypothecation.
- (iii) Certain pledged securities requiring registration were not registered in the name of the bank and the documents supporting the bank's title were also not found on record.
- (iv) In addition to the pledged securities mentioned in (iii), certain other pledged securities were found to be kept in the custody of a single officer instead of being maintained under joint custody of two responsible officers.

- (v) In certain cash credit accounts secured by inventory, the branch had not maintained the prescribed margin against securities as per the credit policy aligned with the directives of Reserve Bank of India. Identify the audit lapses evident from the above case in respect of loans and advances of the bank.

(MTP-May-2026)

Ans.



- (i) **Loan granted without proper appraisal and sanction:** In the given case, the cash credit facility granted to Bright Metals Pvt. Ltd. was based mainly on the recommendation of the branch credit officer and the credit file did not contain adequate evidence regarding appraisal of the borrower's creditworthiness or approval by the competent sanctioning authority. As per the control requirements relating to loans and advances in banks, advances should be granted only after the bank satisfies itself regarding the creditworthiness of the borrower and after obtaining sanction from the proper authorities. Hence, granting the advance without proper appraisal and sanction constitutes a lapse.
- (ii) **Disbursement of loan before execution of necessary documents:** The auditor observed that in borrower account of Rajul Enterprises the loan amount was disbursed before execution of loan documents such as the demand promissory note and letter of hypothecation. However, all necessary documents such as agreements, demand promissory notes and letters of hypothecation should be executed before advances are made. Therefore, disbursement of funds before execution of documents represents a procedural lapse.
- (iii) **Securities not registered in the name of the bank:** It was observed that certain pledged securities requiring registration were not registered in the name of the bank and supporting title documents were not available. As per prescribed procedures, all securities requiring registration should be registered in the name of the bank or otherwise accompanied by documents sufficient to establish the bank's title. Hence, failure to ensure proper registration of securities constitutes a lapse.
- (iv) **Improper custody of securities:** The auditor noticed that certain pledged securities were kept in the custody of a single officer instead of being maintained under joint custody. As per control requirements, all securities should be received and returned by responsible officers and kept in the joint custody of two such officers. Therefore, keeping securities under the custody of a single officer indicates weakness in internal control over safeguarding of securities.
- (v) **Failure to maintain prescribed margin against securities:** In certain cash credit accounts secured by inventory, the branch had not maintained the prescribed margin against securities in accordance with the directives of the Reserve Bank of India. Banks are required to keep sufficient margin against securities to cover any decline in their value and to comply with RBI directives. Hence, failure to maintain the required margin indicates non-compliance with lending norms.

Notes



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35A.

Direct communication with the entity's external legal counsel

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. **(May-2026)**

Ans.



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.

31A.

EOM

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. **(May-2026)**

Ans.



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.

17A.

Communication to TCWG

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". **(May-2026)**

Ans.



- (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.

57A.

Advertise through a write up

CA Vinit, a practicing Chartered Accountant, after attending various courses in Data Analytics and Artificial intelligence designates as "AI 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. **(May-2026)**

Ans.



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.

8A. Management’s refusal to provide written representations

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. **(May-2026)**

Ans.



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 of its responsibilities for preparation of financial does not provide the required representations in respect statements and recording of all transactions in financial statements.

98A.

Frauds

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.

(May-2026)**Ans.**

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.

163A.

Inadequate Procedures

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. **(May-2026)**

Ans.



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.

22A. Fixed Assets (PPE)

first attempt success tutorials

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. **(May-2026)**

Ans.



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.

197A. CGG – Chapter IX

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. (May-2026)

Ans.



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 accept 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.

Notes



CA Final AUDIT

RTP-Nov-2026

- 1. Where to use the Work of IA**
- During the statutory audit of KPK Manufacturing Ltd., the engagement partner noted that the company has a well-established and effective internal audit function. The internal auditors have recently completed the following assignments:
- Testing of the operating effectiveness of internal controls over the purchase and payment cycle.
 - Observed the year end physical inventory count at various warehouses.
 - Determined the materiality for the audit of the financial statements.
 - Verified compliance with applicable environmental and labour regulations.
 - Evaluated the appropriateness of management's assumptions used in estimating the provision for pending litigation.
 - Reviewed the financial information of a small overseas subsidiary that is not a significant component of the group.
 - Decided the nature, timing and extent of substantive audit procedures to be performed for revenue recognition and drafted the proposed audit opinion on the financial statements.
- The engagement partner proposes to use the work of the internal audit function extensively with a view to reduce the extent of external audit procedure. As the statutory auditor, analyse each of the above areas and identify which assignments can be used and which cannot be used by the external auditor as per relevant Standard on Auditing.
- (RTP-Nov-2026)**

- Ans.** As per SA 610, "Using the Work of Internal Auditors", work of the internal audit function that can be used by the external auditor include the following:
- Testing of the operating effectiveness of controls.
 - Substantive procedures involving limited judgment.
 - Observations of inventory counts.
 - Tracing transactions through the information system relevant to financial reporting.
 - Testing of compliance with regulatory requirements.
 - In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of SA 600).

Work performed by Internal Audit Function	Can the External Auditor Use the Work?
Tested the operating effectiveness of internal controls over the purchase and payment cycle.	Yes
Observed the year end physical inventory count at various warehouses.	Yes
Determined the materiality for the audit of the financial statements.	No
Verified compliance with applicable environmental and labour regulations.	Yes
Evaluated the appropriateness of management's assumptions used in estimating the provision for pending litigation	No
Reviewed the financial information of a small overseas subsidiary that is not a significant component of the group.	Yes
Decided the nature, timing and extent of substantive audit procedures to be performed for revenue recognition and drafted the proposed audit opinion on the financial statements.	No

	Accordingly, the engagement partner's proposal to rely extensively on all the work of the internal audit function is not appropriate. The external auditor must independently perform and conclude on areas involving significant professional judgment and remain solely responsible for expressing the audit opinion.
2.	Reporting under multiple clauses CA Ravi is the Statutory Auditor of Rajhans Textiles Ltd., a listed company, for the financial year 2025-26. During the audit, the following matters came to the auditor's attention: (i) The company has granted a loan of `5 crore to its subsidiary. No repayment schedule has been stipulated and no repayment has been received during the year.</li> <li>(ii) The company had availed a term loan of ` 50 crore from a consortium of banks. During the year, the company defaulted in repayment of instalments aggregating to ` 6 crore for a period of 95 days. However, the default was subsequently cleared before the balance sheet date.</li> <li>(iii) The company has an outstanding Income-tax demand of ` 2 crore, which is disputed before the appellate authority. The amount has been appropriately disclosed in the financial statements. Examine each of the above situations and state how CA Ravi should report the same under CARO 2020. (RTP-Nov-2026)
Ans.	(i) Loan granted to Subsidiary: As per Clause (iii)(a)(A) of Paragraph 3 of CARO 2020, the auditor is required to report, inter alia, whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates; Further, as per Clause (iii)(c) of Paragraph 3 of CARO 2020, the auditor is required to report in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; Furthermore, as per Clause (iii)(f) of Paragraph 3 of CARO 2020, the auditor is required to report, whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013. In the given case, the company has granted a loan of ` 5 crore to its subsidiary, for which no repayment schedule has been stipulated and no repayment has been received during the year. Accordingly, CA Ravi should make appropriate reporting under Clause (iii)(a)(A), Clause (iii)(c), Clause (iii)(f) of Paragraph 3 of CARO 2020. (ii) Default in repayment of Loans/Borrowings: As per Clause (ix)(a) of Paragraph 3 of CARO 2020, where the company has defaulted in repayment of loans or other borrowings, the auditor is required to report the amount of default and the period of default, along with lender-wise details. In the given case, the company had availed a term loan of ` 50 crore from a consortium of banks and defaulted in repayment of instalments aggregating to ` 6 crore for a period of 95 days. Although the default was subsequently cleared before the balance sheet date, the default had occurred during the year. Accordingly, CA Ravi should report the amount of default of ` 6 crore and the period of default of 95 days, lender-wise, under Clause (ix)(a) of Paragraph 3 of CARO 2020. (iii) Disputed Income-tax Demand: As per Clause (vii)(b) of Paragraph 3 of CARO 2020, the auditor is required to report the amounts of statutory dues not deposited on account of disputes, along with the nature of the dues and the forum where the dispute is pending. In the given case, the company has an outstanding Income-tax demand of ` 2 crore, which is disputed before the appellate authority and has been appropriately disclosed in the financial statements. Accordingly, CA Ravi should report the amount of ` 2 crore, nature of the dues and the forum where the dispute is pending under Clause (vii)(b) of Paragraph 3 of CARO 2020.

3.	Remote Audit CA Jiya was conducting a remote audit of Nova Ltd. using an online document-sharing platform. To expedite the audit process, the company granted unrestricted access to all employees and auditors on the platform. During the audit, CA Jiya downloaded several documents and retained them on the shared platform even after completing her review. While discussing audit observations through a video conference, she took screenshots of employees appearing on the screen as evidence of discussions without obtaining prior consent. She also captured screenshots of certain confidential company records without seeking authorization from the auditee. Further, while accessing the company's ERP system from her home office, she logged in through a public internet connection without using a Virtual Private Network (VPN). The management of Nova Ltd. later raised concerns regarding confidentiality, security, and data protection practices followed during the audit. Discuss the security, confidentiality, and data protection concerns arising from the above situation. What safeguards and controls should an auditor implement while conducting a remote or digital audit to ensure protection of client information and compliance with applicable regulations? (RTP-Nov-2026)
Ans.	Confidentiality, Security and Data Protection: 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. The 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 or other kind of evidence 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. In the given case, CA Jiya failed to adhere to several important requirements relating to confidentiality, security, and data protection during a digital audit. Therefore, the auditor's actions of using an unsecured platform, retaining reviewed information on the platform, taking unauthorized screenshots, and accessing the auditee's systems without a VPN are inconsistent with the principles of confidentiality, security, and data protection applicable to digital audits.
4.	Reporting CA Ananya has been appointed as the statutory auditor of PQR Ltd. (the parent company) as well as of every subsidiary, wholly owned and partly owned, within the PQR group. While finalising the audit of the Consolidated Financial Statements (CFS) for the year ended March 31, 2026, she notices that although the CFS are broadly compliant with the applicable consolidation Accounting Standards, one subsidiary's figures have not been adjusted in the manner required by the standard. This omission constitutes a material departure from the prescribed consolidation principles. CA Ananya brought the matter to the attention of management and requested the necessary adjustments. However, management refused to revise the CFS (i.e., Consolidated Balance Sheet, Consolidated Statement of Profit and Loss and Consolidated Cash Flow Statement) stating that the impact was limited to a single subsidiary and did not affect the overall presentation significantly. Discuss the responsibilities of CA Ananya as auditor of the CFS in the given situation, and the course of action she must adopt while framing her audit opinion. (RTP-Nov-2026)
Ans.	When the Parent's Auditor is also the Auditor of all its Components: In the given case, CA Ananya is the statutory auditor of both the parent company, PQR Ltd., and all its subsidiaries. Accordingly, she needs to consider the following:

- While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed. In case of any departure or deviation, the auditor should consider the requirements given in SA 705, "Modifications to the Opinion in the Independent Auditor's Report" in the audit report so that users of the consolidated financial statements are aware of such deviation.
- Auditor should issue an audit report expressing an opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit.
- Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.

In view of above, being an auditor of PQR the parent company and all its subsidiaries, CA Ananya is required to consider whether the principles and procedures prescribed for the preparation and presentation of the CFS under the applicable Accounting Standards have been followed. In the given case, the required consolidation adjustments relating to one subsidiary have not been incorporated, resulting in a material departure from the applicable accounting principles. Since management has refused to make the necessary adjustments, CA Ananya should consider the effect of the resulting misstatement on the CFS and apply the requirements of SA 705, Modifications to the Opinion in the Independent Auditor's Report, as appropriate.

The fact that the departure relates to only one subsidiary does not, by itself, relieve the auditor of the responsibility to report its effect on the CFS. The auditor should evaluate the materiality and pervasiveness of the resulting misstatement to determine the appropriate modification of opinion.

Accordingly, CA Ananya should:

- evaluate the effect of the unadjusted consolidation adjustment on the CFS;
- consider the requirements of SA 705 and determine the appropriate modified opinion, wherever required;
- clearly state the nature of the departure and its effect in the audit report, as applicable; and
- express an opinion on whether the CFS give a true and fair view of the state of affairs of the Group as at the balance sheet date and of its consolidated profit or loss for the period.

Further, she should also express an opinion on whether the consolidated cash flows give a true and fair view in accordance with the applicable framework considering the fact that the CFS also include a Consolidated Cash Flow Statement.

Thus, CA Ananya cannot ignore the material departure merely because it relates to a single subsidiary. She must assess its materiality and pervasiveness and modify her opinion in accordance with SA 705, if the uncorrected misstatement warrants such modification.

5.	Unregistered NBFC XYZ Investments Pvt. Ltd. is a company incorporated under the Companies Act, 2013, engaged solely in acquiring and holding shares and debentures of group companies as an investment activity. It does not accept public deposits, does not avail public funds, has no customer interface and does not intend to avail public funds or have customer interface as part of its business model. Its total asset size as per the latest audited balance sheet is ₹ 850 crore. The company had earlier obtained a Certificate of Registration (CoR) from the RBI as a NBFC-BL under the SBR Directions, 2023, since its financial assets and financial income satisfied the 50-50 Test. The statutory auditor of XYZ Investments Pvt. Ltd., while planning the audit for FY 2026-27, is examining the applicability of the Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026 to the company. Examine, with reasons, whether XYZ Investments Pvt. Ltd. is required to continue holding a Certificate of Registration under the RBI Act, 1934, in light of the Non-Banking Financial Companies – Registration,
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Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026. What compliance requirements and exit option, if any, are available to XYZ Investments Pvt. Ltd.? **(RTP-Nov-2026)**

Ans.

Registration status of XYZ Investments Pvt. Ltd.: Section 45-IA of the Reserve Bank of India Act, 1934 provides, inter alia, that an NBFC is required to obtain a Certificate of Registration (CoR) from the RBI for carrying on the business of a non-banking financial institution, subject to the exemptions provided under the applicable regulatory framework.

The Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 introduced the framework for an “Unregistered Type 1 NBFC”.

An NBFC which, subject to fulfilment of the prescribed conditions:

- does not avail public funds;
- does not have any customer interface;
- has an asset size of less than `1,000 crore; and
- operates on this basis as a conscious and long-term business model,

is eligible for exemption from the requirement of registration under Sections 45-IA and 45-IC of the RBI Act, 1934.

The prescribed conditions also include, inter alia, passing an annual Board resolution confirming that the NBFC will not avail public funds and will not have customer interface during the financial year and making the prescribed disclosure in the Notes to Accounts.

In the present case, XYZ Investments Pvt. Ltd.:

- does not avail public funds;
- has no customer interface;
- does not intend to avail public funds or have customer interface as part of its business model; and
- has an asset size of `850 crore, which is below `1,000 crore.

Accordingly, subject to fulfilment of the prescribed conditions, XYZ is eligible to fall within the category of Unregistered Type 1 NBFC and avail the exemption from registration.

However, XYZ Investments Pvt. Ltd. already holds a CoR. Its CoR does not automatically cease to be effective merely because it satisfies the conditions for exemption.

The Amendment Directions provide an exit mechanism for existing NBFCs which become eligible for the exemption. Accordingly, XYZ Investments Pvt. Ltd. may apply to the RBI for deregistration/surrender of its CoR within the prescribed timeline, i.e., by December 31, 2026, subject to the applicable conditions and RBI's approval.

Therefore, XYZ Investments Pvt. Ltd. should:

- ensure that it satisfies the conditions prescribed for an Unregistered Type 1 NBFC;
- pass the prescribed annual Board resolution;
- make the prescribed disclosure in the Notes to Accounts; and
- if it wishes to exit the regulatory registration framework, apply to the RBI for deregistration/surrender of its CoR within the prescribed timeline.

Thus, XYZ Investments Pvt. Ltd. is eligible to avail the exemption applicable to an Unregistered Type 1 NBFC, subject to fulfilment of the prescribed conditions. However, its existing CoR does not automatically lapse. It may avail the prescribed deregistration mechanism to surrender the CoR.

6.

Performance Audit - Sources for understanding the entity

The Comptroller and Auditor General has initiated a performance audit of a large government programme aimed at rural infrastructure development. The audit team has been assigned the task of planning the audit. During initial discussions, it was observed that the programme is implemented across multiple ministries and has been operational for several years. The scheme has also attracted attention in parliamentary discussions and media reports due to concerns about its efficiency and outcomes.

	The audit team is considering various sources such as internal records of the implementing agencies, legislative discussions, reports of committees, prior audit findings, independent research studies, and inputs from stakeholders to develop a comprehensive understanding of the programme before finalising the audit plan. Identify the stage of the performance audit process represented in the above scenario. Further discuss how the various sources of information referred to above assist the audit team in developing an in-depth understanding of the entity/programme for effective audit planning. (RTP-Nov-2026)
Ans.	The activities described in the case represent the initial stage of planning a performance audit, commonly referred to as understanding the entity/programme. It is the starting point for planning individual performance audit. The auditor may use the following sources for understanding the entity: (i) Documents of the entity: Documents on administration and functions of the entity, policy files, annual reports, budget documents, accounts, minutes of meetings, information on the website, internal audit reports, electronic databases and MIS reports, RTI material etc. (ii) Legislative documents: Legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and letters from Members of Parliament. (iii) Policy documents: Documents of Planning Commission, Ministry of Finance etc. (iv) Academic or special research: Independent evaluations on the entity, academic research and similar work done by other governments and other SAIs. (v) Past audits: Past financial and performance audits of the entity provide a major source of information and understanding. (vi) Media coverage: Print and electronic media - their systematic documentation on regular basis in a transparent manner. (vii) Special focus groups: Audit Advisory Committee concerns, annual and special reports of World Bank, Reserve Bank of India, reports by special interest groups, NGOs, etc.
7.	Auditor's responsibilities in BRSR reporting Green Limited, engaged in electric vehicle manufacturing has recently expanded its operations in multiple states. During the audit, the auditor noted the following: • The company faces litigation for alleged environmental violations. • Management has highlighted sustainability achievements through press releases and investor presentations. • Certain climate-related risks have been disclosed in the Board's Report, but similar disclosures are absent from the financial statements. Discuss the auditor's responsibilities in evaluating the above matters while completing the audit of the financial statements. (RTP-Nov-2026)
Ans.	The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework. In developing the understanding of an entity, the auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance, energy, transportation, materials and buildings, agriculture, food, and forestry products. Many investors and stakeholders are seeking information from auditor's reports about how climate-related risks were addressed in the audit. With this increased user focus on climate change, auditor need to be aware of, and may face, increasing pressure for transparency about climate matters in our auditor's reports. However, the auditor's reports must follow the requirements of applicable auditing standards.

The auditor's report is a key mechanism of communication to users about the audit that was performed. In addition to the audit opinion, it provides information about auditor's responsibilities and, when required, an understanding of the matters of most significance in our audit and how they were addressed.

In some circumstances, it may warrant inclusion of an Emphasis of matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements. The auditor should also determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable financial reporting framework e.g., Indian Accounting Standards or Accounting Standards, when relevant before considering climate-related matters in the auditor's report.

The auditor should also read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements, such as management report narratives in the annual report, press releases, or investor updates. This is a requirement under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

- 8. Professional Ethics & Liabilities of Auditors**
 Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:
 CA Anshul is appointed as the statutory auditor of Rise Ltd. During the audit, he obtained details of significant litigation, regulatory investigations, and tax disputes of the company. The Managing Director of the company requested him to share certain audit working papers and internal findings with the company for the purpose of internal restructuring. **(RTP-Nov-2026)**

Ans. As per Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant in public practice has access to a great deal of information of his client, which is of a highly confidential character. It is important that he should treat such information as having been provided to him only to facilitate the performance of his professional duties. To divulge such information would be a breach of professional confidence. The accountant's duty not to disclose continues even after completion of his assignment.

If disclosure is required as a part of performance of professional duty, the fact that such performance is required by the client would itself amount to the client consenting to such disclosure. In all cases, the request or initiative must come from the client. In case of a company, consent is required to be obtained from a competent authority such as the Managing Director if duly authorised, otherwise by a resolution of the Board of Directors.

An auditor is not required to provide the client or other auditors of the same enterprise or its related enterprise such as a parent or subsidiary, access to his audit working papers. The main auditor does not have a right of access to the audit working papers of branch auditors. However, the auditor may, at his discretion, make portions of or extracts from his working papers available to the client. There is a difference between sharing of working papers and sharing of information, and information may be provided only after obtaining consent of the client.

In the given case, during the audit CA Anshul acquired certain confidential information and is requested by the Managing Director of Rise Ltd. to share audit working papers and internal findings.

In view of above, CA Anshul must not share the audit working papers or any confidential information relating to the litigation, investigations or tax disputes with the Managing Director, or discuss it with anyone other than the client, without the client's proper consent obtained through a competent authority.

- 9. Professional Ethics & Liabilities of Auditors**
 Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:

Mr. Raman is a Chartered Accountant in practice holding a Certificate of Practice. He is also enrolled as an advocate after obtaining the requisite permission from the Bar Council. While appearing before the High Court in a tax litigation matter, he files the vakalatnama and appears using the designation "CA Raman, Chartered Accountant & Advocate." He also uses both designations on his visiting card and letterhead for his advocacy practice.

(RTP-Nov-2026)

Ans. As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he (i) advertises his professional attainments or services or (ii) uses any designation or expressions other than 'Chartered Accountant' on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the Central Government or a title indicating membership of the ICAI or of any other institution that has been recognized by the Central Government or may be recognized by the council.

Further, members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an advocate. In respect of other matters, they should use the designation 'Chartered Accountant' but they should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

In the present case, CA Raman, by appearing before the High Court and filing the vakalatnama as "CA Raman, Chartered Accountant & Advocate," and by printing both designations together on his visiting card and letterhead, has used a designation other than "Chartered Accountant" in a matter of his advocacy practice, and has combined both titles impermissibly. He is therefore guilty of professional misconduct under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Notes



CA Final AUDIT

MTP1-Nov-2026

1.

KAM V/s EOM

Suryodaya Industries Ltd., a listed company, is engaged in manufacturing and distribution of consumer products. During the audit of its financial statements for the year ended 31 March 2026, the auditor, M/s Mehta & Co., Chartered Accountants, identified the following two matters:

- (i) The company has significant goodwill arising from an earlier acquisition. During the year, management performed an impairment assessment of the goodwill involving significant assumptions relating to projected cash flows, growth rates and discount rates. The assessment involved a high degree of management judgment and was considered by the auditor to involve a higher risk of material misstatement. The audit team devoted considerable time to evaluate the assumptions and methodology used by management and also involved an auditor's expert to assist in evaluating the valuation methodology and certain significant assumptions. The matter was extensively discussed with those charged with governance.
- (ii) On 15th April 2026, a major fire occurred at one of the company's warehouses, resulting in substantial damage to inventory and property. Since the fire occurred after the reporting date, no adjustment was required to the financial statements for the year ended 31st March 2026. The company has, however, appropriately disclosed the nature and estimated financial effect of the event in the notes to the financial statements. The auditor has no disagreement with management regarding the accounting or disclosure of the event and there is no material uncertainty concerning the matter. Nevertheless, considering the magnitude of the fire and its potential impact on the company, the auditor believes that the matter is fundamental to users' understanding of the financial statements.

Distinguish, with reasons, how each matter should be addressed in the auditor's report. **(MTP-Nov-2026)**

Ans.

As per SA 701, Communicating Key Audit Matters in the Independent Auditor's Report, Key Audit Matters (KAMs) are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. They are selected from matters communicated with those charged with governance, having regard to matters involving significant auditor attention, including areas of higher assessed risk of material misstatement, significant auditor judgment and significant events or transactions.

- (i) The impairment assessment of goodwill involved significant management judgment and auditor judgment and required significant audit effort, including the involvement of a valuation expert. It is therefore a matter that is likely to have required significant auditor attention and may constitute a Key Audit Matter. Accordingly, if determined to be one of the matters of most significance in the audit, it should be communicated in the Key Audit Matters section of the auditor's report, with an explanation of why it was considered a KAM and how it was addressed in the audit.
- (ii) The fire occurred after the reporting period and is a non-adjusting subsequent event. Since it has been appropriately disclosed in the financial statements and the auditor considers it fundamental to users' understanding of the financial statements, the auditor may include an Emphasis of Matter paragraph under SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, with an appropriate cross-reference to the relevant disclosure.

The Emphasis of Matter paragraph does not modify the auditor's opinion.

Distinction

The goodwill impairment matter is addressed as a KAM under SA 701 because it required significant auditor attention and may have been one of the matters of most significance in the audit. In contrast, the subsequent fire is appropriately highlighted through an Emphasis of Matter paragraph under SA 706 because it is already appropriately disclosed and is considered fundamental to users' understanding.

However, inclusion of an Emphasis of Matter paragraph does not, by itself, make a matter a KAM. A matter may be both a KAM and an Emphasis of Matter only where it independently satisfies the respective requirements of SA 701 and SA 706.

2.

Responsibilities on Other Information

M/s RST & Co. are the statutory auditors of LMN Ltd., a listed entity. The auditor's report on the financial statements for the year ended 31st March 2026 was dated 20th May 2026. CA Rituraj, the auditor, had read all the other information that was expected to be included in the annual report and had not identified any material misstatement therein as at that date.

The annual report was subsequently finalised and published on 30th June, 2026. On 5th July, 2026, the auditor became aware that the published annual report contained a statement that the company had successfully commissioned a new manufacturing plant in April, 2026 and that the plant had contributed significantly to the company's revenue for the year ended 31st March 2026.

The auditor notes that the statement is factually incorrect. The plant was actually commissioned only in April 2026, and therefore it could not have contributed to revenue for the year ended 31st March 2026. With reference to SA 720 (Revised), explain the responsibilities of M/s RST & Co. in this situation.

(MTP-Nov-2026)

Ans.

SA 720, "The Auditor's Responsibilities Relating to Other Information" deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.

Accordingly, the auditor is required to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.

If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- (i) If the other information is corrected, perform the procedures necessary in the circumstances; or
- (ii) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

In the given case, the statement in the annual report that the manufacturing plant had contributed significantly to the company's revenue for the year ended 31st March 2026 is factually incorrect, since the plant was commissioned only in April 2026. The auditor should evaluate whether this constitutes a material misstatement of Other Information.

Since the auditor has identified a material misstatement in the Other Information after the date of the auditor's report, the auditor should discuss the matter with management and request management to correct the Other Information.

If management refuses to correct the identified material misstatement, the auditor should take appropriate further action, including communicating the matter to those charged with governance and, where appropriate, taking other action as required by SA 720.

3.

Tax Audit

M/s Aarav & Associates, a firm of Chartered Accountants, has three partners, CA Aarav, CA Bhavna and CA Chirag. During the year 2026-27, the partners accepted and signed the following tax audit assignments:

Particulars	CA Aarav	CA Bhavna	CA Chirag
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Tax audit assignments signed in individual capacity under section 44AB(a)/(b)	20	22	12
Tax audit assignments signed as partner of M/s Aarav & Associates under section 44AB(a)/(b)	42	30	45
Tax audits relating to persons covered under section 44AE	4	3	5
Tax audits relating to persons covered under section 44AD	3	2	4
Revised tax audit reports issued during the year	2	3	1

CA Aarav contends that since the firm has three partners, the limit of 60 tax audits can be shared among the partners and, therefore, he can accept additional tax audit assignments. CA Bhavna, on the other hand, argues that the tax audits under sections 44AE and 44AD should also be included while determining the limit of 60. With reference to Chapter VI of the Council General Guidelines, 2008, examine the above contentions and determine whether CA Aarav, CA Bhavna and CA Chirag have complied with the prescribed limit of tax audit assignments. Also state whether the revised tax audit reports are to be considered for this purpose.

(MTP-Nov-2026)

Ans.

Tax Audit Assignments – Chapter VI of Council General Guidelines, 2008: In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be affected by issuance of new guidelines, as follows –

- (i) the existing limit of 60 tax audit assignments per member to be retained, but the same shall be in respect of tax audit assignments in a particular financial year.
- (ii) the said limit of 60 would be the aggregate limit in respect of all tax audits accepted and signed by a member, both in his individual capacity and as a partner of a firm(s). In other words, an individual member cannot sign more than 60 tax audit reports in a financial year.
- (iii) the limit on number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners.
- (iv) the limit of 60 would, however, not apply to tax audit assignments arising out of the requirements under clause (c), clause (d) and clause (e) of section 44AB, in relation to persons covered under section 44AE, 44ADA and 44AD, respectively.
- (v) in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

Accordingly:

Member	Assignments signed in individual capacity under section 44AB(a)/(b) + assignments signed in capacity of Partner under section 44AB(a)/(b) = Assignments counted	Compliance
CA Aarav	20 + 42 = 62	Non-Compliance
CA Bhavna	22 + 30 = 52	Complied
CA Chirag	12 + 45 = 57	Complied

The assignments relating to sections 44AE and 44AD are excluded from the above computation. The revised tax audit reports are also not counted for determining the limit.

Therefore, CA Bhavna and CA Chirag have complied with the limit of 60 tax audit assignments whereas CA Aarav has exceeded the limit and not complied with Guidelines.

Further, CA Aarav's contention that the limit of 60 can be shared amongst the partners is incorrect. The limit is applicable individually to each member and cannot be distributed/shared among the partners of the firm. Also, CA Bhavna's contention that audits under sections 44AE and 44AD should be included is incorrect, as such assignments are specifically excluded from the prescribed limit.

4.

Conditions Identified affecting going concern

	Estage Logistics Ltd. has experienced a significant decline in freight volumes during the year. The company is also in breach of a debt covenant requiring it to maintain a minimum debt-service coverage ratio. In response, the bankers have given a notice to the company stating that they reserve the right to recall the loan facility, although no formal recall notice has been issued so far. Management has prepared a plan to address the situation, which includes the proposed sale of a non-core division and renegotiation of the existing loan terms. However, the sale has not yet been contracted and discussions with the bankers regarding revised loan terms are still at a preliminary stage. Based on the above circumstances, explain how the auditor should evaluate management's assessment of going concern, including management's plan to mitigate the identified conditions and discuss the implications for the auditor's report under SA 570. (MTP-Nov-2026)
Ans.	As per SA 570, "Going Concern", the auditor is required to evaluate whether management's use of the going concern basis of accounting is appropriate and whether, based on the audit evidence obtained, a material uncertainty related to going concern exists. In the given case, the following matters indicate the existence of events or conditions that may cast significant doubt on the company's ability to continue as a going concern: • Sharp decline in freight volumes indicates deterioration in the company's operating performance and may adversely affect its future cash flows. • Breach of the debt covenant is a significant financial difficulty. Further, the bankers have reserved the right to recall the facility, which may result in an immediate liquidity pressure if the facility is recalled. • The auditor should evaluate management's plans to mitigate these conditions, including the proposed sale of the non-core division and renegotiation of loan terms. Since the sale is not yet contracted and loan renegotiation is only at a preliminary stage, the auditor should critically assess the feasibility, timing and likely effectiveness of these plans and obtain sufficient appropriate audit evidence regarding them. If, after considering management's plans and other relevant evidence, the auditor concludes that a material uncertainty related to going concern exists, the auditor should determine whether the financial statements adequately disclose the nature of the uncertainty and the relevant events or conditions. Where adequate disclosure is made, the auditor should include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern", drawing attention to the relevant disclosure in the financial statements. Thus, the auditor should not rely merely on management's proposed turnaround plan; the uncontracted sale and preliminary loan negotiations require careful evaluation before concluding on the company's ability to continue as a going concern.
5.	Risk arising from use of IT Moby Manufacturing Ltd. has substantially automated its accounting and production processes. During the audit of the financial year 2026-27, CA Neha observed the following: • The company's IT team made certain changes to the payroll application directly in the live environment without following the prescribed approval and testing procedures. • The company has recently upgraded its inventory software, but certain branches continue to use the older version, resulting in errors while transferring inventory data between systems. • In certain situations where the automated system could not process transactions, employees were permitted to override system-generated entries manually without independent review or proper documentation. • The company experienced a ransomware incident in which certain financial and customer data became inaccessible and some files were found to be corrupted. The backup arrangements were also found to be inadequate. Based on the above observations, identify and briefly explain the four risks arising from the use of IT that CA Neha should consider while planning the audit of Moby Manufacturing Ltd. (MTP-Nov-2026)
Ans.	The following IT-related risks arise in the given case:

- Risk of unauthorised changes to IT applications/environment: Changes made directly to the live payroll application without proper approval and testing may result in unauthorised or inappropriate changes, which may adversely affect the processing and reliability of data.
- System integration and compatibility risk: Different versions of inventory software are being used by different branches. Incompatibility between systems may result in incorrect transfer or processing of data, bugs or errors in integrated systems.
- Risk of inappropriate manual intervention: Allowing employees to override system-generated entries without independent review creates a risk of inappropriate manual intervention, which may result in errors or unauthorised transactions being processed.
- Risk of data loss or data corruption: The ransomware incident and inadequate backup arrangements indicate a risk of loss or corruption of financial and other sensitive data. Such incidents may also expose the entity to fraud, cybersecurity and business-continuity risks.

6.

Internal Check

M/s Grand Pharmaceuticals Ltd., a pharmaceutical manufacturing company, has appointed CA Rohan as its internal auditor. During his review of the internal control system, he noted the following:

- The Sales Manager has been handling the same group of major customers for the last eight years. He is also authorised to approve credit limits and recommend write-off of long-outstanding balances. Due to his long association with the customers, management has not considered rotation necessary.
- The Stores Supervisor is responsible both for maintaining records of receipts and issues of inventory and for having physical custody of the stores. No independent physical verification of inventory has been carried out for the last three years.
- The Finance Manager prepares payment instructions as well as gives final approval for payments. There is no independent review of payment instructions before funds are released.

Based on the above observations, examine the principles of internal check that have not been adequately followed. Also explain the underlying inherent risks associated with the relevant activities and how the identified deficiencies may affect the auditor's assessment of control risk. **(MTP-Nov-2026)**

Ans.

The following principles of internal check have not been adequately followed in the given situation:

- Rotation of duties:** The Sales Manager has been dealing with the same customers for a prolonged period and has developed close relationships with them. Periodic rotation of duties helps reduce the possibility of collusion, manipulation and concealment of irregularities. Further, the same individual having authority over credit limits and write-offs creates an inadequate segregation of duties.
- Separation of custody from recording:** The Stores Supervisor is responsible both for the physical custody of inventory and for maintaining inventory records. The functions of custody and recording should, as far as practicable, be entrusted to different persons so that the work of one person provides a check on the other. Absence of independent physical verification further weakens this control.
- Segregation of preparation and approval of payments:** The Finance Manager both prepares and approves payment instructions. No single person should have complete control over an important financial operation. Independent review and approval should be performed by another responsible official.

Inherent risks Associated with the relevant activities: Sales, inventory and payments are inherently susceptible to risks such as fictitious or unauthorised transactions, manipulation of receivables, inventory pilferage and fraudulent payments. The nature of these transactions gives rise to significant underlying inherent risks.

Impact of Control Deficiencies on Control Risk: The deficiencies in rotation, segregation of duties and independent verification mean that the internal controls may fail to prevent or detect material misstatements or fraud on a timely basis. Accordingly, control risk would be assessed as higher, requiring the auditor to perform appropriate additional audit procedures.

7.

NBFC Registration Exemption

	During the year 2026-27, the management of following three NBFCs approached their statutory auditor for advice regarding their registration status under the amended RBI framework. (i) Alpha Finance Ltd. does not avail public funds and does not have any customer interface. Its latest audited balance sheet shows total assets of ` 850 crore. The company intends to continue with the same business model in the long term.</li> <li>(ii) Beta Holdings Ltd. also does not avail public funds and does not have any customer interface. However, its latest audited balance sheet shows total assets of exactly ` 1,000 crore. The management contends that since the threshold is stated as ` 1,000 crore, it should also qualify for exemption from registration.</li> <li>(iii) Gamma Finance Ltd. has assets of only ` 300 crore. It neither has a large balance sheet nor accepts deposits. However, it has access to public funds through its group structure and also has a customer interface. The managements of all three entities seek your advice on whether they are required to obtain or continue holding a Certificate of Registration from the RBI under the Registration Amendment Directions, 2026, effective from 1st July 2026. Advise the managements regarding the applicability of registration requirements to the three NBFCs under the amended framework. Also explain the broad classification into Unregistered Type I NBFC, Type I NBFC and Type II NBFC. (MTP-Nov-2026)
Ans.	The Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026, effective from July 1, 2026, introduced a three-category framework for NBFCs based principally on public funds, customer interface and asset size. (i) Unregistered Type I NBFC (Exempt): Non-deposit-taking NBFCs with no public funds, no customer interface and asset size below ` 1,000 crore are exempted from the provisions of Sections 45-IA and 45-IC of the RBI Act, subject to the prescribed conditions. Existing NBFCs satisfying the criteria may apply for deregistration by December 31, 2026. (ii) Type I NBFC (Registered): NBFCs with no public funds and no customer interface, but having an asset size of ` 1,000 crore or above, are required to remain registered as Type I NBFCs. (iii) Type II NBFC (Registered): An NBFC which avails public funds or has a customer interface, irrespective of its asset size, is required to be registered as a Type II NBFC. Conclusion: Alpha Finance Ltd.: Since it has no public funds, no customer interface and its asset size of ` 850 crore is below ` 1,000 crore, it satisfies the basic conditions for the Unregistered Type I NBFC exemption, subject to fulfilment of the other prescribed conditions. Beta Holdings Ltd.: It does not qualify for the exemption because its asset size is exactly ` 1,000 crore. The requirement is that the asset size should be less than ` 1,000 crore. Therefore, Beta Holdings Ltd. would be required to be registered as a Type I NBFC if it continues without public funds and customer interface. Gamma Finance Ltd.: Its asset size being below ` 1,000 crore does not by itself make it eligible for exemption. Since it has access to public funds and has a customer interface, it falls within Type II NBFC and is required to be registered.
8.	ESG Pillar Star Textiles Ltd. has adopted an ESG framework for its operations. The Company has recently appointed a new contractor for its manufacturing facility. The contractor offered significantly lower costs than the existing contractor. During the due diligence process, the Company became aware that the contractor had previously faced allegations relating to unsafe working conditions and non-payment of statutory benefits to workers. The management nevertheless decided to appoint the contractor, stating that the contractor was an independent entity and that the lower cost would improve the Company's profitability. The Company did

	not undertake any further assessment of the contractor's labour practices or require the contractor to comply with its ESG requirements. Subsequently, the Company learnt that the contractor had engaged a number of workers through informal arrangements without adequate documentation of their employment terms. The management continued to maintain that such matters were the contractor's responsibility and need not be considered by the Company for its ESG reporting. (i) Identify the ESG Pillar primarily involved in the above situation. (ii) Explain the relevance of the identified Pillar to the Company's decision. (iii) State two ESG-related concerns arising from the Company's approach. (MTP-Nov-2026)
Ans.	(i) Identification of Pillar – Social (S) Pillar: The situation primarily relates to the Social pillar of ESG, particularly labour practices, employee welfare, working conditions and human rights in the Company's supply chain. (ii) The Social Pillar requires an entity to consider the impact of its activities and business relationships on employees, workers and other stakeholders. ESG considerations are not necessarily confined to the Company's direct employees. Risks arising from contractors, suppliers and other business relationships may also be relevant to the Company's overall ESG performance. Therefore, the fact that the contractor is an independent entity does not, by itself, make its labour practices irrelevant to the Company's ESG considerations. The Company should undertake appropriate due diligence and establish suitable requirements and monitoring mechanisms for its contractors. (iii) ESG-related concerns: Two major concerns are: (1) Labour and human-rights risk: The Company has prioritised cost reduction over assessment of labour and human-rights risks and has failed to conduct adequate due diligence on the contractor. Unsafe working conditions, non-payment of statutory benefits and inadequate documentation of workers' employment terms indicate potential violations of labour and human-rights expectations. (2) Supply-chain and reputational risk: By appointing the contractor despite being aware of adverse allegations and failing to undertake further assessment, the Company may be exposed to reputational and ESG risks. If the Company subsequently represents that its supply chain follows responsible labour practices, such disclosure may also be misleading or incomplete. Conclusion: The Company's approach of treating the contractor's ESG practices as entirely irrelevant merely because the contractor is an independent entity is not consistent with a comprehensive assessment of the Social dimension of ESG.
9.	Contingent Fees CA Sameer, a Chartered Accountant in practice, has been appointed as the statutory auditor of XYZ Ltd. for the financial year 2025-26. While finalising the terms of his professional engagement, he proposes to charge a fixed statutory audit fee of ₹ 8 lakh. In addition, he proposes to charge a further fee equivalent to 2% of the amount by which the profit of XYZ Ltd. increases as a result of audit adjustments made during the course of the audit. The management of XYZ Ltd. agrees to the proposal, stating that the additional amount would become payable only if the audit results in an increase in the reported profit. Separately, CA Sameer is engaged by ABC Ltd., which is not his audit client, to provide litigation-support services in connection with a commercial dispute. For this assignment, he proposes to charge a fee which would become payable only upon the successful outcome of the litigation. With reference to the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988, examine the permissibility of the above fee arrangements. (MTP-Nov-2026)
Ans.	Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to

charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or results of such employment, except as permitted by the Regulations.

Further, Regulation 192 of the Chartered Accountants Regulations, 1988 restricts a member in practice from charging fees based on a percentage of profits or fees contingent upon the findings or results of professional work, subject to the exceptions prescribed therein.

In the case of XYZ Ltd.: The fixed statutory audit fee of `8 lakh, by itself, is not objectionable. However, the additional fee of 2% of the increase in profit resulting from audit adjustments is directly linked to the findings/results of the statutory audit. The amount of fee would depend upon the extent to which the audit adjustments increase the reported profit.

Accordingly, such an arrangement is not permissible and would attract the prohibition contained in Clause (10) of Part I of the First Schedule, read with Regulation 192.

In the case of ABC Ltd.: The litigation-support assignment is a non-assurance service provided to a non-audit client. The proposed contingent fee in respect of such service is covered by the exception permitted under Regulation 192, subject to fulfilment of the conditions prescribed therein. Therefore, charging a fee contingent upon the successful outcome of this non-assurance assignment would not constitute professional misconduct under Clause (10).

Conclusion: The additional fee linked to the increase in profit from the statutory audit of XYZ Ltd. is not permissible. However, the contingent fee proposed for the litigation-support assignment for the non-audit client ABC Ltd. is permissible under the applicable exception in Regulation 192, subject to its prescribed conditions.

10.

Unresolved External Confirmation

During the audit of Solstice Textiles Ltd., the auditor, while obtaining external confirmation of bank balances, received a confirmation directly from the bank showing a Fixed Deposit of ` 2 crore in the name of the company. However, the Fixed Deposit was not recorded in the books of account of Solstice Textiles Ltd. and was also not appearing in the bank reconciliation statement prepared by the company.

When questioned, the Finance Manager explained that the Fixed Deposit actually belonged to another group entity and that the group entity had inadvertently used Solstice Textiles Ltd.'s PAN while opening the account. He further stated that the Fixed Deposit had no impact on the financial statements of Solstice Textiles Ltd.

The auditor is considering whether the management's explanation can be accepted without carrying out any further procedures.

You are required to advise the auditor regarding the appropriate course of action in the above circumstances with reference to the relevant Standards on Auditing. Also state the related considerations that the auditor should evaluate before concluding on the matter.

(MTP-Nov-2026)

Ans.

As per SA 505, "External Confirmations", external confirmations generally provide reliable audit evidence. However, when a confirmation response indicates a difference between the information requested or contained in the entity's records and the information provided by the confirming party, the auditor is required to investigate the exception.

In the given case, the bank has confirmed a Fixed Deposit of `2 crore in the name of Solstice Textiles Ltd., whereas the Fixed Deposit is neither recorded in the books nor reflected in the bank reconciliation statement. Accordingly, the auditor should not accept the Finance Manager's explanation merely on the basis of management representation.

The auditor should perform appropriate additional procedures to resolve the matter, including:

- Obtaining confirmation from the bank regarding the account holder and ownership of the Fixed Deposit and examining the account-opening/KYC documents.

- Verifying whether the Fixed Deposit actually belongs to another group entity and determining why Solstice Textiles Ltd.'s PAN was used.
- Assessing whether the matter indicates an undisclosed related party or related party transaction, and considering the requirements of SA 550, Related Parties.
- Evaluating the completeness of Solstice Textiles Ltd.'s bank balances and other relevant financial information.
- Considering whether the unusual banking arrangement indicates any risk of fraud or management override, having regard to SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

The auditor should not rely on the management's uncorroborated explanation. If the matter remains unresolved after performing appropriate additional procedures, the auditor should evaluate its effect on the sufficiency and appropriateness of audit evidence and consider the implications for the auditor's report, including the requirements of SA 705, if applicable.

11.
Management Expert

Vega Insurance Brokers Ltd. is preparing its financial statements for the year ended 31st March 2026. The company has recognised a material provision for incurred-but-not-reported (IBNR) insurance claims, which involves significant estimation uncertainty and actuarial judgement.

Management engaged an independent actuary to determine the IBNR claims reserve. The actuary provided a report containing the amount of the reserve along with the actuarial assumptions and methodology used. During the audit, the engagement team decided to rely on the amount certified by the actuary and incorporated it into the audit working papers without evaluating the actuary's competence, capabilities and objectivity. The team also did not obtain an understanding of the work performed by the actuary or evaluate the reasonableness of the significant actuarial assumptions, citing the tight reporting deadline.

As the audit partner, you are required to advise the engagement team regarding the requirements to be complied with before relying upon the actuary's work as audit evidence. **(MTP-Nov-2026)**

Ans.

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:

1. Evaluate the competence, capabilities and objectivity of the management's expert;
2. Obtain an understanding of the work of that expert; and
3. Evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion.

Evaluation of the appropriateness of the expert's work includes considering the relevance and reasonableness of the expert's findings or conclusions, their consistency with other audit evidence, and the relevance and reasonableness of significant assumptions and methods used. The auditor should also consider the relevance, completeness and accuracy of the source data used by the expert.

In the given situation, the incurred-but-not-reported (IBNR) claims reserve is material and involves significant estimation uncertainty and actuarial judgement. Therefore, the work of the actuary is significant to the auditor's purposes. The engagement team cannot rely merely on the fact that the actuary has certified the amount. It is required to evaluate the actuary's competence, capabilities and objectivity, understand the actuarial work performed and evaluate the reasonableness of the assumptions, methods, source data and conclusions.

The reporting deadline does not relieve the auditor from complying with SA 500. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the expert's work, appropriate additional audit procedures should be performed, which may include agreeing with management on further action or, where necessary, involving another expert, including the auditor's own expert under SA 620.

Conclusion: The engagement team's approach of accepting the certified IBNR figure without the required evaluation is not in accordance with SA 500. The auditor must perform the prescribed evaluation before relying on the actuary's work as sufficient appropriate audit evidence.

12.	Management Consultancy and other Services CA Rudra, a Chartered Accountant in practice, was approached by Jin Ltd. to assist the company in improving its internal operations. The company requested him to review its existing organisational structure, prepare job descriptions for various positions, evaluate the workload of employees and design an appropriate employee incentive scheme. CA Rudra agreed to provide these services for a professional fee. He was not appointed as the statutory auditor or internal auditor of Jin Ltd. Examine whether acceptance of such assignment by CA Rudra amounts to professional misconduct. (MTP-Nov-2026)
Ans.	Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of “Management Consultancy and other Services”. The expression “Management Consultancy and Other Services” includes Organization structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads and setting up executive incentive plans, wage incentive plans etc. Since the services proposed to be rendered by CA Rudra fall within the permissible scope of Management Consultancy and Other Services, he is permitted to undertake the assignment. Therefore, CA Rudra is not guilty of professional misconduct for accepting and rendering these services.
13.	Type 1 and Type 2 report Comet Logistics Ltd. outsources its entire payroll processing function to an external service organisation, ProPay Solutions, which maintains payroll records, computes salaries and processes statutory deductions on behalf of Comet Logistics Ltd. The auditor of Comet Logistics Ltd. needs to evaluate the design and operating effectiveness of controls at ProPay Solutions relevant to payroll processing. Discuss the auditor’s considerations under SA 402, including the relevance of a Type 1 and Type 2 report obtained from the auditor of service organisation. (MTP-Nov-2026)
Ans.	As per SA 402, Audit Considerations Relating to an Entity Using a Service Organisation, where an entity uses the services of a service organisation that are relevant to financial reporting, the user auditor is required to obtain an understanding of the nature and significance of the services provided and their effect on the entity’s internal control relevant to the audit. In the given case, ProPay Solutions performs payroll processing activities, including maintaining payroll records, computing salaries and processing statutory deductions. Accordingly, the auditor of Comet Logistics Ltd. needs to consider the controls at ProPay Solutions relevant to payroll processing. The auditor may consider the following reports issued by the service organisation’s auditor: • Type 1 Report: It provides information regarding the description and design of controls at ProPay Solutions and whether such controls are suitably designed as at a specified date. However, it does not provide evidence regarding the operating effectiveness of those controls. Therefore, a Type 1 report alone is not sufficient where the auditor intends to rely upon the operating effectiveness of payroll controls. • Type 2 Report: It contains the description and design of controls and also provides the service auditor’s opinion on the operating effectiveness of those controls over a specified period. Hence, where the auditor of Comet Logistics Ltd. intends to rely on the operating effectiveness of controls at ProPay Solutions, a suitable Type 2 report would provide relevant audit evidence. The auditor should also evaluate the competence and independence of the service auditor, the adequacy of the period covered by the Type 2 report and whether any significant changes in the controls have occurred subsequent to the period covered by the report. Since the auditor of Comet Logistics Ltd. is required to consider both the design and operating effectiveness of payroll controls at ProPay Solutions, a Type 2 report is appropriate. A Type 1 report may assist in understanding and evaluating the design of controls but, by itself, does not provide evidence of their operating effectiveness.

CA Final AUDIT

MTP2-Nov-2026

1.

Modified Opinion

Examine, with reasons, the type of modified opinion, if any, to be expressed by the auditor in each of the following independent situations:

- (i) During the audit of Oceanic Marine Ltd., the company maintained a substantial portion of its inventory at a warehouse which was severely damaged by fire three days before the year-end. The inventory records relating to the warehouse were also destroyed. The auditor was unable to attend the physical verification conducted subsequently and, owing to the extent of damage, was unable to perform alternative audit procedures to determine the quantity and condition of the inventory. The inventory constituted 18% of the company's total assets. The auditor assessed that the possible effects of the inability to obtain sufficient appropriate audit evidence were material but not pervasive to the financial statements.
Management, however, refused to provide any additional disclosure regarding the matter in the financial statements.
- (ii) During the audit of the consolidated financial statements of Trident Holdings Ltd., the auditor identified that the company had not consolidated Alpha Ltd., a subsidiary acquired during the year. Management contended that consolidation was not necessary as Alpha Ltd. was expected to be sold in the near future. However, the applicable financial reporting framework required Alpha Ltd. to be consolidated. The subsidiary represented 32% of the consolidated assets and 28% of consolidated revenue. The auditor concluded that the omission resulted in a misstatement which was material and pervasive to the consolidated financial statements. Management refused to make the necessary adjustments.
- (iii) During the audit of Vertex Infrastructure Ltd., the auditor was unable to obtain sufficient appropriate audit evidence regarding revenue recognised on certain long-term contracts, impairment of a major project and the recoverability of certain trade receivables. These matters affected multiple elements of the financial statements and represented a significant portion of the company's assets and revenue. Despite repeated requests, management did not provide the underlying contracts and supporting records. The auditor considered whether alternative audit procedures could be performed but concluded that the possible effects of the undetected misstatements could be both material and pervasive. The auditor was, therefore, unable to obtain sufficient appropriate audit evidence to form a basis for an opinion on the financial statements.

(MTP-Nov-2026)

Ans.

As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall modify the opinion when the financial statements are materially misstated or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. The type of modification depends upon the nature of the matter and whether its effects are material and pervasive.

- (i) Oceanic Marine Ltd. – Qualified Opinion: The destruction of inventory records and the auditor's inability to attend the physical verification or perform alternative audit procedures result in an inability to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. Thus, the matter represents a scope limitation.
Although the inventory constitutes a significant portion of the company's assets, the auditor has determined that the possible effects of the inability to obtain sufficient appropriate audit evidence are material but not pervasive to the financial statements. Accordingly, the auditor shall express a Qualified Opinion.
The fact that management has refused to provide additional disclosure does not by itself change the type of opinion, as the underlying matter giving rise to the modification remains an inability to obtain sufficient appropriate audit evidence, with effects assessed as material but not pervasive.

	(ii) Trident Holdings Ltd. – Adverse Opinion: The failure to consolidate Alpha Ltd., despite the applicable financial reporting framework requiring its consolidation, constitutes a misstatement of the consolidated financial statements arising from non-compliance with the applicable financial reporting framework. The subsidiary represents a significant portion of the consolidated assets and revenue, and the auditor has assessed the resulting misstatement as material and pervasive. Further, management has refused to make the necessary adjustment. Accordingly, the auditor shall express an Adverse Opinion, as the misstatement is both material and pervasive to the consolidated financial statements. (iii) Vertex Infrastructure Ltd. – Disclaimer of Opinion: In this case, the auditor is unable to obtain sufficient appropriate audit evidence regarding several significant matters, including revenue from long-term contracts, impairment of a major project and recoverability of trade receivables. The auditor has also determined that alternative audit procedures cannot provide sufficient appropriate audit evidence. The possible effects of undetected misstatements are assessed as material and pervasive, and the auditor is unable to obtain sufficient appropriate audit evidence to form a basis for an opinion on the financial statements. Accordingly, the auditor shall disclaim an opinion, as the possible effects of undetected misstatements could be both material and pervasive.
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2.

Planning and performing the audit

Summit Distributors Pvt. Ltd. is availing working capital facilities from a bank. The bank has specifically requested the company to obtain an auditor's report on the trade receivables balance of ₹18 crore as at 31 March 2026, since the amount is being considered for determining the drawing power. The company has separately appointed the auditor for audit of its complete set of financial statements. The management proposes to provide a schedule of trade receivables along with an ageing analysis. Advise the auditor regarding the considerations while planning and performing the above audit engagement, with reference to SA 805.

(MTP-Nov-2026)**Ans.**

As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", in planning and performing the audit of a single financial statement or of a specific element of

a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement. The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as SA 240, SA 550 and SA 570 are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

SA 260 requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. SA 260 notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. When complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. SAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

3. Responsibilities Of Management And The Auditor

During the audit of Apex Plastics Ltd. for the year ended 31 March 2026, the audit team noticed unusual variations in the purchases recorded during certain months. On further examination, it was found that the store-in-charge had been creating fictitious purchase invoices and supporting documents and diverting the corresponding payments to himself over the preceding two years. The amount involved was approximately ₹ 1.20 crore. In certain instances, the store-in-charge had also forged the purchase manager's signature appearing on the approval documents.

The auditor brought the matter to the attention of the management. The management stated that it was the auditor's responsibility to detect and prevent such frauds during the audit and that the management could not be held responsible for the failure of the internal controls. The management further indicated that, if the matter was pursued further, it might consider not renewing the auditor's appointment for the next financial year.

With reference to SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", examine the respective responsibilities of management and the auditor in relation to fraud and state the course of action that should be followed by the auditor in the above circumstances. **(MTP-Nov-2026)**

Ans.

As per SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

In the present case, the creation of fictitious purchases, diversion of payments amounting to approximately ₹ 1.20 crore and forgery of the purchase manager's signature indicate fraud as well as significant deficiencies in controls over purchase recording, authorisation and payment. The auditor should, accordingly, take the following steps:

- The auditor should communicate the identified fraud on a timely basis to the appropriate level of management and, where appropriate, to those charged with governance.
- The auditor should evaluate the implications of the identified fraud for the assessment of risks of material misstatement due to fraud and determine whether the audit procedures performed are adequate. Where necessary, the auditor should modify or extend the audit procedures.
- Since the fraud remained undetected over a period of two years and involved falsification of supporting documents, the auditor should consider the reliability of management representations and whether the circumstances raise concerns regarding the integrity of management or those charged with governance.
- The auditor should determine whether the fictitious purchases and related misappropriation have resulted in material misstatements in the financial statements and whether appropriate adjustments

	have been made. If a material misstatement remains uncorrected, the auditor should consider the consequent effect on the auditor's opinion in accordance with SA 705. The auditor should consider whether the fraud attracts any statutory or regulatory reporting requirements, including the applicable requirements under the Companies Act, 2013, and comply with such requirements. Accordingly, the management's contention that the prevention and detection of fraud is solely the auditor's responsibility is not correct. The primary responsibility rests with management and those charged with governance. The auditor should nevertheless appropriately respond to the identified fraud, reassess the risk of material misstatement, perform additional procedures where necessary, communicate the matter, consider the reporting implications and comply with applicable statutory requirements. The management's indication that it may not renew the auditor's appointment should not affect the auditor's professional judgement or discharge of the responsibilities under SA 240.
4.	Malwares ABC Ltd., a listed company, allows employees to access the company's systems through laptops and mobile devices. During the audit, the auditor observed the following incidents: - An employee received a phishing email containing a link that appeared to be from a trusted software provider. After clicking the link and installing the software, the attacker gained unauthorised access to the employee's system. - Several company files were subsequently encrypted and made inaccessible, and the attacker demanded payment in exchange for providing the decryption key. Identify the two types of malware involved in the above situations and explain their mode of attack. (MTP-Nov-2026)
Ans.	The two types of malwares involved are: Trojan: A Trojan is malware that appears to be legitimate software or a harmless file but, once installed, performs malicious activities. In the given case, the employee was deceived through a phishing email into downloading and installing apparently genuine software, which enabled the attacker to gain unauthorised access to the system. Ransomware: Ransomware is malware that encrypts a victim's data and demands payment in exchange for a decryption key. In the given case, the company's files were encrypted and made inaccessible, followed by a demand for payment to restore access. Thus, the first incident represents a Trojan attack, while the subsequent encryption and ransom demand represent a Ransomware attack.
5.	Accounting Software – Audit Trail PQR Ltd., a company maintaining its books of account through an ERP-based accounting system is required to comply with the provisions relating to audit trail under the Companies (Accounts) Rules, 2014. During the audit of the financial statements for the year ended 31 March 2026, CA Meera noted the following: - The audit trail functionality in the payroll module was not activated during the year. - For the other modules, the audit trail functionality was activated only from 1 July 2025. - The ERP application maintained logs of changes made through the application; however, direct changes made at the database level were not captured in the audit trail. - Users having administrative privileges could deactivate the audit trail functionality without requiring any independent approval or authorisation. - Management represented to the auditor that the audit trail was otherwise functioning properly and that no material manipulation of accounting records had come to its notice. With reference to the Companies Act, 2013, examine the above observations and explain the auditor's reporting responsibilities in respect of the audit trail for the financial year 2025-26. (MTP-Nov-2026)

Ans.	Section 143 of the Companies Act, 2013 requires the auditor to report other matters as prescribed under Rule 11 of the Companies (Audit and Auditors) Rules, 2014. As per Rule 11, the auditor is required to report whether the company has used accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention. In view of above, the auditor is required to ensure that every company maintaining its books of account electronically is required to use accounting software having a feature of recording an audit trail of each and every transaction, creating an edit log of each change made in the books of account when such changes were made. The audit trail should operate throughout the year, and the feature should not be capable of being tampered. The company is also required to preserve the audit trail in accordance with the applicable record-retention requirements. In the present case, the audit trail was not activated for the payroll module, and for the remaining modules it was enabled only from 1 July 2025. Accordingly, the audit trail was not operational throughout the financial year. Further, the absence of logging of direct database-level changes indicates that changes to the books of account may not have been completely captured. The fact that users having administrative access could deactivate the audit trail is also inconsistent with the requirement that the audit trail should not be capable of being disabled or tampered. Accordingly, CA Meera should report the above exceptions under Rule 11, based on the audit evidence obtained. She should also evaluate whether the deficiencies in the audit trail and the ability to disable or tamper it have implications for the reliability of accounting records and the company's internal controls and communicate relevant control deficiencies to those charged with governance in accordance with SA 265.
6.	Using the Work of Internal Auditors CA Puneet, engagement partner for the audit of a listed company, decided to use the work of the company's internal audit function for testing certain controls over the payroll cycle, without evaluating the objectivity, competence and level of due professional care of the internal auditors, and without discussing the planned use of their work with them. With reference to SA 610, examine whether CA Puneet's approach is appropriate. (MTP-Nov-2026)
Ans.	As per SA 610, "Using the Work of Internal Auditors", before using the work of the internal audit function, the external auditor is required to evaluate: • The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors. • The level of competence of the internal audit function. • Whether the internal audit function applies a systematic and disciplined approach, including quality control. Where the external auditor plans to use internal auditors to provide direct assistance, additional requirements apply, including obtaining written agreement from an authorised representative of the entity and from the internal auditors, evaluating the existence and significance of threats to objectivity, and the level of competence of the internal auditors providing direct assistance, and discussing with them the planned use of their work. In the given case, CA Puneet has used the work of the internal audit function without evaluating the objectivity and competence of the internal auditors, and without discussing the planned use of their work with them. This is not in accordance with SA 610. CA Puneet should carry out the required evaluation before using their work, and the external auditor must, in any event, remain responsible for the audit opinion expressed and exercise judgement in determining the nature and extent of use of the internal auditors' work.
7.	Failure to comply with Companies Act CA Ajeet, a Chartered Accountant in practice, was appointed as the statutory auditor of Climax Manufacturing Limited. After accepting the appointment, he became aware that certain provisions of the Companies Act,

	2013 required the auditor to perform specific procedures and discharge certain statutory responsibilities. However, while conducting the audit, CA Ajeet did not comply with the prescribed requirements and instead followed procedures that were inconsistent with the provisions of the Companies Act, 2013. With reference to the Chartered Accountants Act, 1949 and Schedules thereto, examine whether CA Ajeet is guilty of professional misconduct. (MTP-Nov-2026)
Ans.	As per Clause (5) of Part II of Second Schedule to the Chartered Accountants Act, 1949 a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013. In the given case, CA Ajeet while acting as the statutory auditor of Climax Manufacturing Limited, did not comply with the prescribed requirements of the provisions of the Companies Act, 2013. Hence in the given case, CA Ajeet will be held guilty of professional misconduct under Clause (5) of Part II of Second Schedule to the Chartered Accountants Act, 1949.
8.	Joint Audit Plan CA Arjun, CA Bharat and CA Chirag have been appointed as joint auditors of BCA Ltd., a company having manufacturing units at three different locations. Before commencement of the audit, CA Arjun suggests that the three auditors should independently decide their areas of work without any prior discussion. CA Bharat proposes that the audit work should be mutually divided, while significant matters such as revenue recognition, related party transactions and major accounting estimates should be considered as common audit areas. CA Chirag further suggests that the joint auditors should determine the reporting requirements, significant matters and resources required before commencing the audit. State whether the approach suggested by CA Bharat and CA Chirag is appropriate. Explain the key matters that the joint auditors should consider while developing the joint audit plan before commencement of the audit.
Ans.	As per SA 299, "Joint Audit of Financial Statements", prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall: - - Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor. Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in terms of audit of identifiable units or specified areas. In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure. Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors. - Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required - Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team's efforts - Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner for the entity is relevant. - Ascertain the nature, timing and extent of resources necessary to perform the engagement. Thus, the approach suggested by CA Bharat and CA Chirag is appropriate, as joint auditors are required to jointly discuss and develop an audit plan before commencement of the audit, including mutual division of work, identification of common audit areas, reporting objectives, significant matters and resource requirements and approach of CA Arjun is not appropriate, as joint auditors should not independently decide their audit areas without prior mutual discussion and coordination while developing the joint audit plan.