

CA Final **Audit**

WRITE SCORING ANSWERS

Session 2

Drafting Based Questions



CA FINAL AUDIT :

WRITING SCORING ANSWERS

Step I: Identifying the Q Type?

- | | | | |
|----|-----------------------|----------------|---------------------|
| 1. | Question that demands | CONCLUSION | type
(Reasoning) |
| 2. | Question that demands | DRAFTING | (Drafting) |
| 3. | Question that demands | ONLY PROVISION | (Memory only) |

Step II: Writing answers to Type 2 Questions

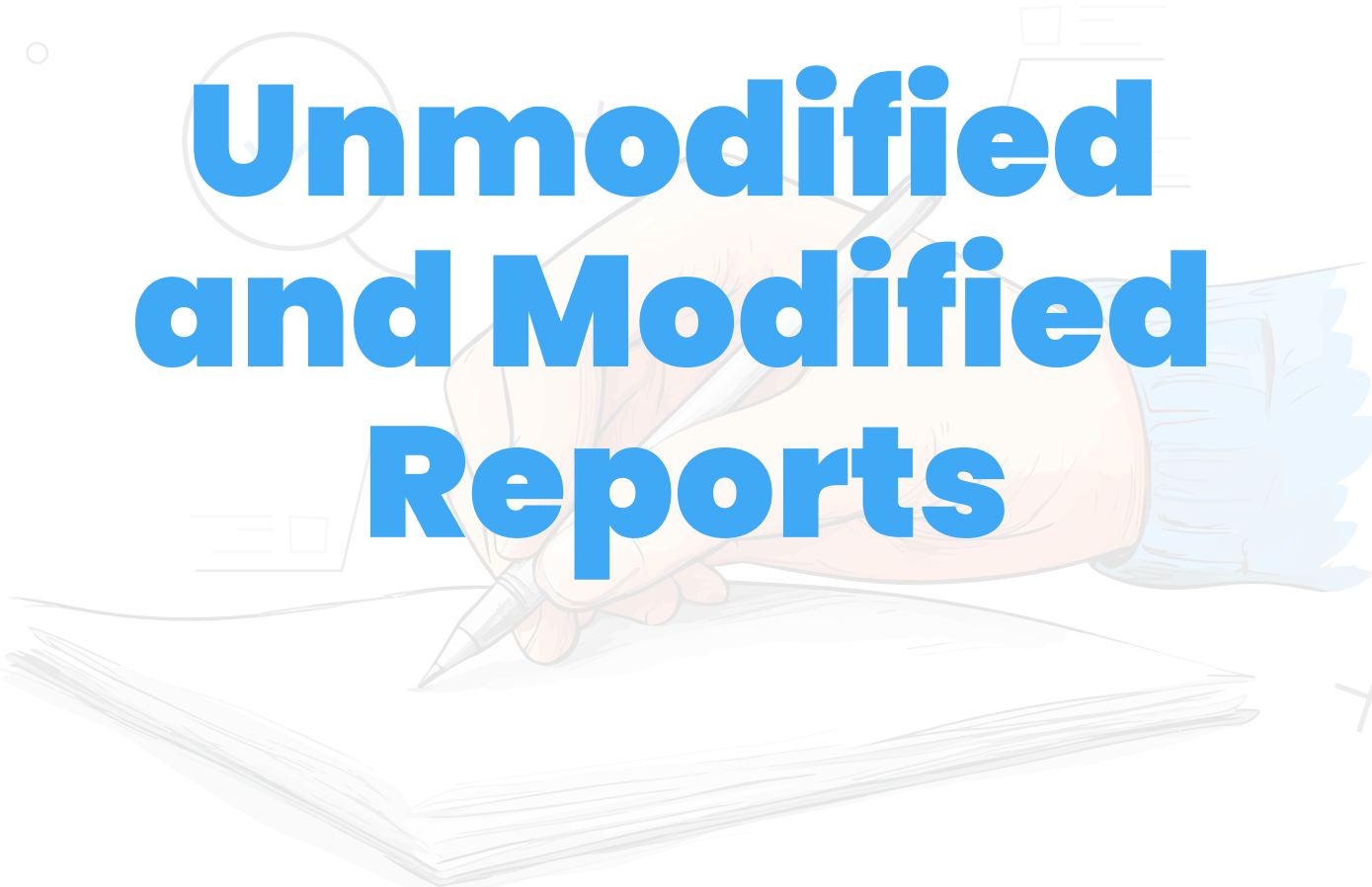
1. Every such question demands:
 - > assessment of applicable standard ←
 - > decision on type of opinion or content to be drafted
2. It may not demand drafting full report
3. However, answer expects including in your draft the standard phrases applicable to case.
4. Such questions may be standalone drafting question, → after Drafting or reasoning based + drafting question
Reference to Std, Provision, Reasoning + Drafting

Common Tip:

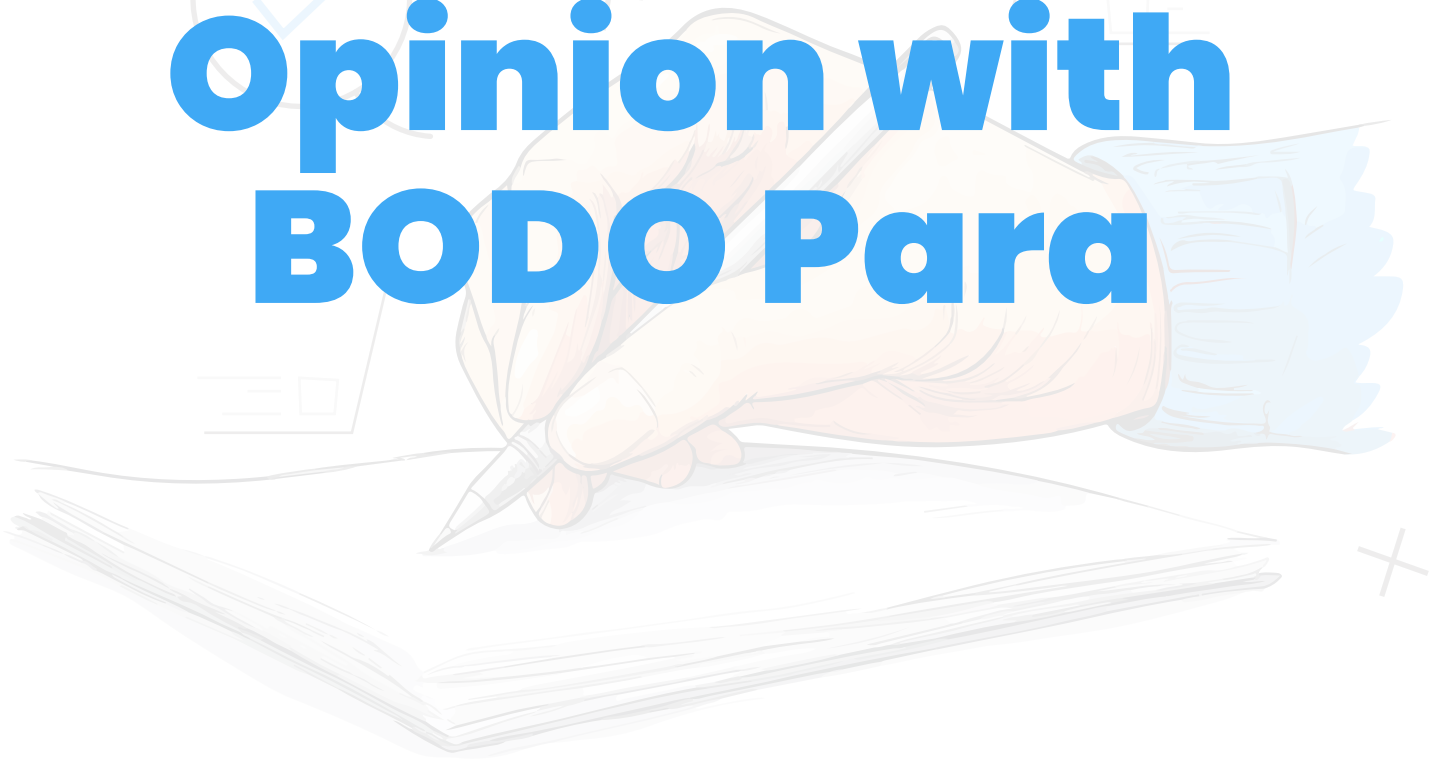
- ~~can~~ → Do not give a separate opinion
1. For cases of Eom/om/murg etc not leading to modified opinion do write 'Our opinion is not modified...'
 2. SA 700, 705 → Involves Opinion + Basis of Opinion Para
So do SAE 2400 (Conclusion & Basis of Conclusion Para)
 3. SAE 2410 - NO MURG → Eom (it came before Revised SAs 70)

— Section A —

Unmodified and Modified Reports

A faint, stylized illustration of a hand holding a pen and writing on a notepad. The hand is light-skinned and the pen is silver. The notepad is white with some faint lines. The background is white with some faint, light blue and purple decorative elements, including a dashed line in the top right corner and a solid blue circle in the top left corner.

Disclaimer of Opinion with BODO Para



Part II – Descriptive Questions

Question No.1 is compulsory.

Candidates are required to answer any **four** questions from the remaining **five** questions.

Working notes should form part of the answer.

Question 1

(a) **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 totalling ₹ 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 Auditor's Report.

(5 Marks)

- (b) 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:

Answer

(a) 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

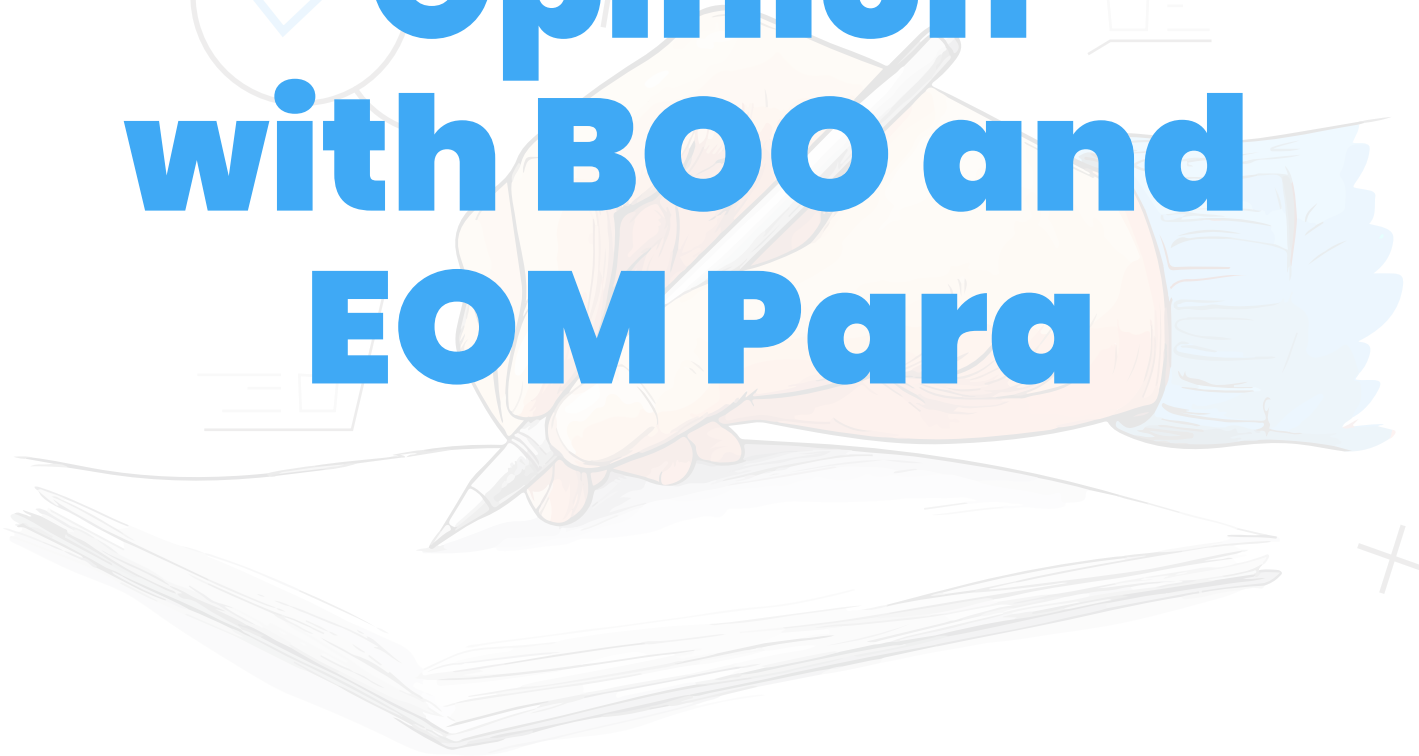
The Company's manufacturing facility, carrying a value of ₹ 250 crores (representing 60% of total assets), sustained significant physical damage due to flash floods during the year. The management has neither allowed an independent valuation nor recorded any impairment provision. In the absence of a 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.

- (b) 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

Unmodified Opinion with BOO and EOM Para



PAPER – 3 : ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question No. **1** is compulsory.

Answer any **four** out of remaining five.

Question 1

- (a) *PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA. R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates and is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector.*

Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues.

(5 Marks)

- (b) *Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall*

provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.

During the year 2023-24, Delhi Branch of Fancy Limited have prepared its financial statements on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the financial statements. Delhi Branch has incorporated above matter in detailed form in Note XX to the financial statements.

You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the Financial Statements regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report.

Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard. **(5 Marks)**

- (c) *Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK wants to determine whether the applied criteria are acceptable before accepting such assignment. Guide him the factors affecting auditor's determination of the acceptability of applied criteria as per relevant Standard on Auditing.* **(4 Marks)**

Answer

- (a) Acceptance and Continuance of Client Relationships:** 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 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.

manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements.

- ✓ continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.
- ✓ ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left PQR Associates, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.

(b) Drafting of Opinion Paragraph and basis thereof along with disclosure of Note XX:

INDEPENDENT AUDITOR'S REPORT

To the Members of Delhi Branch Office of Fancy Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Delhi Branch Office of Fancy Limited ("the Company"), which comprise the balance sheet as at March 31, 2024, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, give a true and fair view, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Delhi Branch Office of the Company as at March 31, 2024 and profit/loss, (*changes in equity*) and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing (SAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements as per the ICAI's Code of Ethics and the provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

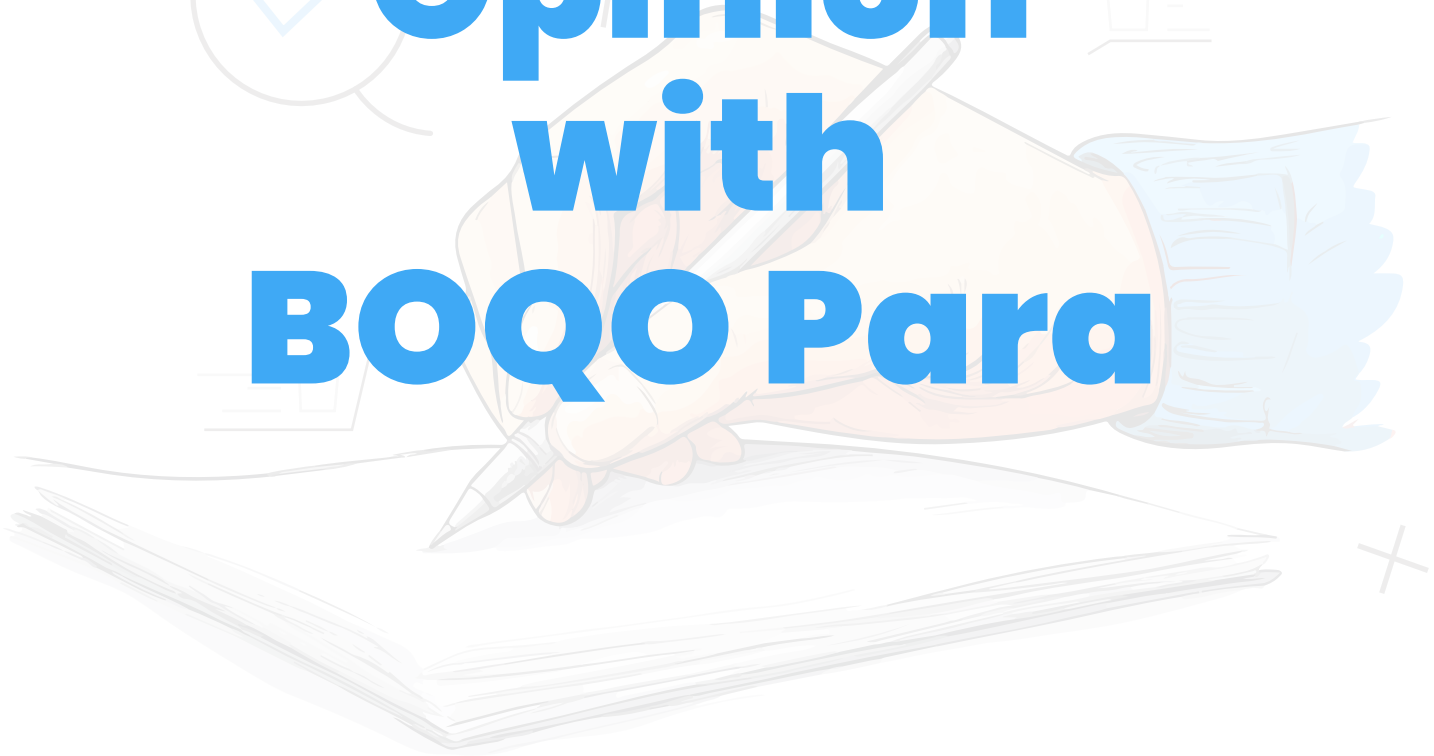
We draw attention to Note XX regarding Delhi Branch Office management's intention to close the operations of the Branch Office subject to regulatory approvals. Accordingly, the financial statements have been prepared on the basis that the Delhi Branch Office does not continue to be a going concern and provisions have been made in the books of account for the losses arising or likely to arise on account of closure of operations including the losses on the realizability of current assets.

Our opinion is not modified in respect of this matter.

- (c) In the given situation, Mr. BK has been engaged by XYZ Ltd. to report on summary financial statements derived from the financial statements audited by him in accordance with SAs. Mr. BK, wants to determine whether the applied criteria are acceptable before accepting such assignment.

As per SA 810, "Engagements to Report on Summary Financial Statements", before accepting an engagement to report on summary of financial statements, the auditor shall determine whether applied criteria are acceptable. 'Applied criteria' refers to the criteria applied by management

Qualified Opinion with BOQO Para



required by the Act in the manner so required and give a **true and fair view** in conformity with the **accounting principles** generally accepted in India, of the state of affairs of XYZ Ltd. as at **March 31, 2022**, and profit/loss, for the year ended on that date.

- **Basis for Qualified Opinion**

As discussed in Note 6, the Company's financing arrangements are about to expire and the Company has been unable to **conclude renegotiations** or **obtain replacement financing**. This situation indicates that a **material uncertainty exists** that may cast significant doubt on the Company's ability to **continue as a going concern**. The financial statements do not adequately disclose this matter.

22.

Qualified Opinion

CA Madhu is the statutory auditor of Lakshmi Ltd. for the Financial year 2021-22. In respect of loans and advances of ₹75 Lakh given to Srinian Pvt. Ltd., the Company has not furnished any agreement to CA Madhu and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. Justify the type of opinion which CA Madhu should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph. (Dec-2021, MTP-May-2023, MTP-May-2024)

OR

CA Yash is the statutory auditor of Lakshmi Vardhan Limited for the FY 2021-22. In respect of loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.

What kind of opinion should CA Yash give in such situation?

(SM)

Ans.



(i) **In the present case**, with respect to **loans and advances of ₹ 75 Lacs** given to **Sriman Private Limited**, the Company has not furnished any agreement to CA Madhu. **In absence of such agreement**, CA Madhu is unable to verify the **terms of repayment, chargeability of interest and other terms**. For an auditor, while verifying any loans and advances, one of the **most important audit evidences** is the **loan agreement**.

(ii) **Conclusion:-** Therefore, the **absence of such document** in the present case, **tantamount to a material misstatement** in the financial statements of the company. However, the **inability of CA Madhu to obtain such audit evidence** is though **material but not pervasive** so as to require him to give a disclaimer of opinion. Thus, in the present case, CA Madhu should give a **qualified opinion**

(iii) **Reporting:-** The relevant extract of the **Qualified Opinion Paragraph** and **Basis for Qualified Opinion paragraph** is as under:

- **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the **Basis for Qualified Opinion** section of our report, the financial statements of **Lakshmi Limited** give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31.03.2022 and profit/ loss for the year ended on that date.

- **Basis for Qualified Opinion**

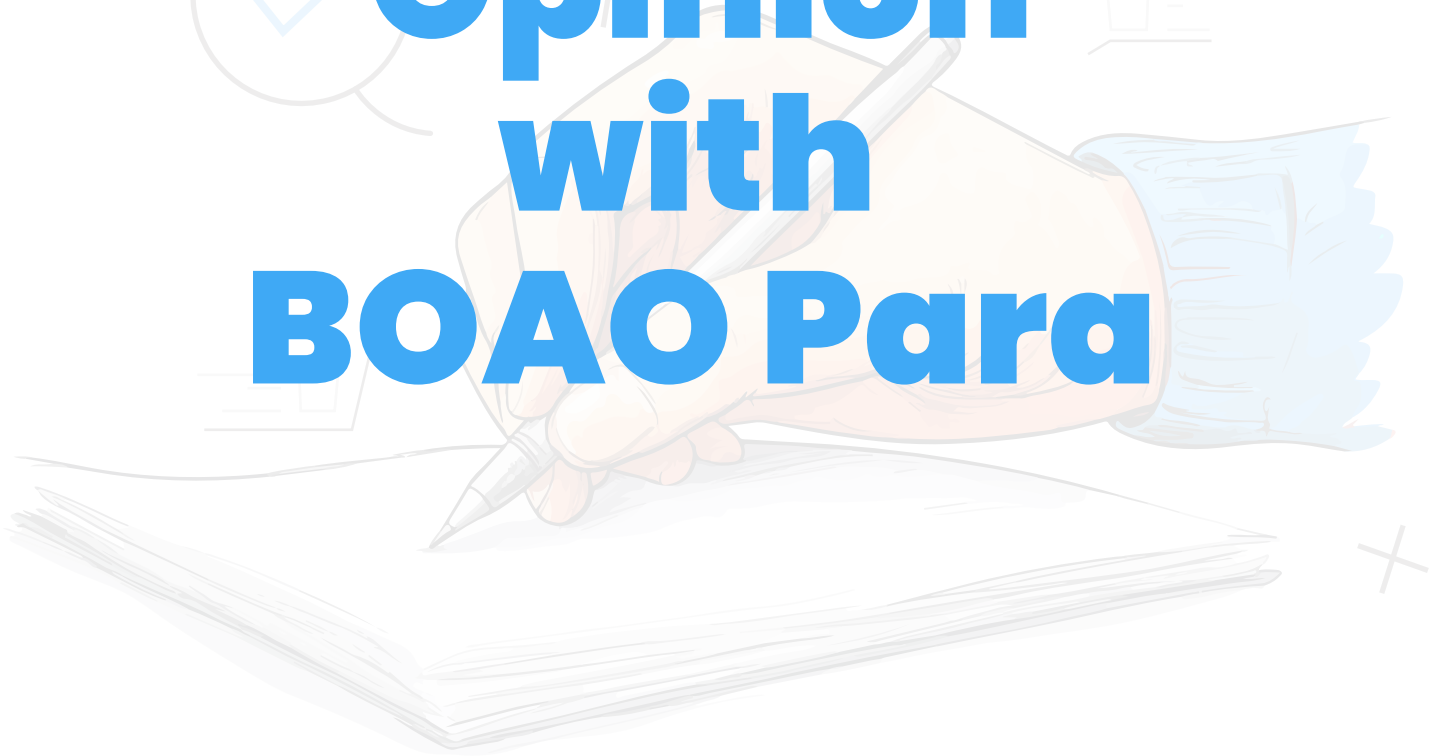
The Company is **unable to furnish the loan agreement** with respect to **loans and advances of ₹ 75 Lacs** given to **Sriman Private Limited**. Consequently, in absence of such agreement, **we are unable to verify** the terms of repayment, chargeability of interest and other terms.

23.

Adverse Opinion

ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP & Associates are the statutory auditors of ABC Ltd. for the FY 2023-24. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31st, 2024. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.? (SM, MTP-Nov-2024)

Adverse Opinion with BOAO Para



required by the Act in the manner so required and give a **true and fair view** in conformity with the **accounting principles** generally accepted in India, of the state of affairs of XYZ Ltd. as at **March 31, 2022**, and profit/loss, for the year ended on that date.

- **Basis for Qualified Opinion**

As discussed in Note 6, the Company's financing arrangements are about to expire and the Company has been unable to **conclude renegotiations** or **obtain replacement financing**. This situation indicates that a **material uncertainty exists** that may cast significant doubt on the Company's ability to **continue as a going concern**. The financial statements do not adequately disclose this matter.

22.

Qualified Opinion

CA Madhu is the statutory auditor of Lakshmi Ltd. for the Financial year 2021-22. In respect of loans and advances of ₹75 Lakh given to Srinian Pvt. Ltd., the Company has not furnished any agreement to CA Madhu and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms. Justify the type of opinion which CA Madhu should give in such situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph. (Dec-2021, MTP-May-2023, MTP-May-2024)

OR

CA Yash is the statutory auditor of Lakshmi Vardhan Limited for the FY 2021-22. In respect of loans and advances of ₹ 55,00,000/- given to Sarvagya Private Limited, the Company has not furnished any agreement to CA Yash and in absence of the same, he is unable to verify the terms of repayment, chargeability of interest and other terms.

What kind of opinion should CA Yash give in such situation?

(SM)

Ans.



(i) **In the present case**, with respect to **loans and advances of ₹ 75 Lacs** given to **Sriman Private Limited**, the Company has not furnished any agreement to CA Madhu. **In absence of such agreement**, CA Madhu is unable to verify the **terms of repayment, chargeability of interest and other terms**. For an auditor, while verifying any loans and advances, one of the **most important audit evidences** is the **loan agreement**.

(ii) **Conclusion:-**Therefore, the **absence of such document** in the present case, **tantamount to a material misstatement** in the financial statements of the company. However, the **inability of CA Madhu to obtain such audit evidence** is though **material but not pervasive** so as to require him to give a disclaimer of opinion. Thus, in the present case, CA Madhu should give a **qualified opinion**

(iii) **Reporting:-** The relevant extract of the **Qualified Opinion Paragraph** and **Basis for Qualified Opinion paragraph** is as under:

- **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the **Basis for Qualified Opinion** section of our report, the financial statements of **Lakshmi Limited** give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as on 31.03.2022 and profit/ loss for the year ended on that date.

- **Basis for Qualified Opinion**

The Company is **unable to furnish the loan agreement** with respect to **loans and advances of ₹ 75 Lacs** given to **Sriman Private Limited**. Consequently, in absence of such agreement, **we are unable to verify** the terms of repayment, chargeability of interest and other terms.

23.

Adverse Opinion

ABC Ltd. is a company engaged in the manufacture of iron and steel bars. PP & Associates are the statutory auditors of ABC Ltd. for the FY 2023-24. During the course of audit, CA Prakash, the engagement partner, found that the Company's financing arrangements have expired and the amount outstanding was payable on March 31st, 2024. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Prakash express in case of ABC Ltd.? (SM, MTP-Nov-2024)

Ans.



- (i) **In the present case:-** Based on the audit evidence obtained, CA Prakash has concluded that 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**, and the entity is considering bankruptcy. The financial statements of ABC Ltd. omit the required disclosures relating to the material uncertainty.
- (ii) **Conclusion:-** In such circumstances, CA Prakash **should express an adverse opinion** because the effects on the financial statements of such omission are **material and pervasive**.
- (iii) **Reporting:-** The relevant extract of the **Adverse Opinion Paragraph** and **Basis for Adverse Opinion paragraph** is as under:
- **Adverse Opinion**
In our opinion, because of the **omission of the information** mentioned in the **Basis for Adverse Opinion** section of our report, the accompanying financial statements **do not present fairly**, the **financial position** of the entity as at March 31, 2024, and of its financial performance and **its cash flows** for the year then ended in accordance with the **Accounting Standards** issued by the Institute of Chartered Accountants of India.
 - **Basis for Adverse Opinion**
The **financing arrangements of ABC Ltd.** has expired and the **amount outstanding was payable on March 31, 2024**. The entity has been unable to conclude **re-negotiations or obtain replacement financing** and is **considering filing for bankruptcy**. This situation indicates that a material uncertainty exists that **may cast significant doubt** on the Company's ability to continue as a going concern. The financial statements **do not adequately disclose this fact**.

24.

Adverse Opinion

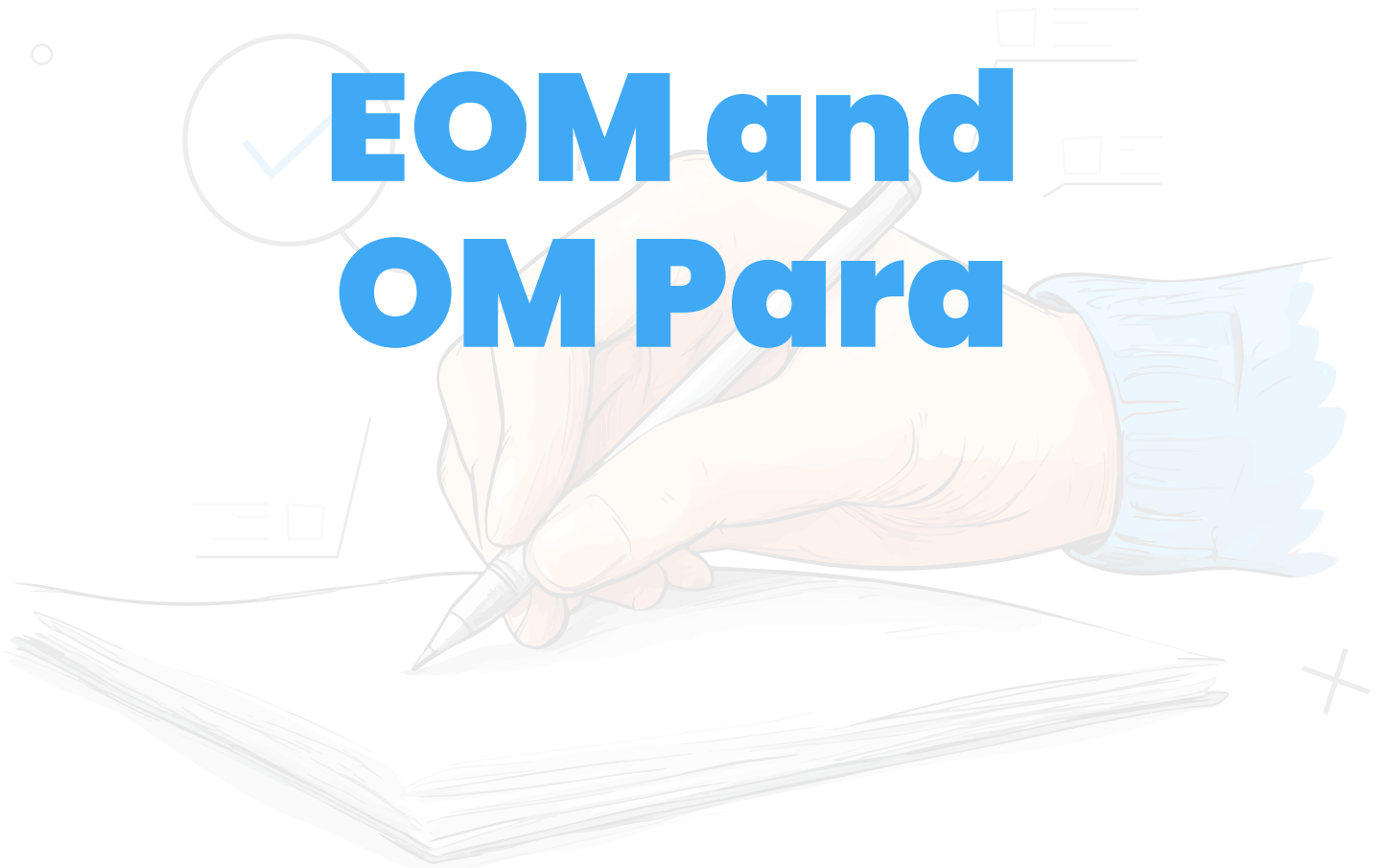
In the financial year 2021-22, MSD Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of MSD Ltd. issue in such circumstances? **(RTP-Nov-2023, MTP-May-2022, MTP-May-2023, SM)**

Ans.



- (i) **In the present case:-** There exists a **material uncertainty that cast a significant doubt** on the company's ability to **continue as going concern** and the same is not disclosed in the financial statements of MSD Ltd.
- (ii) **Conclusion:-** As such, the financial statements of **MSD Ltd. for the FY 2021-22 are materially misstated** and the **effect of the misstatement is so material and pervasive** on the financial statements that giving only a **qualified opinion** will be insufficient and therefore the statutory auditor of MSD Ltd. should issue an **adverse opinion**.
- (iii) **Reporting:-** The relevant extract of the **Adverse Opinion Paragraph** and **Basis for Adverse Opinion paragraph** is as under:
- **Adverse Opinion**
In our opinion, because of the **omission of the information** mentioned in the **Basis for Adverse Opinion** section of our report, the accompanying financial statements **do not present fairly**, the financial position of MSD Ltd. as at March 31, 2022, and of its **financial performance and its cash flows** for the year then ended in accordance with the **Accounting Standards** issued by the Institute of Chartered Accountants of India.
 - **Basis for Adverse Opinion**
MSD Ltd. has **faced an extraordinary event** (earthquake), which destroyed a **lot of business activity of the company**. Due to such event it may not be possible for the company to **realize its assets or pay off the liabilities** during the regular course of its business. This situation indicates that a material uncertainty exists that **may cast significant doubt on the Company's ability to continue as a going concern**. The financial statement and notes to the financial statements of the company **do not disclose this fact**.

EOM and OM Para



35.

EOM & OM Paragraph

In respect of the audit of BDS Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw the user's attention towards such matters, though his opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters:

- i. The company has a plan to resume its construction activities with respect to one of its thermal power project, The activity of such power plant was suspended in the FY 2021-22. The thermal power project comprises of the plant and equipment amounting to ₹ 5.95 crore and capital work in progress of ₹ 147.50 crore.
- ii. The financial statements of 5 branches are included in the Standalone Financial Statements of BDS Ltd. whose financial statements reflect total assets of ₹90 crores as at 31.03.2022 and total revenue from operations of ₹40 crores for the year ended on that date. The financial statements of these branches have been audited by the branch auditors.

(SM)

Ans.

**Emphasis of Matter**

We draw attention to the following note of the standalone financial statements:

Note 27 regarding the plans of the Company to **resume construction/developmental activities** of a thermal power project. The carrying amounts related to the project as at 31st March, 2022 comprise of plant and equipment of ₹ 5.95 crore and capital work in progress of ₹ 147.50 crore. Our opinion is not modified in respect of this matter.

Other Matter

We **did not audit the financial statements of 5 branches** included in the **Standalone Financial Statements** of the company whose financial statements reflect **total assets of ₹ 90 crores as at 31.03.2021** and **total revenue from operations of ₹ 40 crores** for the year ended on that date. The financial statements of these branches have been audited by the **branch auditors** whose reports have been furnished to us, and our opinion in so far as it relates to the **amounts and disclosures** included in respect of these branches, is based solely on the report of the branch auditors. Our opinion is **not modified in respect of this matter**.

36.

FS not prepared as GC

Fancy Limited is a foreign company providing software support services having its Branch Office at Delhi. During the year 2023-24, Fancy Limited incorporated a subsidiary Nancy Private Limited in Gurgaon. For furtherance of objectives, Fancy Limited entered into a Business Transfer Agreement dated 5th October 2023 with Nancy Private Limited for transfer of all assets and liabilities along with the business of Delhi Branch to Nancy Private Limited on a going concern basis effective from 01st April, 2023. Further necessary approval from regulatory authorities is also received on 20th December, 2023 for such transfer. Fancy Limited promised that it shall provide continuing financial and operational support to Delhi Branch and further confirmed that any losses incurred post the date of transfer shall be borne by Fancy Limited.

During the year 2023-24, Delhi Branch of Fancy Limited have prepared its financial statements on the basis that the Branch Office does not continue to be a going concern and all its assets are carried in the books of accounts at the values likely to be recovered at the time of closure of operations, to the extent ascertainable at the time of preparation of the financial statements. Delhi Branch has incorporated above matter in detailed form in Note XX to the financial statement.

You are the statutory auditor of Delhi Branch of Fancy Limited for the financial year 2023-24. According to you, Delhi Branch has correctly disclosed about the matter in Note XX to the Financial statement regarding management's intention to close the operations of the branch office. Further you have obtained sufficient appropriate audit evidence concerning audit and on the verge of finalization of audit report.

Draft a suitable opinion paragraph and basis thereof in the given case along with disclosure of Note XX with suitable place in audit report in terms of relevant auditing standard.

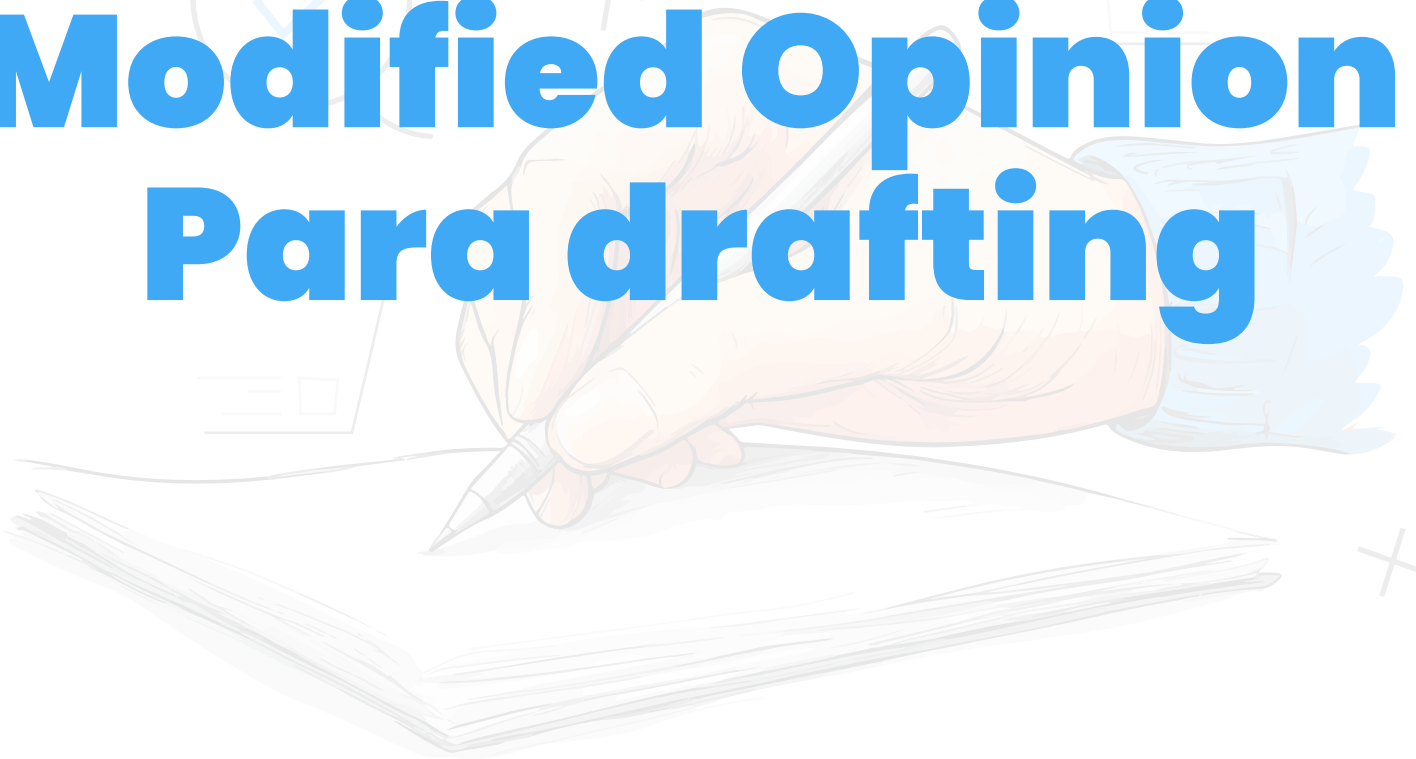
(May-2024, SM)

Ans.

**Drafting of Opinion Paragraph and basis thereof along with disclosure of Note XX:****INDEPENDENT AUDITOR'S REPORT**

To the Members of Delhi Branch Office of Fancy Limited
 Report on the Audit of the Standalone Financial Statements

Tips on Modified Opinion Para drafting



are relevant to our audit of the financial statements **under the provisions of the Companies Act, 2013**, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

18.

Modified Opinion - Special Considerations

"When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section." As an expert you are required to brief the special considerations required for expressing:

- (i) Qualified Opinion;
- (ii) Adverse Opinion and
- (iii) Disclaimer of Opinion.

(RTP-May-2020, RTP-Nov-2018, SM)

Ans.


(i) Special consideration required for expressing Qualified Opinion:

When the auditor expresses a **qualified opinion** due to a material misstatement in the FSs, the auditor shall state that, in the auditor's opinion, **except for the effects of the matter(s) described** in the Basis for **Qualified Opinion** section:

- When reporting in accordance with a **fair presentation framework**, the accompanying financial statements **present fairly, in all material respects** (or give a true and fair view of) [...] in accordance with [the **applicable financial reporting framework**]; or
- When reporting in accordance with a **compliance framework**, the accompanying financial statements have been **prepared, in all material respects, in accordance with** [the applicable financial reporting framework]. When the modification **arises from an inability to obtain SAAE**, the auditor shall use the corresponding phrase **"except for the possible effects of the matter(s) ..."** for the modified opinion.

(ii) Special consideration needed for expressing Adverse Opinion:

When the auditor expresses an **adverse opinion**, the auditor shall state that, in the auditor's opinion, because of the **significance of the matter(s)** described in the **Basis for Adverse Opinion** section:

- When reporting in accordance with a **fair presentation framework**, the accompanying financial statements **do not present fairly** (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- When reporting in accordance with a **compliance framework**, the accompanying financial statements **have not been prepared, in all material respects**, in accordance with [the applicable financial reporting framework].

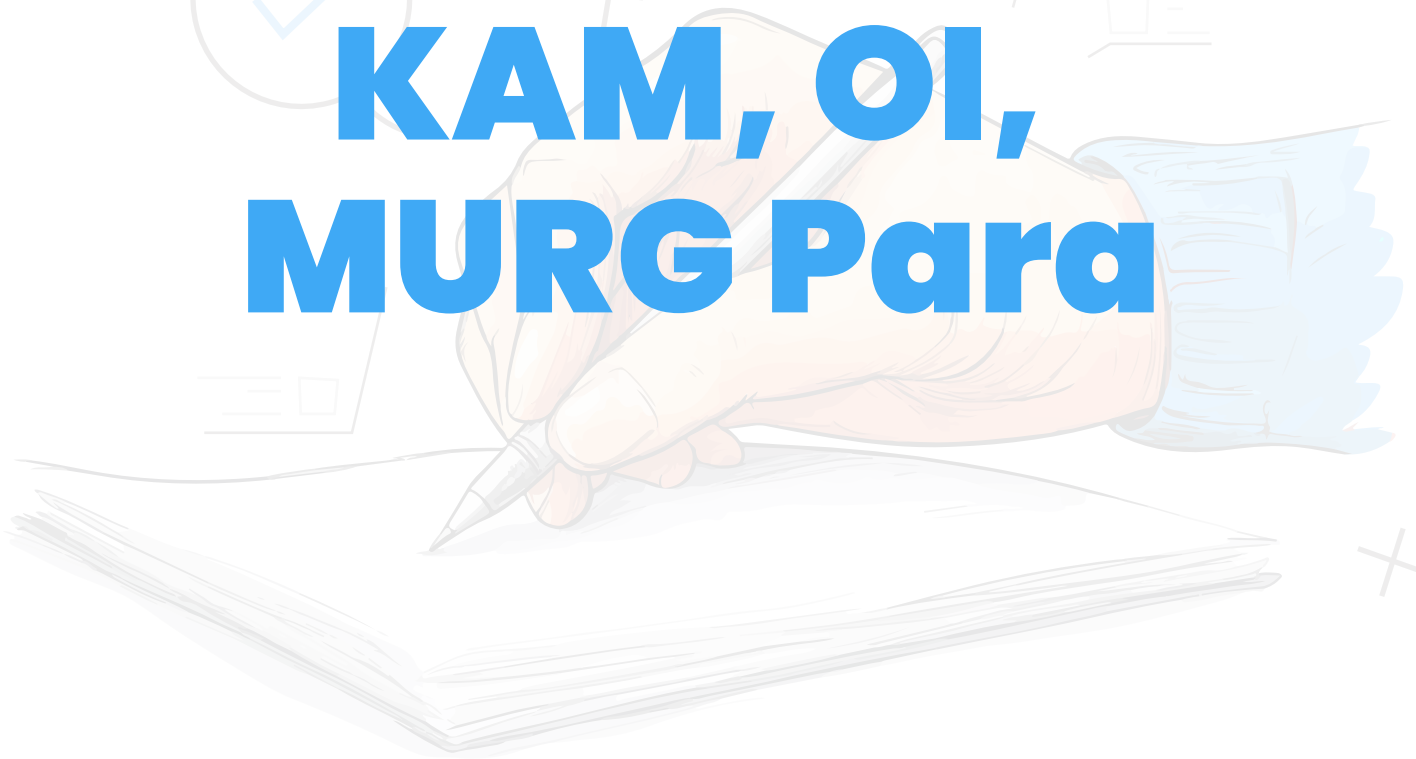
(iii) Special consideration is required for expressing Disclaimer of Opinion:

When the auditor **disclaims an opinion** due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- State that the auditor **does not express an opinion** on the accompanying financial statements;
- State that, because of the **significance of the matter(s) described** in the Basis for Disclaimer of Opinion section, the **auditor has not been able to obtain SAAE** to provide a **basis for an audit opinion** on the financial statements; and
- **Amend the statement required in SA 700 (Revised)**, which indicates that the **FSs have been audited**, to state that the auditor was engaged to audit the financial statements.
- **Unless required by law or regulation**, when the auditor **disclaims an opinion** on the financial statements, the auditor's report **shall not include a Key Audit Matters** section in accordance with **SA 701**.

Section B

**KAM, OI,
MURG Para**



KAM - Introductory Para



- All the suppliers should be requested to furnish statements of their accounts to see whether or not any balance is outstanding or due so as to confirm that allowances and rebates given by them have been correctly adjusted and were duly authorized by the authorized person/ officer.
- Examine the system of internal control in relation to purchase orders issued and identify possibilities of collusion with suppliers.

Question 4

(a) M/s JPP & Associates have been appointed as auditors of ABC Ltd., an ISO certified listed Indian multinational Jewellery Company having headquarters at Mumbai for F.Y. 2024-25. The company has more than 100 showrooms in India and 60 showrooms across the globe. During the course of audit, from the matters communicated with those charged with governance the auditors determined certain matters as most significant in the audit of the financial statements of the current period which are related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA). Public disclosure of this specific matter by the auditor is not precluded by authorities under PMLA since the same may not prejudice investigation which has already been officially completed and settled on 30th September 2024. What would be the considerations of M/s JPP & Associates in determining the matter requiring significant attention in performing the audit? State the introductory language that JPP & Associates would use while communicating such matter in their audit report as per relevant Standard on Auditing.

(5 Marks)

(b) CA Rajni is appointed as the statutory auditor of STS Ltd. for the financial year 2023-24 for auditing complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Rajni as a separate engagement for the financial year 2023-24. While drafting the audit report of complete set of financial statements, CA Rajni decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.

Comment with reference to the relevant Standard on Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment. **(5 Marks)**

- (c) *ESG disclosure and reporting is mandatory for top 1000 listed companies in form of Business Responsibility and Sustainability Reports (BRSR). As reporting of sustainability information becomes the trend being observed globally, the demand for independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting. 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. Many investors and stakeholders are seeking information from auditor's report about how climate-related risks are addressed in the audit.*

In the context of the above, describe the role of auditor in an audit of financial statements of the company. **(4 Marks)**

Answer**(a) Communicating Key Audit Matters in the Independent Auditor's Report:**

As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", 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, M/s JPP & Associates shall take into account the following:

- (i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315
- (ii) 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.
- (iii) The effect on the audit of significant events or transactions that occurred during the period.

In view of the above, the matter related to the company's offence of money laundering against which Enforcement Directorate has enforced the stringent provisions of the Prevention of Money Laundering Act (PMLA) is a key audit matter, and the same shall be communicated in the auditor's report KAM.

The introductory language that M/s JPP & Associates would use while communicating matters in this section of the auditor's report shall state that:

- (i) Key audit matters 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]; and.
- (ii) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

(b) Audit Report of Separate Engagement of Audit of PPE: As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

- (i) The auditor is not prohibited by law or regulation from doing so;
- (ii) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
- (iii) The specific element does not constitute a major portion of the entity's complete set of financial statements.

In the given situation, CA Rajni is statutory auditor of STS Ltd. for the financial year 2023-24 for the complete set of financial statements and has also assigned the audit of PPE as a separate engagement for the same financial year. Considering the same, it can be concluded that CA Rajni can give separate opinion on separate engagement i.e. adverse opinion for

OI Para



PART – II Descriptive Questions

Question No.1 is compulsory.

*Candidates are required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the answer.

Question 1

(a) PQR Motors Ltd., a listed entity engaged in the manufacture, and sale of automobiles and related parts has prepared its annual financial statements for the financial year 2024-25. The company's management is also responsible for preparing other information, which includes:

(1) Annual Report:

- A Director's Report and Management Discussion & Analysis (MD&A) prepared by the management.*
- A Corporate Social Responsibility (CSR) report highlighting the company's initiatives and outcomes.*

(2) Chairman's Message:

- A message from the chairman discussing the company's financial performance and strategic outlook.*

(3) Future Projections:

- Forward-looking statements in the annual report about anticipated growth in revenue and expansion plans.*

The Statutory auditors, M/s ST & Co., Chartered Accountants, have completed its audit of the financial statements and prepared the auditor's report. During the course of the audit, the following circumstances arise:

- The Director's Report and MD&A are finalized and provided to the auditor before the date of the auditor's report.*
- The Chairman's Message and Future Projections are not finalized but are expected to be included in the annual report, which will be released after the auditor's report is issued.*

Issues Identified:

- (1) In the MD&A, M/s ST & Co., noted a misstatement regarding the company's claim of achieving a 20% reduction in production costs. Audit evidence suggests the reduction was only 10%.*
- (2) The Chairman's Message, which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.*

Answer the following with reference to the relevant Standard on Auditing:

- (i) What should M/s ST & Co., include in the "Other Information" section of the auditor's report for PQR Motors Ltd.?*
 - (ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s ST & Co. report under the "Other Information" section? **(5 Marks)***
- (b) Alpha Manufacturing Ltd. (AML) is engaged in the production of speciality machinery for the automotive industry. The company operates in a competitive market and is under pressure to meet aggressive revenue and profitability targets to secure additional funding from the investors. The audit firm BETA LLP has been engaged to conduct AML's statutory audit for the financial year 2024-25. BETA LLP performed risk assessment procedures and related activities towards obtaining information in identifying risk of material misstatement due to fraud and also evaluated whether there is an indication that one or more fraud risk factors are present. Analytical procedures reveal unexpected relationships potentially indicating fraudulent activities, such as sales inflation by management to meet earnings targets. Management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.*
- Guide BETA LLP to decide the course of action in determining overall responses to address the assessed risks of material misstatement due to fraud at the (i) Financial Statement Level and (ii) Assertion Level. **(5 Marks)***
- (c) Smart Technology Ltd. plans to issue a prospectus to raise capital through a public offering. Smart Technology Ltd. acquired Cloud Computing Ltd., a leader in cloud advisory services, to strengthen its capabilities in providing cloud solutions and this acquisition aligned for a digital transformation strategy. The prospectus includes pro forma financial information to*

demonstrate the financial effects of a significant acquisition completed recently. As the engagement practitioner, you are entrusted with providing an assurance report on the compilation of this pro forma financial information in accordance with relevant Standard on Assurance Engagement.

Smart Technology Ltd.'s management has provided the following details:

- (1) The source of the unadjusted financial information includes unaudited financial statements for a subsidiary acquired during the year.*
- (2) Pro forma adjustments which include Fair value adjustments for acquired assets and liabilities.*
- (3) The applicable financial reporting framework is IFRS, with modifications specific to the jurisdiction of operation.*

In the above context, answer the following:

- (i) State the aspects you will consider during planning and performing the Engagement while evaluating the source from which the unadjusted financial information has been extracted.*
- (ii) As a practitioner you need to obtain evidence about the appropriateness of the pro forma adjustments. Explain what it includes. (4 Marks)*

Answer

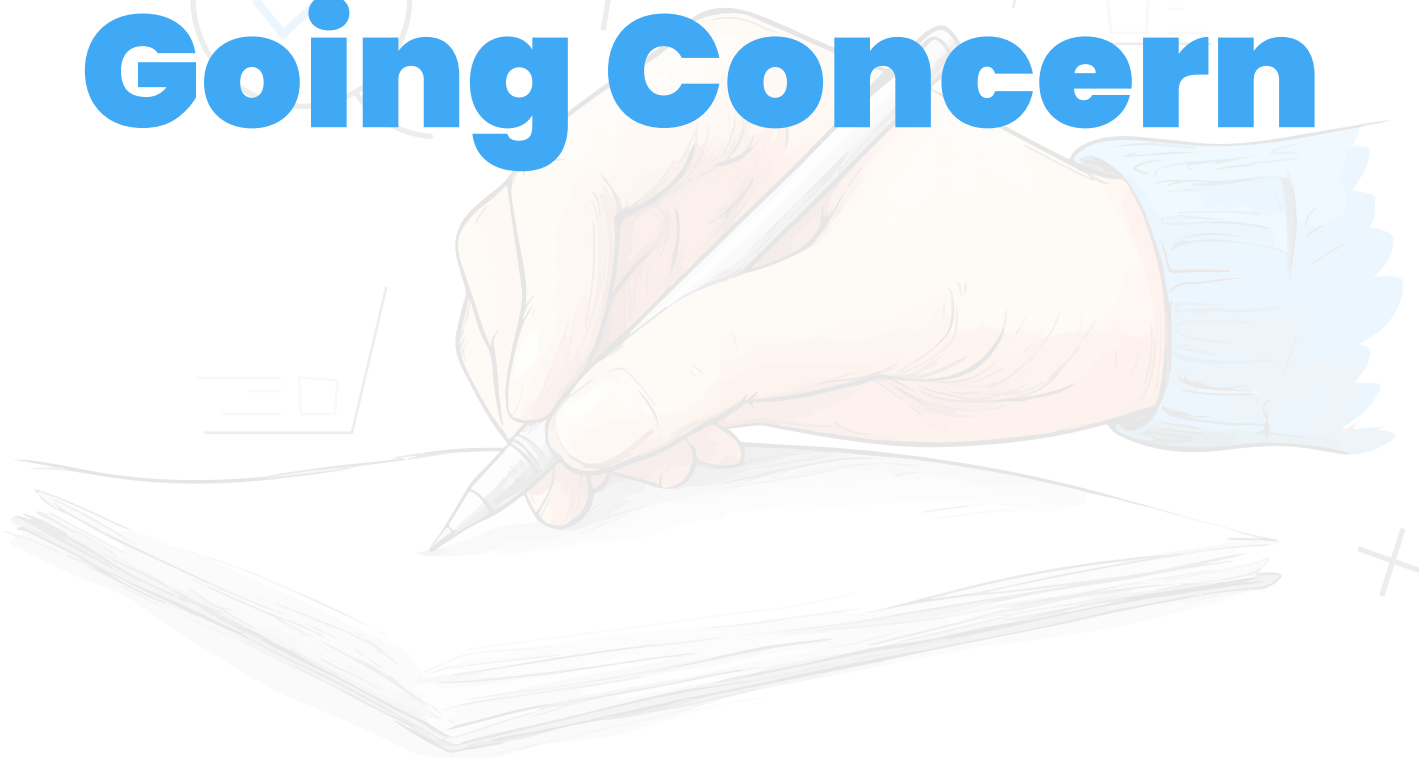
(a) (i) As per SA 720 (Revised), "The Auditor's Responsibilities Relating to Other Information", the auditor is required to report on "Other Information" in the auditor's report for listed entities. "Other Information" refers to financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

In the "Other Information" section of the auditor's report, the following should be included:

- A statement that management is responsible for the other information included in the annual report.
- Identification of other information obtained:
 - The Director's Report and MD&A have been obtained prior to the date of the auditor's report.

- Mention of other information expected to be obtained later (e.g., Chairman's Message and Future Projections)
 - A statement that the auditor's opinion does not cover the other information, and the auditor does not express any form of assurance conclusion on it.
 - A description of the auditor's responsibilities relating to reading, considering, and reporting on the other information as per SA 720.
 - A statement on the results of the auditor's review of the other information:
 - If no misstatement is identified, a statement to that effect.
 - If a material misstatement is identified, a description of the uncorrected misstatement (as applicable).
- (ii) As per SA 720 (Revised), if the auditor identifies a material misstatement in the other information and management refuses to correct it, M/s ST & Co. shall report the uncorrected misstatement in the "Other Information" section as:
- We have identified a material misstatement in the MD&A regarding the company's claim of a 20% reduction in production costs. However, based on our audit evidence, the reduction was only 10%.
- (b) (i) **Responses to the Assessed Risks of Material Misstatement due to Fraud at the Financial Statement Level:** In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:
- (a) Assign and supervise personnel taking account of the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement;
 - (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

Going Concern





The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

In the present case, the following circumstances indicate the inability of Joy Ltd. to continue as a going concern:

- Losing popularity over the past few years.
- Animal Rights activists continuously targeting the circus.
- Audience abandoning the circus due to their expanding entertainment options.
- High Cost of moving the show from city to city making the business model untenable.
- Key Managerial Personnel leaving the Company.
- Banks decided not to extend further finance and not to fund the working capital requirements of the Company.
- Non availability of sound action plan to mitigate such circumstances.

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company.

As such, the statutory auditor of Joy Ltd. should:

- (1) Express an **adverse opinion in accordance with SA 705 (Revised)** and
- (2) In the **Basis of Adverse Opinion paragraph** of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

The auditor is also required to report as per **clause (xix) of CARO 2020** that on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

9.

Appropriateness of using Going Concern Assumption in case of Material Uncertainty Exists

OM Ltd. is a company engaged in the business of manufacture of spare parts. Shanti & Associates are the statutory auditors of the company for the FY 2021-22. During the course of audit, CA Shanti noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of OM Ltd. ended for an unforeseeable time period. When discussed with the management, CA Shanti was told that the company is in the process of identifying new customers for their products. CA Shanti understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly reflected in the financial statements of OM Ltd. for the FY 2021-22. How should CA Shanti deal with this matter in the auditor's report for the FY 2021-22 in accordance with relevant Standard on Auditing? **(MTP-Dec-2021, MTP-Dec-2021, SM)**

Ans.



(i) As per SA 570, "Going Concern" - loss of a major market or a key customer is **one of the operating indicators** that may cast significant doubt on the **company's ability to continue as a going concern**.

(ii) In the present case:

- OM Ltd. has a **key customer in South Korea** from which the demand for its products has ended on account of outbreak of war, subsequent destruction and government ban on import and export in South Korea.
- Further, the company has **not yet identified new customers** and is in the process of doing the same.
- As such, the identification of **new customer is a material uncertainty** that cast a significant doubt on the company's ability to continue as a going concern.
- However, **this matter is duly disclosed by the management of OM Ltd.** in the financial statements for the year ended 31.03.2021.
- **As such, considering that the going concern assumption is appropriate but a material uncertainty exists with respect to identification of new customer, CA Shanti should:**
 - (1) Express an **unmodified opinion** and
 - (2) Include in his audit report, a **separate section** under the heading "**Material Uncertainty Related to Going Concern**" to:
 - (i) **Draw attention to the note in the financial statements** that discloses the matters and
 - (ii) **State that these events or conditions** indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

(iii) **Conclusion:-Thus, CA Shanti should deal with this matter in his auditor's report in the above mentioned manner.**

10.

Uncertainty Clamping on the Going Concern - Reporting

M/s Airlift Ltd., carrying on the business of Passenger Transportation by air is running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the Year ended on 31/03/2022 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the, 'Going Concern' would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditor's Report in respect of this matter. **(SM, Nov-2018)**

Ans.



(i) As per SA 570 "Going Concern"

- if the auditor concludes that **management's use of the going concern** basis of accounting is **appropriate in the circumstances** but a **material uncertainty exists**, the auditor shall determine **whether the financial statements** :
 - **Adequately disclose the principal events or conditions** that may cast significant doubt on the entity's ability to **continue as a going concern** and management's plans to deal with these events or conditions; and
 - **Disclose clearly that there is a material uncertainty** related to events or conditions that may cast **significant doubt on the entity's ability** to continue as a going concern and, therefore, that it may be **unable to realize its assets and discharge its liabilities** in the normal course of business.

(ii) **If adequate disclosure about the material uncertainty is made in the FS**

- The auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "**Material Uncertainty Related to Going Concern**" to:

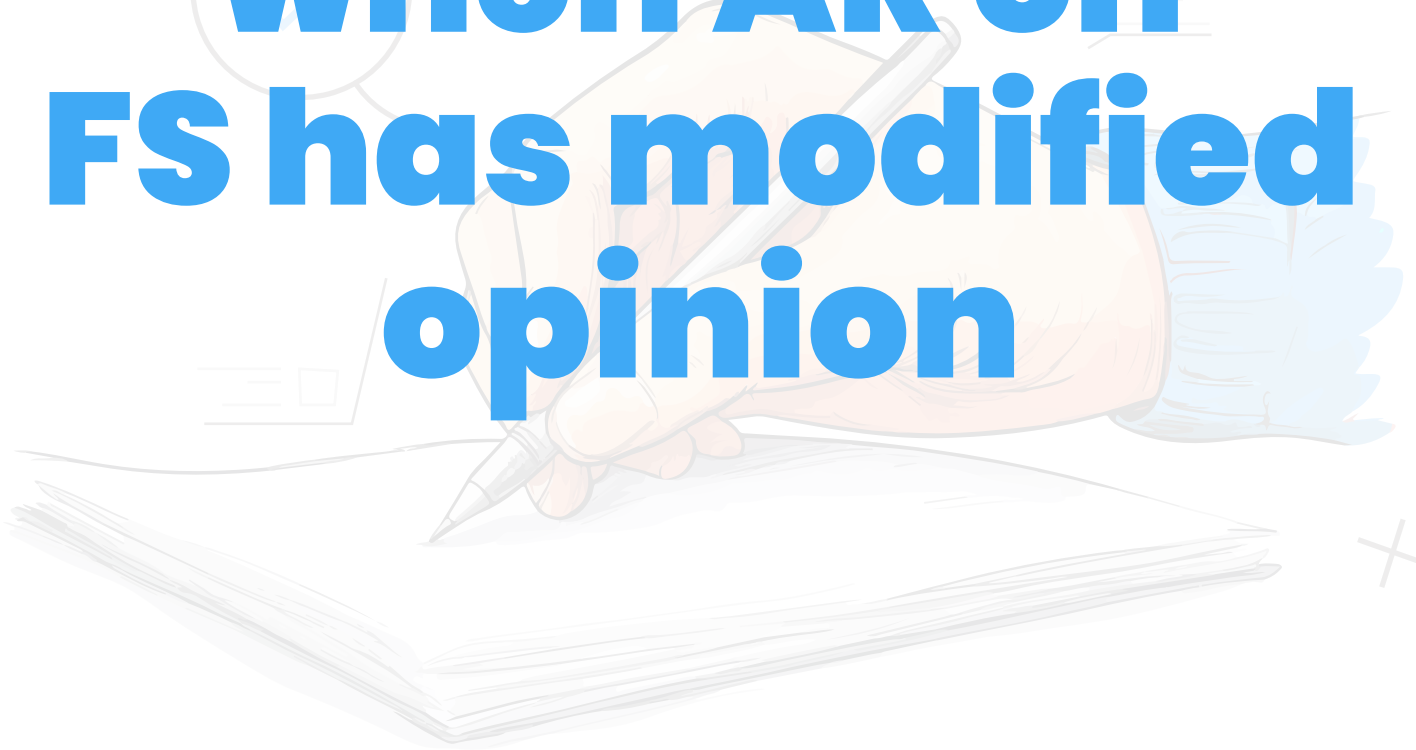
— Section C —

Specialised Audit, Review of FS, etc

A stylized illustration of a hand holding a pen, writing on a notepad. The background features faint, light blue icons including a checkmark, a laptop, and a document, along with decorative geometric shapes like circles and lines.

Chapter	8	8	8	10	10	11	11	11	9	9
Standard	800 SA	800 SA	810 SA	2400 SRE	2410 SRE	3400 SAE	3402 SAE	3420 SAE	4400 SRS	4410 SRS
Service	Audit of SP-FS (Special Purpose -FS)	Audit of Specific Element/FS	Audit of Summary FS	Review Historical FS	Review of Interim FI (IFI) by auditor of entity	Examination of Prospective FI based on BEA or HA or mix of both	Assurance Report on controls at so on Suitability of Design of controls (SD) (+OE of Control: Type 2 Report)	Assurance Report on Compliance of Proforma FI included in Prospectus	Agreed upon procedures	Compilation of FS
CA Referred as Whether prepared from audited FS	Auditor NA	Auditor Yes audited or un-audited	Auditor Yes audited FS only	Practitioner NA	Auditor NA	Auditor NA	Service Auditor NA	Practitioner Based on UFI (audited / unaudited)	Auditor NA	Practitioner NA
Assurance Type	T&F view or compliance F/W	T&F view or compliance F/W	Fair summary of Audited FS	Limited Assurance (conclusion)	Limited Assurance (conclusion)	Negative Assurance	Positive assurance based on suitable criteria, system description fair + SD of controls relating to COB + OE(T2 only)	Positive, Compliance F/W types 'PFFI' prepared in all material respect as per AC/ Basis given	No Assurance or opinion	No Assurance or opinion
Independence	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
FR F/W → GP/SP	SP	GP or SP	Based on applied criteria to prepare summary FS	GP or SP	Both	Non-Historical FI, FRF/W may exist under L or R or else	Non-FI. Based on SO's description of system (D of S) & assertion on controls	Applied criteria based on L or R or Std setting org. or Developed by responsible party	NA	OK
Modified report?	Same as SAs	Same as SAs + Depends on (a) Modification in A/R on audited FS (b) Report provided separately or not	• Can be given • No Opinion if Audited FS → Adv. or Disclaimer • Q/EOM/OM → Reproduce it, can give opinion	• Modified conclusion or withdraw • EOM/OM/OI/ L&R Resp. reporting as per SAs also applicable	Can be given if not as per A-FRF/W or withdraw or resign from annual FS audit as well.	Qualified, Adverse, Disclaimer or Withdrawl	Modified Opinion, if a) D of S not a fair presentation b) no OE (T2) c) control relating to COB not SD, d) unable to SAAE	If permitted by L or R → Can give modified report, else withdraw. EOM permitted	Factual findings	Either report or withdraw
Report Distribution	May Restrict	May Restrict	With/Without Audited FS	Not specified in SRE	Not specified in SRE	To be specified	Only for UE & their auditor	SAE only for PFFI given in Prospectus	Restricted	Restricted
Procedures	Audit like + follow SAs	Audit like + follow SAs	Only to check summarization procedures	Inquiry & AnPr + A/P for specific circumstances unless MM in FS then perform FAP	Inquiry, AnPr & other Review Proc, no Inspection, observation ext. confirmation.	Examination procedures to obtain SAAE (See Below)	Understanding, RAP, Compliance like procedures mostly	• AC suitability, • Adjustment of events/ trans as per A – FRFW & Accounting Policies to UFI • Presentation of PFFI • Additional procedure, if source of UFI unaudited	Audit like	Understanding, Compilation, discuss, Read
Purpose/ Limitation Specified in Report?	Yes about SPF	If SPF (Special Purpose Framework)	Description of Summary FS & where audited FS are available	Not specified in SRE	Not specified in SRE	To be specified with caveat that PFI ≠ Actual	Statement of limitation of control + Risk to project OE of current controls	Prospectus only	Yes	Yes
SAAE required	Yes	Yes	N.A.	Yes to form conclusions	Yes to form conclusion	Yes on estimates, P&P and consistency to GAAPs	Yes on a) D of S b) SD c) OE (T2) throughout	Yes whether PFFI prepared as per AC	N.A.	N.A.
Who can be appointed	Any	Auditor or other than auditor - only if practicable	Auditor of audited FS only	Practitioner is other than auditor of entity FS	Auditor of annual FS	Any (auditor or else)	Any	Any	Any	Any

Summary FS when AR on FS has modified opinion



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.

Question 4

(a) *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 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 statement?* **(5 Marks)**
- (b) *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

Answer

(a) (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:

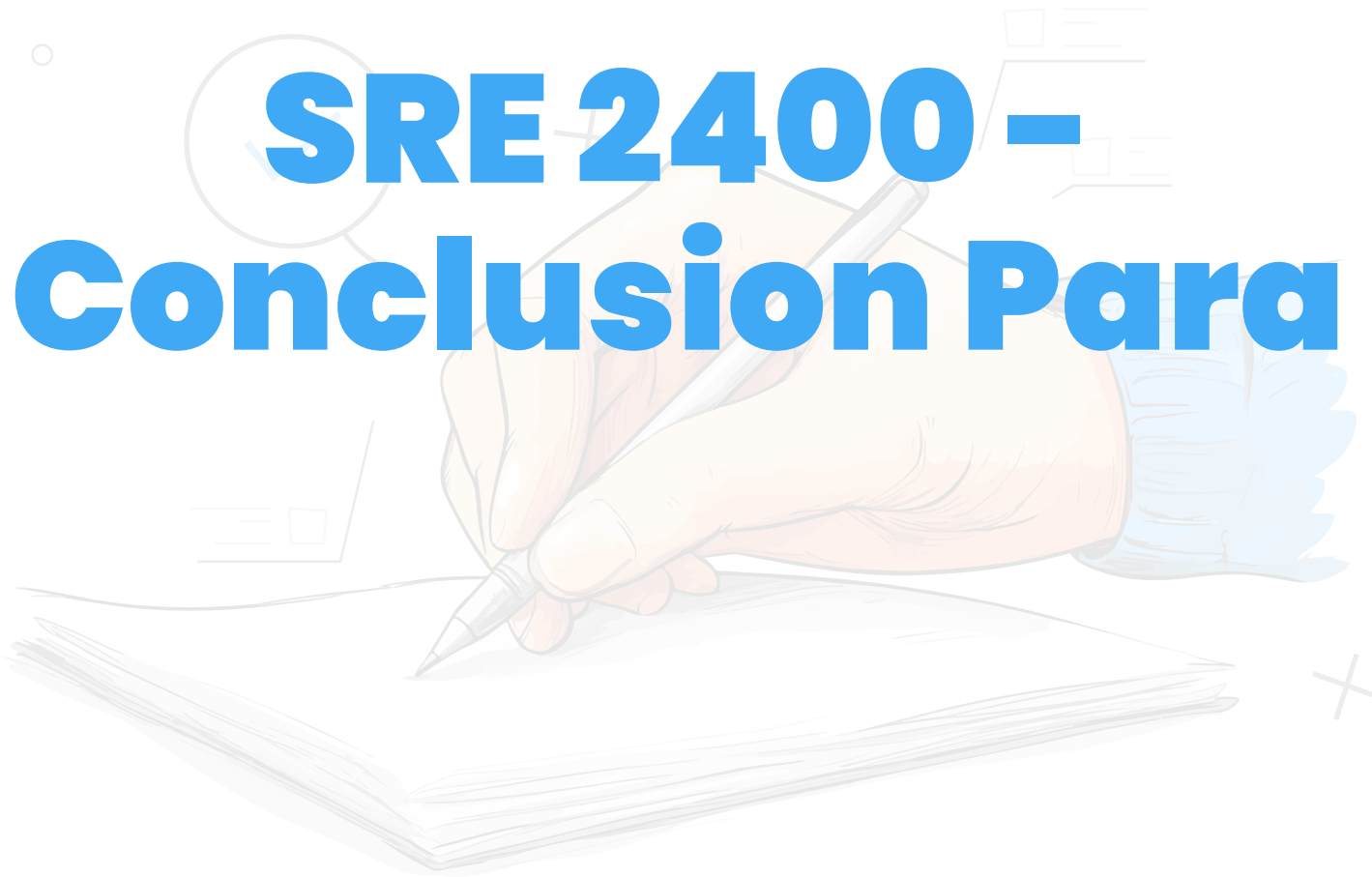
- State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- Describe the basis for that adverse opinion; and
- State that, as a result of the adverse opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements.

(b) 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.

SRE 2400 – Conclusion Para



3. *Instant Finance Ltd. has investments in shares and bonds of other NBFCs totalling ₹ 10 crore, which amounts to 12% of its owned fund.*
4. *The company's primary business involves lending against gold jewellery, with such loans comprising 60% of its financial assets.*

As a statutory auditor, you are entrusted with assessing compliance with the prudential norms prescribed under the Master Direction - Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023, regarding capital adequacy.

You are required to:

- (i) *Evaluate whether Instant Finance Ltd. complies with the minimum Tier I capital requirements as per the RBI prudential norms.*
 - (ii) *Discuss the treatment and impact of perpetual debt instruments in the calculation of Tier I capital for NBFCs primarily engaged in lending against gold jewellery.*
 - (iii) *Analyse the adjustment required in Tier 1 capital for Instant Finance Ltd. due to its investments in other NBFCs.* **(5 Marks)**
- (b) *CA A, the proprietor of A & Colleagues, Chartered Accountants, is developing his practice and recently secured a major audit assignment for B State Cooperative Society. The engagement fee for this audit is ₹ 1 Cr.*

In view of his vision of growth to expand the development of his business, CA A has entered into an agreement with an unregistered financial consultant, Mr. X, who is an MBA from a local university. Mr. X introduced CA A to his business clients and in return, CA A agrees to pay him a 2.5% commission (₹ 2.5 lakhs) on the audit fee as a referral bonus.

Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5,00,000) has to be deposited into the State Treasury to cover administrative expenses. CA A complies with this requirement.

Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

- (c) **Glow management Ltd.** *a workspace operator, seeks to secure funding from investors. The funds will be used for repayment of debt and cost of capital for strengthening its Balance sheet. To support this, the company has prepared its financial statements for the year ended March 31, 2025. The investors*

request a limited assurance review rather than a full audit, to ensure the reliability of the financial statements. The management of Glow management Ltd. engages an independent practitioner CA Kishore to perform a review engagement under SRE 2400. During the review, CA Kishore identifies that there was significant increase in deferred revenue. On inquiry, CA Kishore found management's explanation unreasonable that it is related to advances received for upcoming projects and was unable to corroborate this with contracts.

Based on the evidence gathered and procedures performed, CA Kishore determines, that the financial statements are materially misstated. He is bound to express a qualified conclusion, as the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements.

In the above context, you are required to help CA Kishore to:

- (i) State the phrases to be used in conclusion paragraph as appropriate.*
- (ii) State the matters to be included in the basis for conclusion paragraph.*

(4 Marks)

Answer

(a) Compliance with Minimum Tier 1 Capital Requirements: As per RBI norms, Instant Finance Ltd. must maintain a minimum capital adequacy ratio of 15 % of aggregate risk-weighted assets. Since 60 % of its financial assets are loans against gold, it must maintain a Tier 1 Capital of at least 12% (₹ 120 Crore) of its risk-weighted assets.

- (i) In the given situation, Instant Finance Ltd. has reported Tier 1 Capital of ₹ 130 crore. However, NBFC-BL are not eligible to include perpetual debt instruments in their Tier 1 capital. Thus, the amount of Tier 1 Capital will be ₹ 115 crores (₹ 130 crores - ₹ 15 crores = ₹ 115 crores).

Since, Instant Finance Ltd.'s primary business involves lending against gold jewellery, with such loan comprising of 60% of its financial assets which is exceeding the criteria of 50% or more, thus, Instant Finance Ltd. is required to maintain a minimum Tier 1 capital of 12 percent of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items.

such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

The exception to this rule is specified in regulation 53A (3). The Regulation specifies that a Master in Business Administration from Universities established by law or technical institutions recognized by the All India Council for Technical Education. In the given situation, Mr. X is an MBA from a local university and CA. A agrees to pay commission on the audit fee as a referral bonus to Mr. X for introducing him to his business clients. Hence, CA A is guilty of misconduct.

Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5 Lakh) must be deposited into the State Treasury to cover administrative expenses. Council decided that as such, there is no bar in the Code of Ethics to accept such an assignment wherein a percentage of the professional fee is deducted by the Government to meet the administrative and other expenditure. Hence, no violation is there.

- (c) (i) As per SRE 2400, "Engagements to Review Historical Financial Statements", when the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -
- (a) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework) or
 - (b) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

- (ii) In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall: -
- (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
 - (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or
 - (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Question 5

- (a) *Footwear Ltd., a manufacturing company has recently appointed you as its Internal Auditor to review its financial and operational controls. You have to conduct the internal audit in compliance with the standards of Internal Audit, within the framework governing Internal Audits. During the audit, you have identified misappropriation of inventories and suspected fraudulent activities by a procurement manager. You thought it would be more appropriate to bring the same immediately to the attention of the management. As per the principles outlined in Standard on Internal Audit, you need to prepare an internal audit report covering the audit findings. Explain the stages of internal audit reporting results as per relevant Standard on Internal Audit and state the key elements to be included while issuing a clear, well documented Internal Audit Report by you as an internal auditor. (5 Marks)*
- (b) *GAS limited, is in the business of renewable energy, including fuel cell, electrolyzer, battery energy storage system wishes to contribute to clean energy ecosystem and National Green Hydrogen mission. GAS limited is among top 1000 listed entities and have to mandatorily provide BRSR reporting (Business Responsibility and Sustainability Reporting) on ESG parameters in accordance with the principles of "National Guidelines on Responsible Business Conduct" as mandated by SEBI. One of the principles states that "This can work only with close participation and collaboration*

SRE 2410 – Opinion (No Drafting)



- (iv) The entities in the value chain should be encouraged to adopt these principles by the governance structure.
- (v) The entities should proactively respond to the outside entities that violate the nine principles of the BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers that may engage with the business concern.

Question 5

(a) *GAK Limited has compiled the interim financial information, as per the Listing agreement requirements and submitted to the auditors for their review. CA Reena, has been assigned on the engagement to review the interim financial information of GAK Limited. Based on the inquiries and other review procedures carried out, CA Reena, assessed that GAK Limited, has been facing continuous working capital shortages. No financial institutions or banks are ready to lend additional funding limits to GAK Limited, since the company has been continuously incurring losses for over 3 years and the company has defaulted payment of loan instalments & interest over the last one year and operations have been curtailed significantly.*

Under such circumstances CA Reena, who is doing the review for the first time, noted that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties. Given the situation, please advise CA Reena, what kind of review report is required to be issued? If, GAK Limited has disclosed information relating to material uncertainty, can CA Reena give a clean report? Discuss.

(5 Marks)

- (b)** *R Limited is a listed company engaged in manufacture of round bars. The company is having investment in the following components:*
- (i) 2 Subsidiary Companies*
 - (ii) 1 Joint Venture Company*
 - (iii) 2 Associate Companies*
 - (iv) 3 Business entities under common control*
 - (v) Interest in assets, liabilities, revenues, and expenses in a joint operation with 1 Company*

R Limited and all its components are required to present their accounts as per Ind AS. While preparing consolidated financial statements, R Limited consolidated its components on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows.

R Limited seeks your advice on the accounting treatment in respect of the above components for consolidation in accordance with the Companies (Indian Accounting Standards) Rules, 2015. **(5 Marks)**

- (c) *TP Limited is a listed company engaged in the business of manufacturing of kids garments under the brand name of MM. M/s R & Associates, firm of chartered accountants, are appointed as a Statutory Auditor of the Company for the year 2023-24. CA R is looking after the audit of the Company. During audit, CA R observed that there are number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". According to CA R, the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same. Do you agree? If not, give your comments.* **(4 Marks)**

Answer

- (a) Going Concern and Significant Uncertainties:** As per SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.

If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the

interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

In view of above, in the given situation, GAK Limited has compiled the interim financial information, as per the Listing agreement requirements and submitted to the auditors for their review. CA Reena, has been assigned on the engagement to review the interim financial information of GAK Limited. CA Reena noticed that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties that casts significant doubt about the entity's ability to continue as a going concern. Thus, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

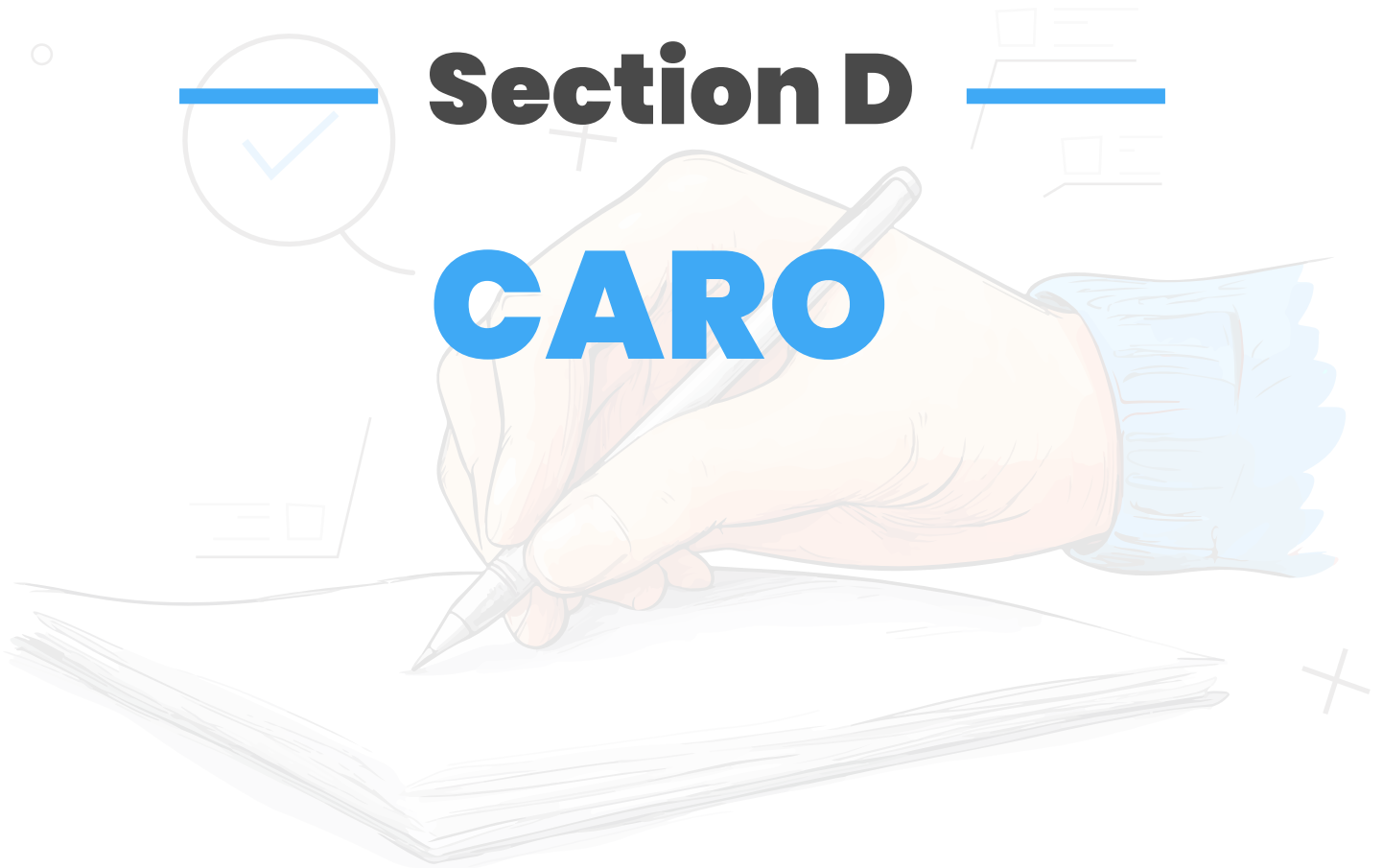
If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty. If GAK Limited has disclosed information relating to material uncertainties, CA Reena, should modify the review report by adding an emphasis of matter paragraph.

(b) For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015:

- the financial statements of the parent and its subsidiaries are combined as per Ind AS 110, "Consolidated Financial Statements" on a line-by-line basis by adding together like items of assets, liabilities, income, expenses, and cash flows;
- related goodwill/ capital reserve (or gain on bargain purchase) and non-controlling interest is determined as per Ind AS 103;
- business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method in accordance with Ind AS 103;
- adjustments like elimination of intra-group transactions, balances, unrealised profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110;

Section D

CARO



CARO – Reporting



- 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).

Question 5

(a) *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; total revenue ₹ 9 Cr. (excluding revenue of ₹ 2 Cr. from discontinuing operations) during F.Y. 2024-25.*

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

- 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 credit period while some customers have delayed payments beyond the credit period. A few customers have been declared insolvent.*
- 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.*
- 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 ₹ 4 Cr. from 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.*
- 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 the above matters would be dealt with in your audit report for F.Y. 2024-25?

(5 Marks)

- (b) *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.

(5 Marks)

- (c) *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.

(4 Marks)

Answer

- (a)** 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 Metrolines, 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 Metrolines 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.

- (b) 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.

- Identity in the digital world has historically been different based on the platform utilized. The practical challenge of identity will also have to be considered in the Metaverse (e.g., KYC).
- Synchronicity is the ability for aspects of the Metaverse to be multiplayer, simultaneous, and real-time. This includes transactions and actions happening in the Metaverse and are dependent on the infrastructure of digital economies, networking, and computing power required to operate a digital world.

Question 3

*(a) **Brown Enterprises Limited**, an unlisted public company, has granted loans to two of its subsidiaries, stood as a guarantor for loans taken by a Limited Liability Partnership (LLP), and made investments in a start-up company during the financial year 2024-25. The company's financial statements disclose the following:*

(1) Loans Provided:

- ₹ 10 crore to Subsidiary A, with ₹ 6 crore outstanding as of March 31, 2025.
- ₹ 5 crore to Subsidiary B, fully repaid during the year.
- ₹ 3 crore loan to a UR & Co. a partnership firm with ₹ 1.5 crore overdue for 120 days. UR & Co. is not a related party.

(2) Guarantees:

- Guarantee provided to Milestone LLP for ₹ 7 crore loan availed from a bank, outstanding in full as of March 31, 2025.

(3) Investments:

- ₹ 4 crore equity investment in KD start-up.

Additional information:

- For the overdue loan, Brown Enterprises Ltd. has initiated legal proceedings for recovery but no settlement has been achieved.
- All loans and guarantees have been documented with terms and conditions.

- One loan, ₹2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.

Based on the above facts you are required to:

- Analyse the reporting requirements under CARO, 2020, for Brown Enterprises Ltd.
 - The management of Brown Enterprises Limited contended that reporting requirements under CARO, 2020, of overdue in respect of UR & Co., and Subsidiary A, are not applicable. Comment. **(5 Marks)**
- (b) M/s JAZZ & Co. is a partnership firm consisting of two partners CA J and CA Z.

CA J is exclusively associated with the firm and is not doing practice in individual capacity, whereas CA Z is doing practice in his individual capacity also.

For the financial year 2023-24, the firm has already undertaken audits and signed audit reports under section 44AB/44AD of the Income-tax Act, 1961 as under:

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44AD
CA J	30	60	20
CA Z	5	10	12

For the financial year 2023-24, CA Z has undertaken audits in individual capacity and signed audit reports under section 44AB/44AD of the Income-tax Act, 1961 as under:

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA Z	4	9	8

For the financial year 2023-24, the firm is approached further to take up the following assignments:

3 tax audit assignments under section 44AB for corporate clients.

4 tax audit assignments under section 44AD.

Advise whether the firm should accept the further tax audit assignments for the financial year 2023-24 as above in the light of professional code of conduct.
(5 Marks)

- (c) *Coastal Ventures Ltd., a newly formed real estate development firm, is applying for a loan from a financial institution to fund a new residential project. The bank requires the submission of the company's financial statements for the year ending March 31, 2025. The company engages an independent practitioner, CA X to compile the financial statements based on its accounting records and other information provided. The financial statements will be prepared in accordance with Ind AS (Indian Accounting Standards). CA X intends to record the agreed terms of engagement in an engagement letter prior to performing the engagement.*

CA X is of the view that independence requirements will not be applicable for the above assignment. Do you agree?

CA X is concerned with engagement acceptance and continuance. Suggest him focus points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

(4 Marks)

Answer

(a) (i) Reporting Requirements Under Clause (iii) of Para 3 of CARO 2020

- **Loans and Advances provided:**
 - Report the aggregate amount of loans provided during the year to subsidiaries (₹ 15 crore) and other parties (₹ 3 crore).
 - Disclose the outstanding balance as of March 31, 2025:
 - **Subsidiary A:** ₹ 6 crores.
 - **Subsidiary B:** Nil (fully repaid).
 - **UR & Co., Partnership firm:** ₹ 1.5 crore overdue for 120 days.
- **Guarantees and Security Offered:**
 - Disclose the guarantee of ₹ 7 crore provided to Milestone LLP and confirm whether it was prejudicial to the company's interest.

- **Investments Made:**
 - Report the ₹ 4 crore equity investment and ensure compliance with terms and disclosure requirements.
 - **Overdue Loan:**
 - In the case of UR & Co., disclose the overdue amount of ₹ 1.5 crore for more than 90 days and assess the company's recovery actions. Mention if legal proceedings are progressing adequately.
 - **Loan Renewal:**
 - Report the renewal of the ₹ 2 crore loan to Subsidiary A as a fresh loan granted to settle existing dues.
 - Include this amount and its proportion *in* the total loans granted during the year.
- (ii) In view of above it can be concluded that the contention of management of Brown Enterprises Limited is not correct as the auditor is required to report the overdue loan amount in respect of UR & Co. and Subsidiary A under Clause (iii) of Paragraph 3 of CARO 2020.

Alternative Answer:

- (a) (i) Clause (iii) of Para 3 of CARO, 2020, requires the auditor to report whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so-
- (a) 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-
- (A) 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;
- (B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such

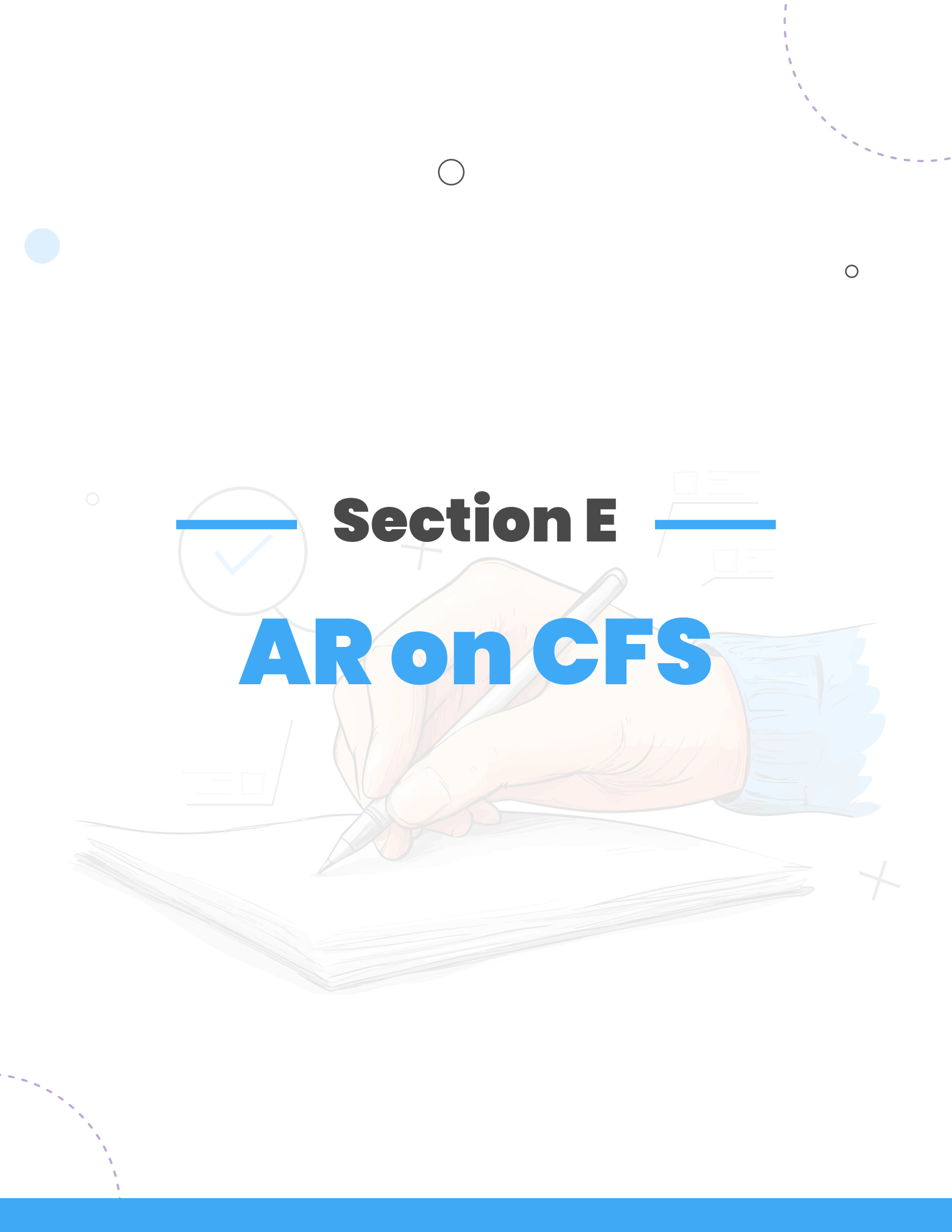
loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;

- (b) whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
- (c) 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;
- (d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;
- (e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];
- (f) 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;

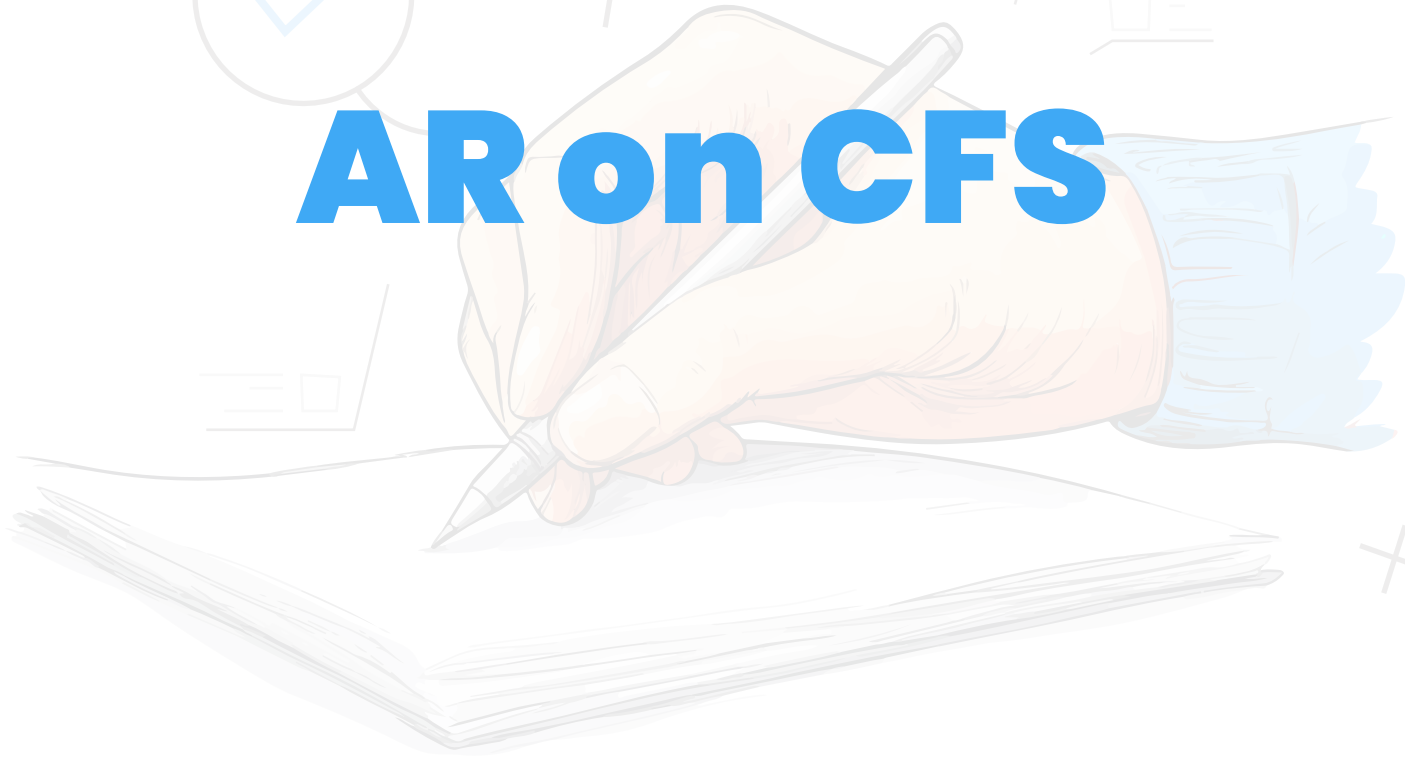
In the given situation, the auditor of Brown Enterprises Limited, an unlisted public company, is required to report under Clause (iii) of Paragraph 3 of CARO 2020:

- aggregate amount of loans provided to subsidiaries [i.e., ₹ 10 crore to Subsidiary A & ₹ 5 crore to Subsidiary B] and ₹ 6 crore for the loan outstanding from subsidiary A at the balance sheet date.

- the loans provided to Partnership firm UR & Co. of ₹ 3 crore and Guarantee provided to Milestone LLP of ₹ 7 crore.
 - an amount of ₹ 1.5 crore in respect of the loan given to the partnership firm UR & Co., as the amount has been overdue for 120 days i.e., more than 90 days] and reports that Brown Enterprises Ltd. has taken reasonable steps initiated legal proceedings for the recovery, but no settlement has been achieved.
 - loan of ₹ 2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.
- (ii) In view of above it can be concluded that the contention of management of Brown Enterprises Limited is not correct as the auditor is required to report the overdue loan amount in respect of UR & Co. and Subsidiary A under Clause (iii) of Paragraph 3 of CARO 2020.
- (b)** As per Chapter VI, Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961, a member of the Institute in practice shall not accept, in a financial year, more than the "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.
- Further, in the case of a firm of Chartered Accountants in practice, the "specified number of tax audit assignments" means 60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.
- It may be noted that the audits conducted under Section 44AD, 44ADA, and 44AE of the Income-tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".
- Furthermore, where any partner of a firm of Chartered Accountants in practice accepts one or more tax audit assignments in his individual capacity, the total number of such assignments which may be accepted by him shall not exceed the "specified number of tax audit assignments" in the aggregate. In computing the "specified number of tax audit assignments", the number of such assignments, which he or any partner of his firm has accepted, whether singly or in combination with any other Chartered Accountant in practice or firm of such Chartered Accountants, shall be taken into account.

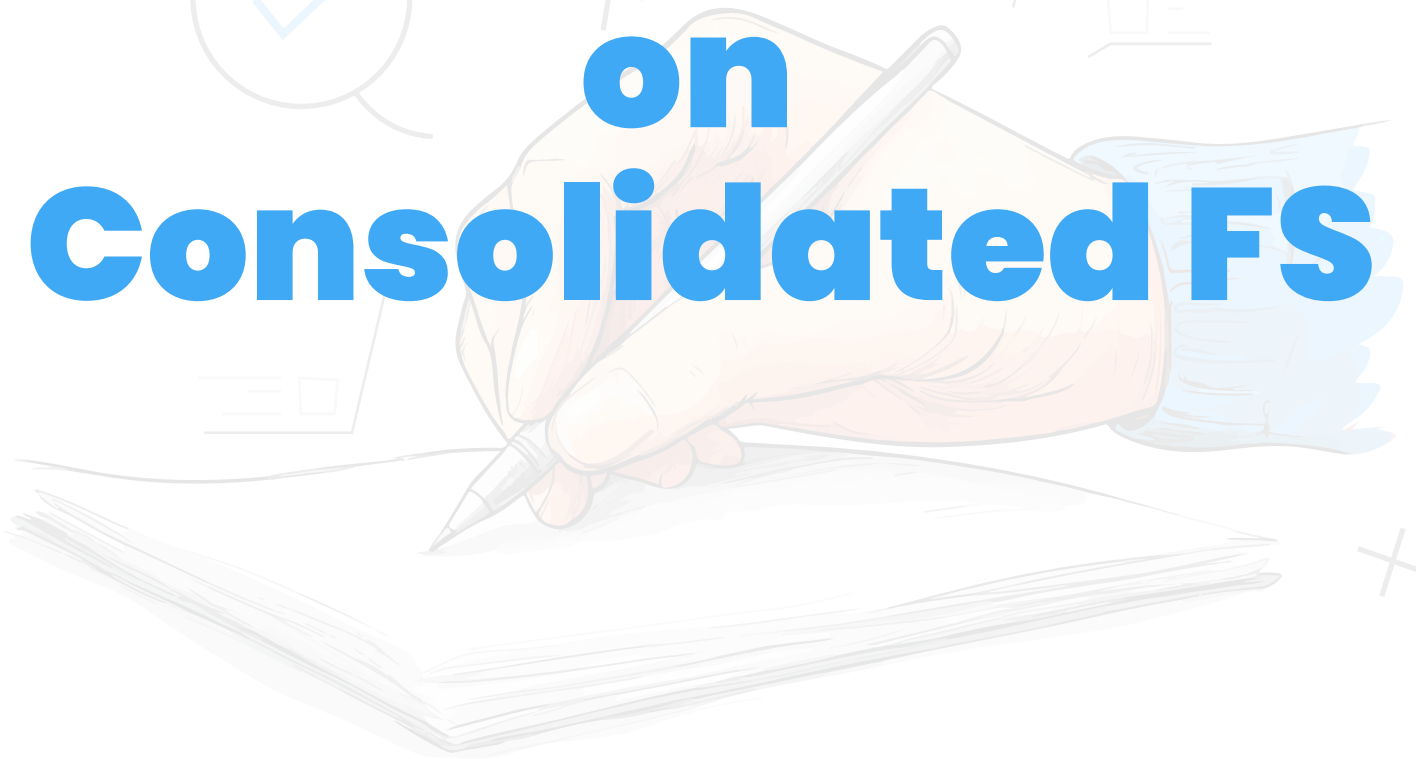


Section E



AR on CFS

Audit Report on Consolidated FS



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

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

(ii) Compliance auditing is concerned with:

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

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

Question 3

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

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

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

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

(5 Marks)

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

(5 Marks)

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

(4 Marks)

Answer

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

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

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

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

Other Matter Paragraph

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

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

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

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

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

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

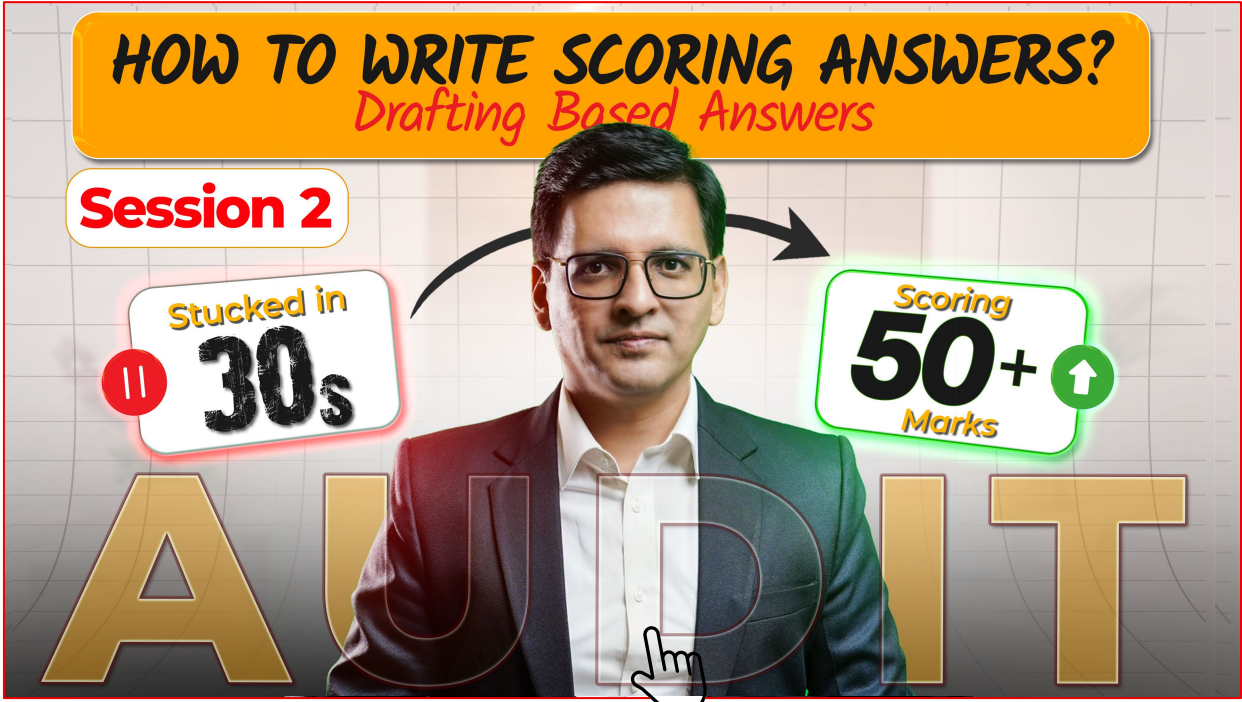
1. How management has: -
 - (i) Considered alternative assumptions or outcomes,
 - (ii) Why it has rejected them,
 - (iii) How management has otherwise addressed estimation uncertainty in making the accounting estimate.
2. Whether the significant assumptions used by management are reasonable.
3. Where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

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

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

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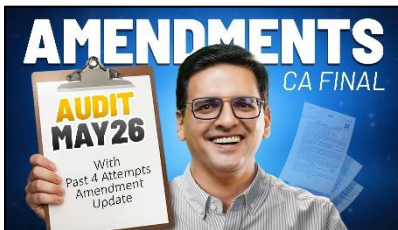
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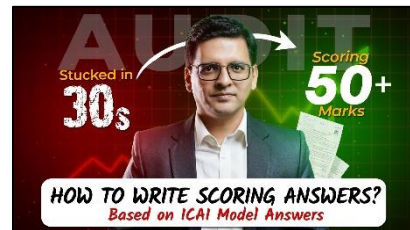
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