

For CA FINAL
Group I – PAPER 3
ADVANCE AUDITING
ASSURANCE
AND
PROFESSIONAL ETHICS

CHAPTERWISE COMPILER

Edition – 2
VOLUME - III

KEY FEATURES:

- ✓ Based on the Institute's New Module for May 2026 Exam Onwards
- ✓ Updated Content of All Chapters
- ✓ Helpful for Revision
- ✓ All Answers in Point Form – Easy to grasp & understand
- ✓ Simple and Lucid Language

CA CS Amit Tated
FCA, CS, DISA



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PAPER PATTERN FOR CA FINAL AUDIT

- MCQ'S 30 marks
- Theory 70 marks compulsory including options 88 Marks
- Q. 1 is Compulsory always.
- You need to attempt Any 4 from 5 questions for 14 marks each.

YEAR WISE	MAY 2024	NOVEMBER 2024	MAY 2025	SEPTEMBER 2025
SR. NO.	THEORY	THEORY	THEORY	
1.	10	5	5	5
2.	9		10	5
3.		10	5	5
4.	4			5
5.		5		5
6.	5			
7.	10	10	10	4
8.	4	5		5
9.	5	5	4	
10.	5	4	4	9
11.		5	4	
12.	5	4	4	5
13.	5			5
14.				5
15.	4	5	10	
16.		4		4
17.			5	
18.	5	4	4	4
19.	4	4	5	4
20.	13	18	18	18
Total	88	88	88	88

1. QUALITY CONTROL

Q.1. Rajni Ltd., a listed company, has appointed M/s Amit & Co. as its statutory auditor. CA Sunil, who recently joined the firm, has been appointed as the engagement partner for the first time. While preparing for the audit, he realises the importance of ensuring the audit team's independence, as required by standard audit practices. However, when reviewing the firm's framework, he is unable to find any documented policies or procedures addressing independence compliance.

What steps should CA Sunil take to ensure compliance with independence requirements for the audit engagement? Why is it necessary for an audit firm to have well-documented policies and procedures to maintain independence? Discuss with reference to the relevant Standards on Auditing.

[MTP - 1 MAY 25] (05)

Q.2. 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 & acceptance letter. CA. R is the engagement partner & is planning to issue the acceptance letter. During the current financial year, there was a search by the Income Tax authorities on the company, & 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 & 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.

[MAY 24] (05)

Q.3. SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified

and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. [MTP - I NOV 24] (05)

Q.3.A Sun & 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 Sun & Associates, seeking acknowledgement and acceptance letter. CA S 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 S 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 Sun & Associates and is planning to provide some accounting services to one of the associate companies. Sun & 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 Sun and Associates with respect to acceptance and continuance of client relationships considering the above issues.

[MTP - II MAY 25] (05)

Q.4. CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associate is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?

Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri & the engagement partner.

[MAY 24] (05)

Q.5. TPX & Co., Chartered Accountants is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view above situation from point of view of quality control system in audit firm? Analyse.

[MTP - 1 MAY 24] (05)

Q.6 STA and Associates, Chartered Accountants, is an upcoming firm its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC.

[NOV 24] (05)

Q.6.A M/s Jinkushal & Co. has been appointed as an auditor of SC Ltd. for the financial year 2023-24. CA Jin, one of the partners of M/s Jinkushal & Co., completed entire routine audit work by 19th June, 2024. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA Kushal, another partner of M/s Jinkushal & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA Jin.

State with reasons whether CA Kushal is right in expressing an opinion on financial statements, the audit of which is performed by another auditor. [RTP MAY 25]

Q.7 Pine & Associates is the statutory auditor of BB Ltd., a listed company and started its operations 6 years ago. The fieldwork during the audit of the financial statements of the company for the year ended 31st March, 2023 was completed on 1st May, 2023. The auditor's report was dated 15th May, 2023. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 18th May, 2023. The engagement partner had completed his reviews in entirety by 12th May, 2023. Comment

[MTP - II MAY 24] (04)

Q.8. SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery. In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards? [RTP SEPT. 25]

Q.9. RST Ltd. is a company listed in India. The Company has appointed M/s R & Co. as auditors. CA R has recently joined the firm and has been appointed as the engagement partner for the first time. During the audit planning, the engagement partner discovers that a relative of a team member holds a significant financial interest in RST Ltd. The team member had not reported this relationship earlier.

He understands that it is necessary to ensure compliance of independence for the audit team as per standard audit practices. But he could not find as such any policies and procedures available with the firm in documented form.

Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs.

[MTP - 1 SEPT. 25] (05)

Q.10. XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the view point of quality control system in audit firm in terms of requirements of SQC 1? Guide the firm in establishing the policies and procedures in respect of an engagement partner.

[MAY 25] (05)

Q.11. Munir & Co. is a practicing - chartered accountants' firm having its Head Office at Mumbai. Mr. A, a dedicated and capable article assistant associated with Munir & Co. for the past three years, recently qualified as a Chartered Accountant. Recognizing his strong analytical skills, attention to detail, and in-depth understanding of audit, the firm inducted him as a Partner on 1st February, 2025. On joining the firm, he accepted his first assignment to act as an Engagement Quality Control Reviewer (EQCR) for J & J Limited, a listed entity, for the financial year 2024 - 25. Before finalizing the Balance Sheet of the Company for the year 2024 - 25, CA A signed on few working

papers of the engagement team as a token of review performed by him in terms of firm's policies on engagement quality control review without going through the audit file. He made no further documentation, assuming that the team who performed the audit of the company for the year 2024 - 25, was the same team who performed the audit of the company for the financial year 2023 - 24.

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

[SEPT. 25] (05)

Q.12. RBC & Co., Chartered Accountants, is a large audit firm engaged in audits and assurance services across various sectors. The firm currently maintains audit documentation in both electronic and physical (hard copy) formats. However, during audit it was observed that physical files are neither scanned and incorporated into the electronic files nor crossreferenced with them. As a result, the documentation remains scattered with no integrated or centralised audit file for the engagement. Additionally, several audit working papers lack clarity on whether the information was obtained from the client or prepared internally by the engagement team. This ambiguity raises concerns regarding the reliability and origin of audit evidence. How do you view the above situation from the point of view of quality control system in audit firm? Analyse. [RTP JAN 26]

2. GENERAL AUDITING PRINCIPLES & AUDITORS RESPONSIBILITIES

Q-1. Aditya Ltd. was engaged in the business of owning and managing hotels and resorts, selling tourism packages and performing airline bookings for corporate and individuals. It appointed Sanjay & Co. as its statutory auditor for the financial year 2022-23. While planning the audit, the audit team decided that the risk of improper revenue recognition from hotel business should not be treated as a fraud risk. This conclusion was based on the assessment of earlier years, wherein no fraud was identified in revenue recorded from such business. While testing the internal financial controls over the process of revenue recognition, it was identified that the controls are not properly designed to mitigate the risk of fraud and risk of improper revenue recognition. As a result, the audit team decided to perform additional substantive testing. However, the audit team still were to the conclusion that there is no risk of fraud in revenue recognition. During the course of substantive testing, it was identified that the management did not account for revenue received from corporate hotel bookings amounting to ₹ 43 crore. These amounts were partially received in the company's bank accounts and partially received in the CFO's personal account. The amounts received in the bank account of the company were disclosed as advances received against the future bookings. In the light of above scenario, kindly guide the statutory auditors with respect to their responsibility relating to fraud in an audit of a financial statement.

[MTP - 11 MAY 24] (05)

Q-2. You are appointed as Statutory Auditor of Supreme Ltd. and are in the midst of conducting Annual Audit for the financial year ending on 31st March, 2023. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.50 crores from a company incorporated on 18th March, 2023. Upon further inquiry, you discover that purchases have been booked at the instance of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation?

[RTP MAY 24]

Q.3. Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ₹ 700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ₹49 crore and the unaudited turnover was ₹ 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour of the company. Accordingly, no provision has been created for such notices.”

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter.

[MTP - II MAY 24] (05)

Q.4 While conducting the audit of Quantum Mechanics Limited, Mr. Manoj, the audit manager, identified significant payments made by the company for legal and retainership fees related to litigation. The litigation pertained to the Thirunelly manufacturing plant, situated on forest land reserved for the Elephant Corridor, which was declared illegally constructed. The company had received a notice to decommission the plant by 31-05-2022, but it had challenged decommissioning order in the High Court and matter was still pending there. The company had not

disclosed any information related to the litigation in its financial statements for Financial Year 2022-23. The Thirunelly plant accounted for over 75% of the company's annual production, and the audit team expressed concerns that decommissioning could significantly disrupt operations and potentially lead to bankruptcy.

The audit was near to completion. When Mr. Manoj sought advice from audit partner Mr. Shalabh on this matter, he suggested that no immediate action was necessary from the auditors, as the matter was still pending in Kerala High Court. However, Mr. Manoj feels that situation requires action from auditors and to be indicated in the report. Whose view seems to be appropriate? Comment with reference to applicable Standards on Auditing.

[RTP MAY 24]

Q-5. Studio Ltd. appointed AB & Associates and CD & Co. as joint auditors for conducting the audit for the year ending on 31st March 2024.

During the audit, it was observed that there is a significant understatement in the value of trade receivables. The trade receivable valuation work was looked after by AB & Associates, however, there was no documentation outlining the division of the work between the joint auditors.

Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing. [MTP - II NOV 24] (05)

Q-6. STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.

(a) Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which engagement and quality control standard casts such kind of responsibility upon the auditor? [RTP MAY 24]

Q.7. During the audit of Indo limited, CA Harish observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Indo Limited used a service organisation to record transactions and process related data. What factors should CA Harish consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk.

Discuss with reference to the relevant Standards on Auditing.

[MTP - 1 NOV 24] (04)

Q.8. Happy Hospital is a very renowned hospital for Orthopedic Surgeries in Mumbai having sophisticated infrastructure. Happy Hospital has started using a novice system which includes complete record of Indoor Patient i.e. their diagnosis, their treatment, their billings, and receipts thereon which is developed and managed by CT Contractors. CA Z is a statutory auditor of Happy Hospital. CA Z came to know about this system while auditing. CA Z is concerned whether the controls at CT Contractors Associates are operating effectively or not. For this purpose, CA Z demanded from CT Contractors, an assurance report from a practicing chartered accountant about their opinion on the description of CT Contractor's system, and the effectiveness of the control. Which type of report should be obtained by CA Z in terms of relevant Standard on Auditing? What aspects are to be considered by CA Z in using such assurance report as audit evidence that controls at CT Contractors are operating effectively? [MTP - 1 MAY 25] [MAY 24] (05)

Q.9. FAB Limited is availing the services of Atiya Private Limited for its payroll operations. Payroll cost accounts for 63% of total cost for FAB Limited. Atiya Limited has provided the type 2 report as specified under SA 402 for its description, design, and operating effectiveness of control.

Atiya Private Limited has also outsourced a material part of payroll operation M/s RST & Associates in such a way that M/s RST & Associates is sub-service organization to FAB Limited. The Type 2 report which was provided by Atiya Private Limited was based on carve-out method as specified under SA 402.

CA. Akram while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor. CA. Akram hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA. Akram is correct in removing the reference of the work done by service auditor? [MTP - 1 MAY 24] (04)

Q.10. CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Karnlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report. In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation? [MTP - 1 SEPT. 25] (05)

Q.11. CA Subhadra, an engagement partner in SRT & Associates, is conducting the statutory audit of MBI Ltd., an unlisted manufacturing company with 96 production and sales units spread across the country. These units are audited by different branch auditors. In respect of one major unit audited by a branch auditor, there were significant inventory valuation errors and misstatements in cost allocations, which were not reported by the branch auditor. The branch auditor submitted a NIL report without suggesting any modifications. During overall review of financial statements of Company by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection reports etc. of above branch as part of overall review procedures. However, these reports did not point towards

any concern or irregularities in the inventory or costing practices. Would the statutory auditor of the Company be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?

[MTP - II SEPT. 25] (04)

Q.12. 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.

[MAY 25] (05)

Q.13. Key Ventures Limited is availing the services of Chipmetric Limited for processing of its accounting data including payroll operations. Payroll costs account for 75% of the total costs of Key Ventures Limited. CA Tej, the auditor of Key Ventures Limited wants to obtain an understanding of the nature and significance of the services provided by Chipmetric Limited and their effect on the user entity's internal control to identify and assess the risks of material misstatement. In this regard, he wants to use Type 1 or Type 2 report. What shall be the considerations of CA Tej in determining the sufficiency and appropriateness of the audit evidence? Suggest the procedures if he plans to use a Type 1 or Type 2 report as audit evidence to support the understanding about the design and implementation of controls at Chipmetric Limited as per relevant Standard on Auditing.

[MAY 25] (05)

Q.14. AJ Private Limited is a company involved in the business of textile manufacturing and having its factory at NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation in its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 2024 -2025. During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same. They are of the opinion that obtaining Fire NOC is outside the purview of the financial statements; hence you are not required to look after this aspect. What are the auditor's responsibilities in relation to compliance with laws and regulations?

[SEPT. 25] (05)

Q.15. Camel Manufacturing Ltd. (CML) 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 determined revenue and profitability targets to secure additional funding from the investors. The audit firm AJN LLP has been engaged to conduct CML's statutory audit for the financial year 2024-25. AJN 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 AJN LLP to decide on 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.

[RTP JAN 26]

3. AUDIT PLANNING, STRATEGY AND EXECUTION

Q-1 Naveen Ltd. is a chair manufacturing company having its corporate office in Maharashtra. The company is in the process of expansion and has acquired five companies during the year. Soni & Co. is the principal auditor of the company while the audit of all the companies acquired during the year is being conducted by Rahul K & Associates. During the course of audit, CA. Soni, the engagement partner asked the management of Naveen Ltd. at the corporate office that in order to conduct the audit of the consolidated financial statements, his audit firm is required to conduct audit of the financial statements of all the components also (Companies acquired during the year). To this, the management asked CA. Soni to consider the audit reports of the component auditor already provided to his audit team and to communicate with the component auditor for any discussion they wish to have. CA. Soni contended that for the purpose of audit of consolidated financial statements either his firm is required to conduct an audit of all the component's financial statements, or he needs the working papers of the component auditors. Is the contention of CA. Soni correct? [MTP - II MAY 24] (05)

Q-2 MK Electronics Limited is a listed company with eight subsidiaries spread across various states. The financial statements of MK Electronics Ltd. are audited by CA Amar, the principal auditor. CA Amar relies on the work of other auditors for auditing the financial statements of subsidiaries. You are required to:

- (i) Explain the procedures that CA Amar will perform to obtain sufficient appropriate audit evidence to ensure that the work of other auditors is adequate for his purpose.
- (ii) Explain how he will document the working papers with respect to the subsidiaries audited by other auditors. What matters need to be documented if the other auditor's report is modified.

[NOV 24] (05)

Q-3 Rishi is appointed as internal auditor for a SPOM Limited, a medium- sized manufacturing company, while CA Nitin is the statutory auditor of the SPOM Limited. CA Nitin asked Rishi to provide direct assistance to him regarding evaluating the appropriateness of management's use of the going concern assumption. In view of

Standards on Auditing, whether Nitin can ask direct assistance from Rishi as stated above?

[RTP NOV 24]

Q.4. Rajveer & Associates have been the statutory auditors of Ish and Vish Ltd., a listed company. CA Vishav, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These assertions were not examined by him in previous years due to materiality or risk considerations. Mr. Yug leads the internal audit department of the company and reports to the company's audit committee. During the audit, a senior member of the engagement team decides to engage Mr. Yug to provide direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing. Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance.

[MTP - I MAY 25] (04)

Q.5. STU & Associates have been the statutory auditors of the listed company "First and Last Ltd.," operating in the petrochemical industry, for the past three years. CA K, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These particular assertions were not examined by him in previous years due to materiality or risk considerations. Mr. X leads the internal audit department of the company and reports to the company's audit committee. During the course of audit, a senior member of the engagement team decides to engage Mr. X for providing direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing. Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance.

[MTP - II MAY 24] (05)

Q.6. RPS Ltd., at its annual general meeting, appointed Mr. R, Mr. P, and Mr. S as joint auditors to conduct the audit for the financial year 2023-24. For the valuation of the newly constructed infrastructure project of the company, Mr. R, Mr. P, and

Mr. S decided to consult their own known engineers. Due to differences of opinion, each joint auditor sought advice from their respective engineers. As a result, significant discrepancies were found in the valuation reports provided by the engineers. However, Mr. R agreed with the report provided by Mr. P's engineer, while Mr. S did not. Mr. R argues that report of Mr. P's engineer should be included in the audit report due to the majority of votes. Now, Mr. S is in a dilemma. What would be the responsibility of the auditors if the report provided by Mr. P's engineer is later found to be faulty?

[RTP NOV 24]

Q.7. Jagdish Pvt. Ltd. is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Comment

[MTP - I MAY 24] (04)

Q.8 CA Raj has been appointed as the auditor of MARCO Pvt. Ltd., a private real estate company. During the audit, he requested information from the management to review the outcome of accounting estimates—such as estimated costs considered for percentage completion—used in the prior period financial statements. His objective was to assess their subsequent re-estimation for the current period. However, the management refused to provide the requested information, arguing that the auditor should not review prior period estimates. Please advise how should Raj deal with this situation?

[MTP - I MAY 25] (04)

Q.9 Surya Pvt. Ltd., engaged in the business of real estate, appointed CA Amit as the auditor for F.Y. 2023-24. During the audit, CA Amit requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

[MTP - II MAY 25] (04)

Q.10. While assessing the impact of uncorrected misstatements in the audit of MINI Builders Private Limited, Mr. Gautam encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of MINI Builders as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged. The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, the last month's actual sales represented only 30% of the estimated sales. Now, Mr. Gautam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Gautam in the light of relevant Standards on Auditing.

[MTP - II NOV 24] [RTP MAY 24] (05)

Q.11. Mohan Ltd. having a net worth of ₹ 1,750 crore, is mandatorily required to comply with Ind AS. The company had various complex derivative contracts - options such as forward contracts, interest rate swaps etc. which were required to be fair valued as per IND AS 109 and for which company got the fair valuation done through an external third party. Considering the complex nature of these valuations, the statutory auditor CA Paras decided to involve an auditor's expert to assess the appropriateness and accuracy of the valuation methodology and results. CA Paras engaged expert Mr. Sohan as an auditor's expert for valuation of derivatives. CA Paras and Mr. Sohan were new to each other i.e., they were working for the first time together but developed a good bonding during the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.

[MTP - II SEPT. 25] (04)

Q.12. Gamma Ltd is engaged in the Construction business since year 2014. The auditor

understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of accounting estimates included in the prior period financial statements and their subsequent re-estimation for the purpose of current period. The management refused to provide the information to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current financial year. With reference to the relevant SA, comment on whether the contention of management is correct or not.

[MTP - II SEPT. 25] (05)

Q.13. CA Ajeet is appointed as a statutory auditor of Shravasti Ltd. Shravasti Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Sambhav as its internal auditor. The external auditor CA Ajeet asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. Discuss whether CA Ajeet, statutory auditor, can ask direct assistance from Mr. Sambhav, internal auditor as stated above in view of auditing standards.

[MTP - II SEPT. 25] (04)

Q.14. HAM Ltd. is engaged in the business of manufacturing electronic components, including sensors, microchips, and lithium-ion battery cells. The production process requires raw materials such as rare earth metals, semiconductor wafers, and chemical electrolytes. The company maintains a large stock of raw materials, the nature of which is technically complex and requires expert knowledge for physical verification. Therefore, management hired their experts to assist in the stock verification process. Simultaneously, auditors also hired their own expert to evaluate the inventory. During the audit, auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes, and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor. Though the auditor was aware that he has not obtained sufficient appropriate audit evidence and it would be right to express a modified opinion in the auditor's report.

However, he was reluctant in doing so, thus, expressed an unmodified opinion and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to the relevant Standard on Auditing relating to the action of the auditor of issuing unmodified audit report.

[MTP - 1 SEPT. 25] (05)

Q.15. CA A has been appointed as an auditor of Datacom Ltd. to conduct statutory audit. The company has various derivative contracts - options, forward contracts, interest rate swaps etc. which were required to be fairly valued for which company got the fair valuation done through an external third party. CA A involved a registered valuer Mr. S as an auditor's expert to do the valuation of derivatives in order to obtain sufficient appropriate audit evidence. CA A and Mr. S are new to each other and they were working for the first time. Mr. S performed his work and submitted the report. CA A, while evaluating the adequacy of the work of Mr. S, observed that expert's work involved use of significant assumptions and methods. Consequently he wants to test the relevance and reasonableness of those assumptions and methods in the applicable circumstances. Guide CA A in this regard as per relevant Standard on Auditing.

[MAY 25] (05)

Q.16. 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.

[SEPT. 25] (05)

4. MATERIALITY, RISK ASSESSMENT AND INTERNAL CONTROL

Q-1. Suneel was appointed as the auditor of PCM Ltd. for the financial year 2022-23. During the course of planning for the audit, CA. Suneel intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA. Suneel, if PCM Ltd. is engaged in:

- (i) the manufacture and sale of air conditioners and is having regular profits.
- (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic.

[MTP - 11 MAY 24] (05)

Q-2. Deepti & Co., Chartered Accountants, during the audit of a Magma Ltd. found that certain machinery had been imported for production of new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? [MTP - 1 NOV 24] (04)

Q-3. Ananya & Co., Chartered Accountants, during the audit of Krishna Ltd. found that certain machinery had been imported for the production of a new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard? [MTP - 11 MAY 25] (04)

Q-4. AMRO Ltd. is a manufacturing and trading Company of leather goods since last 10 years. You are the internal auditor of the company for the year 2023-24. In order to review internal controls of the company, you visited the departments and noticed:

- (1) The head of procurement, Mr. Amit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.

(2) The company's staff has been working in the same roles for over five years without any rotation. The finance manager, Mr. Sachin, in particular, has never had his duties rotated since joining the company.

(3) The store manager, Mr. Gupta, who is responsible for maintaining the inventory, also keeps the inventory records.

(a) Briefly discuss the general conditions pertaining to the internal check system to be ensure by you as an auditor.

(b) Do you think that general conditions pertaining to the internal check system are violated in the given situation? [RTP NOV 24]

Q.5. CA Kavya has been appointed as the statutory auditor of XYR InfraTech Ltd. for the financial year 2024-25. The company operates in two business segments: (i) a consumer electronics division that manufactures smart televisions and earns stable profits; and (ii) an infrastructure development division engaged in metro rail projects under government contracts. The infrastructure division has reported operating losses in the past two years due to delays and cost overruns. While planning the audit, CA Kavya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division. [RTP SEPT. 25]

Q.6. ROPE Ltd. is a manufacturing and trading Company of leather goods since last 12 years. You are the internal auditor of the company for the year 2024-25. In order to review internal controls of the company, you visited the departments and noticed:

(i) The store manager, Mr. Abhishek, who is responsible for maintaining the inventory, also keeps the inventory records.

(ii) The company's staff has been working in the same roles for over seven years without any rotation. The finance manager, Mr. Krishna, in particular, has never had his duties rotated since joining the company.

(iii) The head of procurement, Mr. Sumit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.

Do you think that general conditions pertaining to the internal check system are violated in the given situation? Comment. [MTP - II SEPT. 25] (04)

Q.7. Compute the overall Audit Risk if looking at the nature of business there are chances that 30% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 60%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete the Audit gives him satisfaction level of detection of frauds & error to an extent of 75%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk. [MTP - I SEPT. 25] (04)

Q.8. CA Q is the engagement partner for the statutory audit of LAL Ltd. While conducting the audit he has identified some deficiencies in the internal controls. On further verification of the internal controls of the company, he has some indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with the governance and also in few cases he observed the susceptibility to loss of an asset. He determines, on the basis of the audit work performed, that identified deficiencies constitute significant deficiencies. How and to whom CA Q shall communicate identified significant deficiencies in the internal control? Which matters shall be included by CA Q in such communication? [SEPT. 25] (05)

5. AUDIT EVIDENCE

Q-1. Mr. Atharv, while conducting the audit of Black Mountain Mining Ltd., which is involved in phosphate mining, decided to engage an auditor's expert to assess environmental liabilities and site clean-up costs. Black Mountain Mining Ltd. re-appointed Mr. Aman as an independent expert for this task. For the past five years, the management has consistently re-appointed Mr. Aman. He calculated the environmental liabilities for both completed mining sites and sites scheduled for closure in the near future, including provisions for clean-up costs. Management accepted his assessment.

Mr. Atharv, after performing the inquiries with management, was of the opinion that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. Hence, there is no need to raise a question on the objectivity of Mr. Aman or on his work performed for the company. However, the audit partner was of the opinion that the audit team needs to evaluate the objectivity of an expert engaged by the entity, irrespective of the fact that he was appointed as an independent expert.

Guide the audit partner and Mr. Atharv with respect to requirements pertaining to evaluating the objectivity of the management expert. [MTP - II NOV 24] (05)

Q-2 As auditor of Growth Limited, you have sent positive confirmation requests to 45 creditors of the company in March 2024. All of the creditors in the informal sector are small concerns. You choose to send positive confirmation requests to all the above parties at their business addresses stated on respective bills after discussing the matter with the CFO of the company. The CFO is cooperative and does not raise any hassles in the matter.

Responses to confirmation requests are received within a week's time. Your articled clerk informs you that out of above 45 creditors, GST registrations of 38 concerns have been cancelled during financial year 2023-24 itself by collating information from GST portal. He further informs you that there are no fresh registrations pertaining to PANs of these parties.

How would you proceed to deal with the situation as auditor of the company?

[MTP - I NOV 24] (05)

Q.3 While conducting the statutory audit of Tasty Foods Limited, CA. Careful has planned attendance at physical inventory count of the company from 29th March to 31st March 2024. The company is engaged in business of extracting rice from paddy grains and caters to domestic as well as international market particularly in Gulf region. It has its plant spread in area of about 20 acres located in National Capital Region (NCR). Paddy contained in jute bags of nearly standard sizes is purchased from dealers/agents. It is stored in heaps on pallets (kind of wooden structures) in open area covered by protective sheets and in steel silos (silos are huge steel containers with measuring strain gauges) in company's premises. The company mainly produces three rice brands viz. "Raja" & "Shehzada" (both for the domestic market) & "Badshah" (for the international market). The process of obtaining rice from paddy consists of various steps like cleaning of paddy, removing outer husk layer from paddy grains to obtain brown rice, whitening, polishing, grading & sorting, packaging which is accomplished by means of various types of machineries installed in plant. The company's management has prepared a set of instructions and procedures to be followed for recording and controlling results of company's physical inventory counting which are listed as under:-

- The physical inventory count process is to be supervised by a responsible officer of company responsible for storage functions.
- There should be no disturbance to the routine process of receiving goods and despatch during the counting time period.
- Counting process is to be undertaken by constituting different teams of 3 members each for counting/verifying raw material, work in progress and finished goods.
- Paddy in steel silos is to be estimated using their capacity.
- Quantity of work in progress is to be estimated considering plant capacity as whole.
- The responsible officer should ensure that stocks have been counted/verified in all areas.

Before proceeding to attend physical inventory count process of company, evaluate management's instructions and procedures sent to CA. Careful as stated above. You may suggest modification, addition or removal of such instructions to ensure effective count process.

[MTP - 1 MAY 24] (05)

Q.3.A The Engagement Partner of the audit team of High Inventory Limited assessed that the inventory is material with respect to the audit of the financial statement for the current period. Upon inquiring with the management, the Engagement Partner identified that the management will be performing an annual physical inventory count at all the warehouses where the entity stores and maintains its inventory. Moreover, management confirmed in its written representation that they will be performing a 100% physical count of inventory for the current period.

As a result, the Engagement Partner decided not to perform any physical count of inventory as it will be a duplication of the work. Moreover, he decided that the written representation from management stating "the inventory exists and is in appropriate physical condition" will be sufficient and appropriate with respect to audit evidence to conclude that the inventory balance in the financial statement is free from any material misstatement.

In the light of SA 501, evaluate whether the decision taken by the Engagement Partner is appropriate or not.

[MTP - II MAY 25] (05)

Q.3.B During the audit of Goldy Ltd., a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ₹ 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation.

[MTP - II MAY 25] (05)

Q.4 CA. Jin, a recently qualified practicing Chartered Accountant, got his first audit assignment of Ordinary (P) Ltd. for the financial year 2023-24. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Jin left failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 250 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

Relying merely on the management's affirmation that there were no receipts or further credits during the year, CA Rohan excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been audited by the predecessor auditor. Comment on the appropriateness of CA Rohan's approach.

[MTP - 1 MAY 25] (05)

Q.5 During the audit of the financial statements of Looks Limited for the year ended March 31, 2024, CA Suyash, the statutory auditor requested external confirmation for certain trade receivables and trade payables as part of audit procedures in accordance with SA 505:

- (i) CA Suyash sent a confirmation request to a debtor for balance of ₹ 15,50,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated.
- (ii) He also sent a confirmation request to a creditor with an outstanding balance of ₹ 13,25,000 requesting a response only if there was a disagreement with the stated amount.

CA Suyash received responses from the aforementioned debtor and creditor in following manner:

- The debtor confirmed that, as per their records, they owed ₹ 14,90,000 to Looks Limited instead of ₹ 15,50,000 as per the company's books.
- The creditor did not respond to the confirmation request.

Identify and explain the type of confirmation request sent by the auditor to the debtor and creditor. Also, discuss the course of action the auditor should take for the discrepancy in the confirmation received from the debtor and non-receipt of confirmation from the creditor.

Q.6 PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties under terms and conditions that are outside PQR Ltd.'s normal course of business, suggestive of the indications about existence of

related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. [NOV 24] (05)

Q.6.A CA Pawan has been appointed as the statutory auditor of Vij Pvt. Ltd. for the financial year 2024-25. During the course of the audit, he obtained sufficient and appropriate audit evidence for items shown in the Statement of Profit and Loss. However, while auditing the Balance Sheet items, he left obtaining appropriate audit evidence, say, external confirmations, for outstanding accounts receivable amounting to ₹ 135 lakhs. He continued as it is from last year, on the affirmation of management that there are no receipts and further credits during the year. CA Pawan, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor. What measures need to be taken by the auditor CA Pawan? Also, suggest the correct audit procedure in this regard. [MTP - II SEPT. 25] (05)

Q.7. CA Chirag is the statutory auditor of Electric Corporation Limited, a Government Company for the year ended on 31st March 2025. The turnover of the Company for the period was ₹ 10,000 crores from sales of electricity. During the audit, Chirag found that the Company had procured spares for Transmitters for ₹ 700 crores from abroad through a Corporation by name PCDC India Limited which is also owned and controlled by Government of India. The Financial Statements of the Electric Corporation Limited, prepared in compliance with Ind AS for the year ended on 31st March, 2025 did not contain any additional disclosure regarding the procurement of spares as referred to above. Chirag had query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises. Analyse this issue faced during finalising the Audit Report. [MTP - II SEPT. 25] (05)

Q.8. CA Zora has recently accepted engagement of the statutory audit of Segment Ltd. for the financial year 2024-25. While reviewing the trial balance and financial records,

Zora identifies that the Opening Balances as on 1st April 2024 are carried forward from the previous year and were audited by another auditor, CA Rohan. Zora wants to be satisfied regarding the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements.

- (i) Briefly mention the audit procedures Zora should perform to obtain sufficient and appropriate audit evidence regarding the Opening Balances, considering it is an initial audit engagement?
- (ii) Also suggest the approach to be followed by Zora if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein.

[MTP - 1 SEPT. 25] (04)

Q.9. ABC Limited is in the business of manufacturing of iron ore and steel bars since last decade. The company is having its registered office in Mumbai and factory in Bhiwandi. M/s. R and Associates are appointed as the statutory auditors of the company for the financial year 2024 - 25. While going through the trial balance of the company, they observed that the company has 50 customers and 40 vendors. They requested the company to authorise them to send the external confirmation to few of its customers and vendors. The company immediately provided them an authority letter to send the external confirmation to their customers and vendors. The auditor sent positive confirmation request to top 3 customers and top 3 vendors. After two days of sending positive confirmation request, the management of the company handed over to them the duly signed response received from the respective customers and vendors to whom they had sent the confirmation request. How would M/s. R and Associates proceed to deal with the situation as the auditor of the company? [SEPT. 25] (05)

Q.10. During the statutory audit of Nature Care Ltd., CA Vigilant has planned to attend the physical inventory count of the company. Nature Care Ltd. is engaged in the production of pharmaceutical tablets and capsules catering to domestic and export markets, particularly the Middle East. The manufacturing facility is spread over 15 acres in the Industrial Area, Delhi. Raw materials such as powders and chemicals are stored in sacks and drums while work-in-progress (WIP) and finished goods are stored in production and warehouse areas.

The company produces three major product lines:

“HealFast” (domestic), “MediPlus” (domestic), and “GlobalCare” (export).

The process of production involves weighing, blending, granulation, tablet pressing, coating, packaging and quality testing using various automated machines.

The company management has provided a set of instructions for conducting and recording the inventory count:

- Physical inventory counting to be supervised by the warehouse incharge.
- Counting should not disrupt the routine process of raw material receipt or product dispatch.
- Teams of four members each are to count raw materials, WIP and finished goods.
- Quantities of material in drums to be estimated based on drum capacity.
- Quantities of WIP to be estimated considering overall plant capacity.
- Responsible officer should ensure that all areas have been counted.

Before attending the physical inventory count, evaluate the management's instructions provided to CA Vigilant. Suggest modifications, additions, or deletions to ensure an effective and reliable counting process.

[RTP JAN 26]

6. COMPLETION AND REVIEW

Q-1 The audit report of Rare (P) Ltd for F.Y. 2022-23 was issued by SRM & Co. on 23rd July, 2023. However, a case was filed against Rare (P) Ltd on 9th August, 2023, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2023, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co. Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2022 -23. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.

In the context of aforesaid case-scenario, please answer to the following questions:

Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd? [MTP - 1 MAY 24]

Q-2 CA Shobit is conducting an audit of XYZ Ltd. for the year 2023-24. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2024. However, it becomes known to CA Shobit that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2023. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss, how, CA Shobit should proceed to deal with above issue. [MTP - 1 NOV 24] (04)

Q.3 Nandini Ltd. a chemical manufacturing company, having its factory located at Kanawali Village, for the year 2022-23 appointed Vasu & Co. as their statutory auditors. During the course of the audit, Vasu & Co. identified that Nandini Ltd. received a show cause notice from National Green Tribunal based on the investigation performed by the regional forest department for violating environmental laws. Upon gathering a further understanding of the said matter, it was identified that Nandini Ltd. was dumping toxic solid waste, without treating it, on the nearby grounds, and because of this, the nearby water bodies were getting polluted. Based on the preliminary investigation performed by the regional forest department under the directions of the National Green Tribunal, it was identified that these practices were carried out since 2009 and a lot of damage has been done to the environment by Nandini Ltd. A show cause notice was already issued to Nandini Ltd. by the National Green Tribunal for levying the penalty of an amount of ₹ 700 crore. The unaudited profit for the financial year 2022-23 of Nandini Ltd. was ₹ 49 crore and the unaudited turnover was ₹ 120 crore. Upon inquiry it was identified that Nandini Ltd. has disclosed this matter in the financial statements by way of footnote, the extract of which is provided below:

“The company has received a show cause notice from the National Green Tribunal for some potential violation of environmental laws and the company’s legal department has assessed and found that the judgment would be in favour of the company. Accordingly, no provision has been created for such notices.”

In the light of the above scenario kindly provide what should be the appropriate option for the statutory auditor of the company to report this matter.

[MTP - II MAY 24] (05)

Q.4 Fun Fiesta Ltd., an entertainment company that operates a traveling circus, has been facing a significant decline in popularity over the past few years, with attendance reportedly dropping by as much as 75% in the current financial year. The circus has also been continuously targeted by animal rights activists for its use of animals like elephants in performances. The CEO observed that audiences were shifting to other entertainment options, making the business model unsustainable due to the high costs of moving the show from city to city. As a result, several key managerial personnel resigned, there were delays in the payment of wages and salaries, and the bank from

which the company had obtained funds decided not to extend further financing or fund additional working capital requirements.

During discussions with management, the statutory auditor understood that Fun Fiesta Ltd. had no action plan to address these financial difficulties, making the use of the going concern assumption inappropriate. However, these critical circumstances were not disclosed in the company's financial statements. What course of action should the statutory auditor take in the auditor's report in such situation? Discuss with reference to the applicable Standards on Auditing.

[MTP - 1 MAY 25] (05)

Q.5 Mudit & Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2023-24. The company is into the business of Health Club, Fitness Centre and gym costumes. CA M is the Engagement Partner for the audit assignment. CA M observed the following points while auditing:

- (i) Customer's base is reducing continuously due to tough competition and discount war existing in the market.
- (ii) Payments of creditors are delayed and made with overdue interest.
- (iii) Company has not been able to pay the salaries of staff and trainers on time.
- (iv) Key financial ratios of the company, like current ratio, debt-service coverage ratio, are in the red and have deteriorated considerably as compared to last year.
- (v) The company has requested its bankers to provide it with additional working capital credit facilities of ₹ 1.5 Crores, but bankers are not considering the company's proposal favorably. What audit procedures should be followed by CA M considering the above circumstances as per SA 570 - "Going Concern"? How auditor should deal if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made in the financial statements? [RTP NOV 24]

Q.6 Pratibha Ltd. is a company engaged in the manufacturing of iron doors. JLN & Associates are the statutory auditors of Pratibha Ltd. for the Financial Year 2023-24. During the course of audit, CA Shiv, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 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 Shiv express in case of Pratibha Ltd.?

[MTP - II NOV 24] (05)

Q.6.A CA Ashish is carrying out an audit of restated financial statements of Krop Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Ashish is planning to issue an Audit Report on 2nd August, 2024 covering these restated financial statements. Before issuing the audit report, CA Ashish requested a Management Representation Letter from the management of the company for this assignment. The management of the company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period. How would CA Ashish deal with the above situation as per relevant Standard on Auditing?

[MTP - II MAY 25] (05)

Q.6.B Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of ₹ 1,200 crores and profits of ₹ 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that:

- (i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and
- (ii) All transactions have been recorded and are reflected in the financial statements

As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests.

- (a) Whether the contention of auditor for seeking written representation letter is justified?
- (b) What should be the form of such written representation?
- (c) How should the auditor proceed if management refuses to provide the written representation?

Q-7 CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA N is planning to issue an Audit Report on 5th August, 2024 covering these restated financial statements. Before issuing the audit report, CA N requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 7th April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period.

How would CA N deal with the above situation as per relevant Standard on Auditing?

[MAY 24] (05)

Q-8 CA Prashant is appointed as statutory auditor of Sober Pvt. Ltd. under the Companies Act 2013 for the first time. The company is preparing its accounts, considering the applicable requirements of Division I of Schedule III of the Companies Act, 2013. On scrutinising, the company's financial statements for an audit, it was noticed that notes to accounts show the ageing of trade payables as per amended requirements of the Schedule III of the Companies Act, 2013. The ageing schedule forming part of the notes is as under: - Outstanding for following periods from the due date of payment (In ₹ crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2	4	3	1	10
Disputed dues MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the key financial ratios are in red. There is no other relevant information concerning above in notes to accounts. Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in month of March 2025. On inquiry, he came to know that the company's stock audit was conducted in January, 2025 and stock auditors have commented vide their report dated 25.2.2025 that the company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in the cash credit account since March 2025. Further, upon inquiry with the management, it was identified that management did not have any major future contracts to boost their revenue and financial position. There is no information in this respect in financial statements and notes to accounts. Discuss how CA Prashant should deal with above for reporting in his audit report under the Companies Act, 2013.

[MTP - II SEPT. 25] (05)

Q.9. CA Shreyansh is carrying out an audit of restated financial statements of MBC Limited for past 3 financial years i.e. 2024-25, 2023-24, and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Shreyansh is planning to issue an Audit Report on 5th August, 2025 covering these restated financial statements. Before issuing the audit report, CA Shreyansh requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2025 covering the period of financial year 2024-25 only as they were not in position to provide for the financial year 2023-24 and 2022-23 because they were not in place during that period.

How would CA Shreyansh deal with the above situation as per relevant Standard on Auditing?

[MTP - II SEPT. 25] (05)

Q.10. You are the auditor of SAFE Ltd., which is in the business of supplying food products to various airline companies operating in aircrafts in domestic circle only. As per terms of agreement with airlines, the company is required to maintain stock of various

non-perishable food items sufficient for the coming one month (average holding of inventory to the tune of ₹ 120 Crores). The payment terms have been settled, and the company receives payment in 45 days after the supply of goods. Business was running smoothly till 31st March 2025. However, in the first week of April 2025, a nationwide strike by airline employees led to the complete suspension of domestic flight operations across the country for an indefinite period. Consequently, the business of SAFE Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Further, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of SAFE Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31st March 2025 represent true and fair view?

[MTP - 1 SEPT. 25] (05)

7. REPORTING

Q-1 While conducting audit of CGX Limited, a listed company, for year 2022-23, CA. Srishti notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under:-

Sr. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.50 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.00 crores

The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstanding's were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

She is contemplating inclusion of above matters under "Key audit matters" in audit report. Analyse the situation threadbare. [MTP - 1 MAY 24] (05)

Q-2 Mr. Arjun was appointed as the engagement partner for conducting the audit of Kurukshetra Tech Ltd. for financial year 2023-24, on behalf of NEMI & Associates. Mr. Krishna was appointed as the engagement quality control reviewer (EQCR) by the firm for the said audit.

During financial year 2023-24, Kurukshetra Tech Ltd. implemented an ERP system in phases, leading to the automation of certain business processes. This implementation had a substantial impact on the auditor's overall audit strategy. Mr. Arjun discussed the implementation of such a system with Mr. Krishna and also told him that such matter may be a key audit matter to be reported in the audit report.

Mr. Krishna considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements & so there was no need to disclose such matter as a key audit matter. Whether the contention of Mr. Krishna is appropriate with respect to the matters to be communicated as a key audit matter?

[MTP - II NOV 24] (05)

Q.3 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 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.

[NOV 24] (05)

Q.4. BPMR and Associates, a renowned audit firm in the field of CA practice for the past three decades, was appointed to conduct the statutory audit of Rexlon Ltd., an unlisted company engaged in the business of paper manufacturing. The firm decided to commence the audit for the recently concluded financial year. After making significant progress in the audit, the auditors made the following observations:

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to the flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material.

You are required to advise whether BPMR and Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?

[MTP - 11 MAY 24] (04)

Q-5 CA. Navya is the statutory auditor of Lakshay Ltd. for the Financial year 2022-23. In respect of loans and advances of ₹ 75 Lakh given to Hariharan Pvt. Ltd., the Company has not furnished any agreement to CA. Navya and in the 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. Navya should give in such a situation. Also, Draft an appropriate Opinion paragraph and Basis of opinion paragraph.

[MTP - 1 MAY 24] (05)

Q-6 Spice Ltd., FMCG company, having its tea gardens in northeastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in South Africa and Vietnam. M/s Dharam & Associates are the statutory auditors of the company for the financial year 2023-24. During the audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statements being Joint venture investment in Croptop Ltd. representing over 89% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Croptop Ltd. is carried at ₹ 120 crore in the group's consolidated balance sheet.

Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report.

[MTP - 1 NOV 24] (05)

Q-7 The extract of the financial statements of Nex Limited for the financial year 2023-24 is as follows:

Particulars	Rupees (in Crores)
Trade Receivable - Unsecured considered Good	225.00
Provision for Bad and Doubtful Debts	50.00
Stock of Raw Materials	180.00
Stock of Finished Goods	250.00
Total of Assets	950.00

CA Yash is the statutory auditor of Nex Ltd. for the FY 2023-24. During the course of audit CA Yash noticed the following:

- i. With respect to the debtors amounting to ₹ 175 crore, no balance confirmation was received by the audit team. Further, there have been defaults on the payment obligations by debtors on the due dates during the year under audit. The company has created a provision for doubtful debts to the tune of ₹ 50 crore during the year under audit. The company has stated that the provision is based on receivables which are older than 36 months, which according to the audit team is inadequate and as such the audit team is unable to ascertain the carrying value of trade receivables.
- ii. Further, in respect of inventories (which constitutes 45% of the total assets of the company), during the reporting period, the management has not undertaken physical verification of inventories at periodic intervals. Also, the company has not maintained adequate inventory records at the factory. The audit team was unable to undertake the physical inventory count as such the value of inventory could not be verified.

What kind of opinion should be given by CA Yash in the given situation? Draft a suitable Opinion and Basis of Opinion paragraph. (RTP NOV 24)

Q.7.A CA Ram is the Statutory Auditor of RJ Ltd. for the financial year 2023-24. The company is engaged in the production of electronic products. During the audit, CA Ram obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the financial statements. Discuss how CA Ram should deal with the situation in the auditor's report and the different options which can be considered? [MTP - II MAY 25] (05)

Q.8 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 24] (05)

Q.9 The audit report of Rare (P) Ltd for F.Y. 2022-23 was issued by SRM & Co. on 23rd July, 2023. However, a case was filed against Rare (P) Ltd on 9th August, 2023, with the Civil Court, with respect to an incident caused in its factory on 24th January, 2023, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2022 -23. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.

In the context of aforesaid case-scenario, please answer to the following questions:

- (i) Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?
- (ii) Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the financial statements? [MTP - 1 MAY 24] (05)

Q.10 Groof Limited is engaged in the business of executing construction contracts for its clients. As on 31st March, 2024, the company's financial statements reflect non-current receivables outstanding amount of ₹ 500 crore. Such amounts arise from claims raised by the company on its clients due to cost overruns caused by project delays, change in work specifications and related matters. Besides negotiations, the company has also gone for arbitration in some of the said cases.

The management has stated in the notes to account that these amounts are fully recoverable.

CA Arohan, auditor of the company, has relied only upon management representation in this regard. Additionally, he has decided to include this matter in "Emphasis of Matter Paragraph" in audit report.

Evaluate the appropriateness of the auditor's decision to include this matter in "Emphasis of Matter Paragraph"? [MTP - 1 MAY 25] (05)

Q.10-A Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in

active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Management of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statement.

Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statement the audit team decided to disclose the same in Other Matter Paragraph.

You as an Engagement Partner are required to guide the Audit Team with respect to reporting of the said matter in Audit Report. [MTP - II MAY 25] (04)

Q.11 Neptune Ltd. is a company that holds significant investments in a portfolio of equity securities. Due to a decline in market values, the company's investments have suffered a notable diminution in value. For the financial year ended 31st March 2023, the audit report of Neptune Ltd. included a qualification regarding the non-provision of ₹ 70 lakh for the diminution in the value of these investments. As the auditor for the financial year 2023-24, how would you report in the following situations:

- (i) If the company does not make a provision for the diminution in the value of investments in the year 2023-24?
- (ii) If the company makes an adequate provision for the diminution in the year 2023-24?

[MTP - II NOV 24] (05)

Q.12 Jinchandra & Co., Chartered Accountants, has been appointed statutory auditor of Gurudeva Ltd. for the F.Y. 2022-23. The audit team has completed the audit and is in the process of preparing the audit report. Management of the company has also prepared draft annual report.

The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who in reply said that auditors are not covered with such disclosures made

by the management in its annual report, it being the responsibility of the management. Do you think that the partner is correct in his approach on this issue? Discuss with reference to the relevant Standard on Auditing the Auditor's duties with regard to reporting.

[MTP - 11 MAY 24] (05)

Q-13 Kailash & Co., Chartered Accountants, has been appointed as statutory auditor of Diksha Ltd. for the F.Y. 2023-24. The audit team has completed the audit and is in the process of preparing the audit report. The management of the company has also prepared a draft annual report. The audit in-charge was going through the draft annual report and observed that the company has included an item in its annual report indicating a downward trend in market prices of key commodities/raw material as compared to the previous year. However, the actual profit margin of the company as reported in financial statements has gone in the reverse direction. The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management. Is the partner's approach appropriate in this situation? Analyse the issue with reference to the relevant Standard on Auditing and the auditor's duties with regard to reporting.

[MTP - 1 MAY 25] (05)

Q-14 During the course of audit of PEC Limited, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Is CA Guru under statutory obligation to report the above matter to Central government by filing prescribed form on MCA Portal? How should he proceed to report above said matter?

[MTP - 11 NOV 24] (04)

Q-15 TEA Ltd., a public company is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year 2023-24, it had availed credit facilities from Kuber Bank Ltd. The bank had sanctioned a working capital cash credit facility on 21st April, 2023, for a limit of ₹ 4.50 crore and Letter of Credit facility for a limit of ₹ 2.50 crores aggregating to ₹ 7 crore on the basis of the hypothecation of stocks and book debts of the company against which utilisation of the limits by

TEA Ltd during the year in the case of cash credit facility was ₹ 3.90 crore and of Letter of credit was ₹ 1.05 crore aggregating to ₹ 4.95 crore. During the year under review, the company had faced sluggish market conditions for its various brands of teas due to its inability to cater to the requirements of its customers' expectations. It faced severe cash crunch and found it difficult to manage working capital stress. In order that the bank does not reduce its drawing power of working capital limit, the management decided to peg up the values of the stock statements it submitted to bank by a hike of 15% during the quarters ended June 2023, September 2023 and December 2023. When an engagement partner leading the audit team happened to review the stock statements submitted to the bank, it was noticed that the stock figures declared were not in agreement with book figures and had been hiked as above. The matter was taken up with CFO of the company who contended that auditors need not examine and compare the quarterly statements with the books of accounts as the utilisation of working capital limits is less than the specified sanctioned limit as on 31st March, 2024 & hence this case is beyond the scope of reporting under CARO, 2020. Is the contention of CFO correct? Analyse the issue and discuss the reporting responsibilities of the auditor.

[NOV 24] (05)

Q.16 Discuss the reporting responsibilities of statutory auditor in the following situations for year 2023-24 under CARO, 2020:

(i) In the financial year 2023-2024, Candy Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sidhant, who is also a director of Candy Ltd. Initially hesitant to sell, Mr. Sidhant was persuaded to transfer his property to the company in exchange for a larger plot owned by Candy Ltd. This plot, located on a nearby street, is double the size of Mr. Sidhant's land. Satisfied with the exchange, Mr. Sidhant agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sidhant. The registration of the properties was completed by December 31, 2023.

(ii) On 15th May, 2023, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey

team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as "assessee in default". The company has not deposited demand raised and filed appeal against impugned order on 1st March, 2024 under e-appeals scheme with JCIT (Appeals). [MTP - I NOV 24] (05)

Q-17 You are appointed as a Statutory Auditor of SDA Limited for the year 2023-24 in the place of CA T. During audit you found an order dated 01-05-2023 under section 148 of the Income Tax Act, 1961 wherein tax of ₹ 50 lakhs were demanded owing to undisclosed cash sales of ₹ 150 lakhs for the financial year 2020-21 which was accepted by the company & the applicable tax was paid by the Company during the year 2023-24. The company has not recorded such undisclosed income in their books of account during the year 2023-24. On further inquiring the matter with CA T, you came to know that CA T resigned due to non-recording of such transaction by the company. Is there any reporting responsibility casted on you regarding the above matters under CARO, 2020 for the year 2023-24? [MAY 24] (05)

Q-18. Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29th March 2024. The company appointed Mr. Yuvan as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020? [MTP - II NOV 24] (05)

Q-19. Comment with reference to the provisions of CARO, 2020:
(a) Relon Limited has a turnover of ₹ 650 crores during the financial year 2023-24. It has outstanding dues towards income-tax of ₹ 15 lakhs since July 2023. When inquired by the auditor, the company's management informed him that they have filed an objection letter for the said demand with the Income-tax Authorities, however, no response is received from the department. Is there any reporting responsibility of auditor under CARO, 2020?

(b) During the audit, CA Kunal found that physical verification of inventories of the company has been conducted by management on regular interval. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts as at the year-end:

[RTP MAY 25]

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2,500	2,790
Stores and spares	220	180
Total	4,290	4,580

Q.20. Harsh Electronics Ltd., a manufacturing company, planned to set up a new R&D centre at its existing industrial premises in Pune to mark its 25th anniversary in the financial year 2024-25. To expand the premises, the company decided to acquire an adjacent plot of land owned by Ms. Reena, an executive director of the company.

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

As an audit engagement partner for Harsh Electronics Ltd., what additional audit procedures would you perform in respect of this land exchange transaction, and what would be your responsibilities from a reporting perspective?

[RTP SEPT. 25]

Q.21. Kuber Tech Solutions Ltd. is in the process of finalising its financial statements for the year ended 31st March 2025. The company is required to present comparative financial statements, including figures for the year ended 31st March 2024. Roshan & Co., Chartered Accountants, has been appointed as the statutory auditor for the current year.

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

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

(a) What are the duties of CA Roshan while reporting on the current year's financial statements, considering the prior year's adverse opinion?

(b) What modifications or disclosures are required in the current year's audit report in accordance with the relevant Standards on Auditing? [RTP SEPT. 25]

Q.22. All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation?

[MTP - I SEPT. 25] (04)

Q.23. You have been appointed as an auditor of Megh & Sons for FY 2024-25, as entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The appointment was made in April 2025. The financial statements have been prepared by the management in accordance with the Accounting

Standards. The management introduced the new computerized accounts receivable system in November 2024, which is still in the implementation phase. Consequently, the management is in the process of rectifying system deficiencies and correcting errors. Upon implementation of new system, the earlier system of accounting of receivables had been discontinued. The auditor was unable to obtain sufficient appropriate audit evidence about the entity's accounts receivable and inventories. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Draft the Opinion Paragraph and Basis for Opinion Paragraph to be included in the Independent Auditor's Report.

[MTP - 1 SEPT. 25] (05)

Q.24. 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? [MAY 25] (05)

Q.25. 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:

- (i) Analyse the reporting requirements under CARO, 2020, for Brown Enterprises Ltd.
- (ii) 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.

[MAY 25] (05)

Q.26. AZ Industries Ltd., an Indian pharmaceutical company having its corporate office in Mumbai is engaged in developing, manufacturing and globally marketing a broad range of pharma products. During the F.Y. 2024 - 25, in pursuit of company's research & development drive for developing their core product portfolios, two companies viz. KK Ltd., a wholly owned subsidiary company, and OP Ltd., a Jointly Controlled Entity, were amalgamated with AZ Industries Ltd. PPP & Associates, Chartered Accountants, are the principal auditors of the company. The audit of KK Ltd. and OP Ltd. was conducted by the respective auditors of those companies. The consolidated financial statements of AZ Industries Ltd. consists of financial statements and financial information of both these companies, to whom CARO 2020 is applicable. The auditors of the said companies have given qualifications in their CARO report on the standalone financial statements for the F. Y. 2024 - 25 as under:

- (1) In respect of wholly owned subsidiary company viz. KK Ltd., its auditor has qualified clause 3(xv) since the company has not complied with the provisions of Section 192 of the companies Act while entering into non-cash transactions with the director.
- (2) In respect of OP Ltd., being Jointly Controlled Entity, its auditor has made the adverse remark in clause 3(ix)(a) since the company has defaulted in repayment of loans to bankers.

In respect of AZ Industries Ltd., the principal auditor has given adverse remark in the standalone financial statement of the company in respect of clause 3(i)(c) since the title deeds of some immovable properties were not held in the name of the company. The engagement partner, CA P, is in the process of finalizing the consolidated audit report. Guide CA P how he will report on the matters stated above; in terms of the reporting requirements under paragraph 3 of CARO, 2020.

[SEPT. 25] (04)

Q.27. Opaque Pharmaceuticals Ltd. has outstanding long-term receivables of ` 415 crore as on 31st March 2024, arising from pending insurance claims for compensation due to supply chain disruptions caused by regulatory delays and unforeseen production stoppages. Some of these claims are under legal proceedings while others are in the process of negotiation with the insurance companies. Management has disclosed in the notes to accounts that these amounts are considered fully recoverable. CA Neha, the statutory auditor, has relied solely on management representations regarding the recoverability of these receivables and is considering inclusion of this matter in the "Emphasis of Matter" paragraph of the audit report. Assess whether CA Neha's decision to include this matter in the Emphasis of Matter paragraph is appropriate.

[RTP JAN 26]

8. SPECIALISED AREAS

Q-1 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 of Auditing regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment.

[NOV 24] (05)

Q-2 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.

[MAY 24] (04)

Q-3 CA Y is the auditor of Stekk Ltd., a company that recently faced material misstatements in its financial records, leading to an adverse opinion on the audited financial statements for the financial year 2023-24. Now, the management of the company has prepared summary financial statements derived from the audited financial statements and requested CA Y to express his opinion on these summaries. What additional points should CA Y consider when expressing an opinion on these summary financial statements?

[MTP - 1 NOV 24] (04)

Q-4 When auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which

other matters shall the auditor's report on the summary financial statements contain in addition to elements of auditor's report described in SA 810? If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor's opinion on summary financial statements?

[MTP - 1 MAY 24] (05)

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

[SEPT. 25] (05)

9. AUDIT - RELATED SERVICES

Q.1 Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ₹ 100 crores as on 31st December, 2023. The management of the company wants to evaluate validity of the trade receivables to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA. Karuna to take up this assignment and prepare a report for management in accordance with professional standards. Despite not being statutory auditor of the company, she decides to accept above engagement.

(a) By explaining nature of engagement described above, discuss whether it was proper for her to accept such engagement.

(b) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope? [RTP MAY 24]

Q.2 ATP Limited, a large manufacturing company, is planning to invest funds in RS Ltd with a future vision of taking over the company at a later stage. On studying the financial statements of RS Ltd, the investing company wants to get detailed status regarding the Accounts receivable and Inventory appearing in the Balance Sheet. ATP Limited approached you to perform agreed upon procedures for the two elements of financial statement of RS Ltd. and submit a detailed report for the same. As the engagement partner, you are responsible for drafting the engagement letter. Enumerate the key matters that need to be agreed to form a clear understanding regarding agreed upon procedures and the conditions of the engagement. What matters will you include in the engagement letter addressed to the management of ATP Ltd.?

[NOV 24] (05)

Q.3 MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit

engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differ from assurance engagements. Give your views on the applicability of SQC 1 to this engagement. [MAY 24] (05)

Q-4 The practitioner shall not accept the compilation engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. In view of the above, mention the responsibilities of the management to be agreed on for the compilation engagement in accordance with SRS 4410.

[MTP - II NOV 24] (04)

Q-5 You have been appointed to compile the financial statements of the Kings & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards on accounting. On pointing out the same, the partners of the Kings & Co., inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment. [MTP - II MAY 24] (05)

Q-5-A Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.

- (i) For what purposes may the financial information prepared under such an engagement be required?
- (ii) Briefly discuss the elements of Practitioner's report for such engagement.

[RTP MAY 25]

Q-6 KSN and Co., Chartered Accountants, have been appointed by Nature Ltd. to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework and issuing a report. CA L has been appointed as the engagement partner for the assignment.

What are the responsibilities of CA L and which documentation requirements related to Engagement Level Quality Control should CA L ensure compliance with in such an engagement?

[MTP - II MAY 25] (05)

Q.7. CA Vardhman is the statutory auditor of a listed company and is also required to carry out a quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with the business of the company and has a deep understanding of the company. Discuss any of the five procedures by which he can update his understanding of the company for carrying out quarterly review.

[MTP - II SEPT. 25] (05)

Q.8. 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.

[MAY 25] (04)

10. REVIEW OF FINANCIAL INFORMATION

Q-1 Best Textiles Ltd makes an investment in Prime Textiles Ltd with a view to expand its business, capture more market share and to earn higher returns. While forming an agreement for the same, Best Textiles Ltd. puts a clause in the contract that Prime Textiles Ltd will get its financial statements reviewed on a quarterly basis for a period of 2 years from the commencement of the contract i.e. 01-04-2023. To comply with the provisions of the contract the management of Prime Textiles Ltd. appoints CA Sumit to conduct the quarterly review of financial statements for the first quarter of the financial year 2023-24. Discuss from the practitioner's point of view, the preconditions for accepting a review engagement in accordance with the relevant SRE. [NOV 24] (04)

Q-2 Adboot & Co., a firm of Chartered Accountants, has been approached by Mix Ltd. to conduct a review engagement of its financial statements for the year ending 31st March 2024. Before accepting the engagement, the engagement partner, CA Jai, wants to ensure that the necessary preconditions for a review engagement are met. What preconditions should CA Jai evaluate before accepting the engagement? Discuss the responsibilities of Mix Ltd.'s management in this context and the necessary agreements that must be obtained from them. [MTP - 1 MAY 25] (05)

Q-3 In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss importance of these procedures in a review engagement. Practitioner's report containing outcome of review engagement in form of "conclusion" also contains a description of a review of financial statements and its limitations. Which statements in this respect are to be included in practitioner's report in accordance with SRE 2400? [MTP - 1 MAY 24] (05)

Q-4 A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the

entity's ability to continue as a going concern. Enumerate the steps to be taken by the practitioner for the same.

[MTP - II NOV 24] (04)

Q.5 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.

[MAY 24] (05)

Q.6 Amar Projects Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Amar Projects' interim financial statements for the six-month period ending 30th September 2024, instead of a full audit. To comply with this request, the management appoints CA Tanvi, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Tanvi is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report.

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

[RTP SEPT. 25]

Q.7. Vishnu & Co. is in process to issue a prospectus containing projected financial statements to provide information about future expectations of the Company to potential investors. You are hired by Vishnu & Co. to examine the projected financial statements and give reports thereon. Briefly mention the factors you will consider before accepting the audit engagement. Also, under what circumstances the engagement should not be accepted or should be withdrawn? [MTP - I SEPT. 25] (05)

Q.8. MK Limited, a company engaged in the manufacture of modular furniture, is headquartered at Mumbai. The company is recently listed at the recognized stock exchange in the month of July, 2024. CD & Co., chartered accountants, are statutory auditors of the company for the F.Y. 2024 - 25. The company has approached statutory auditors for providing quarterly review report pursuant to requirement of SEBI to provide quarterly results of the company in accordance with SRE 2410. Elucidate the objective of the engagement assigned by the company to the statutory auditors. [SEPT. 25] (04)

Q.9. VPN Ltd. is a listed entity that prepares quarterly financial statements in accordance with Ind AS. The company has appointed Jack & Co., Chartered Accountants, as its statutory auditors. During Q2 of the Financial Year 2024 - 25, Jack & Co. undertake a review of VPN Ltd.'s interim financial information in accordance with SRE 2410. The auditor plans to obtain written representations from the management. The management has merely stated that the interim financial information is prepared and presented in accordance with the applicable financial reporting framework. As an engagement team member, you are required to specify areas that these written representations should cover for the review of interim financial information. [SEPT. 25] (05)

Q.10. 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. [MAY 25] (04)

11. PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

Q.1 SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400. **[MTP - 11 MAY 24] (05)**

Q.2 Mr. Vineet, an auditor, has been approached by Qub Ltd. to examine the prospective financial information of the company. What factors should an auditor consider before accepting an engagement to examine prospective financial information, and under what conditions should the auditor decline or withdraw from such an engagement? Additionally, what steps should be taken to formalize the terms of the engagement? **[RTP NOV 24]**

Q.3 You are engaged by M/s Viva Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state. The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same? **[MTP - 1 NOV 24] (05)**

Q.4 PQ Pharma Limited, a company dealing in research & development and manufacture of pharmaceuticals is coming up with an Initial Public Offer (IPO). PQ Pharma Ltd has prepared the prospective financial statements for the next 3 years and included the same in the prospectus as part of its IPO. The prospective financial information includes projected balance sheets, statement of profit & loss and cash flow statements, which are prepared on the basis of several key assumptions like favourable government regulations, planned research & development of more effective medicines at reasonable prices, etc.

The company approaches CA Z to provide assurance on the prospective financial information and to assess the presentation and disclosure of the prospective financial information included in the IPO. List out the aspects that must be considered for making such assessment. [NOV 24] (05)

Q.5 STAR Limited has outsourced its payroll processing functions to a service organization

- Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solutions Private Limited's controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.

(a) Which type of report should be provided by the auditors of Little Solutions? Justify with reasons.

(b) State matters on which opinion is to be provided by the auditors of Little Solutions.

[RTP MAY 24]

Q.6. 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 & 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 is includes. [MAY 25] (04)

Q-7. Moksh Ltd. has prepared prospective financial information for an upcoming expansion project. On review, the auditor finds that the basis of certain assumptions is not disclosed, highly uncertain assumptions lack sensitivity analysis and the date of preparation is missing. In addition, a recent change in accounting policy relating to revenue recognition has not been reflected. In this context, what should the auditor consider while assessing the presentation and disclosure of the prospective financial information and its underlying assumptions? [RTP JAN 26]

12. DIGITAL AUDITING AND ASSURANCE

Q.1 MNC Limited, is engaged in manufacture & sale of FMCG products. It has manufacturing locations across various states in India and engages dealer channels to sell its products. One dealer is appointed for each district within the state and products are despatched from the nearest manufacturing location to the dealer. Considering the voluminous transactions, MNC Limited has a robust ERP network, for recording the transactions. As statutory auditors of MNC Ltd, your firm is about to commence the current year audit. The audit team includes certain IT experts and discussions are underway amongst the team members. As an IT manager of the engagement team, explain the key areas for an auditor to understand IT environment.

[MAY 24] (05)

Q.2 Gravity Ltd. is a medium-sized manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Ravi as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organization. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

[MTP - II MAY 24] (04)

Q.2.A Focus Ltd. is a manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Raman as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the organization. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively.

[MTP - II MAY 25] (05)

Q.3 IT dependencies also arise due to "system generated reports" and "interfaces". How do such IT dependencies arise? Why it is important to identify IT dependencies to develop an effective and efficient audit approach?

[MTP - I MAY 24] (04)

Q.3-A Yuvi, a finance manager at DCB Ltd., received a text message on his mobile phone claiming to be from his bank. The message states that: "Dear Customer, Your account has been temporarily suspended due to suspicious activity. To reactivate, please verify your details by clicking on the following link: [sendyourinfo-link.com]. Failure to do so within 24 hours will result in account deactivation. Thank you for banking with us". Yuvi is worried about his account security. Which type of phishing cyberattack Yuvi fell victim to? Also explain other types of such phishing attack. [RTP MAY 25]

Q.4 ABC Bank recently faced a cyber-attack where hackers attempted to steal customer data. This raised concerns about their cybersecurity measures. Regulators now require financial institutions to assess their cyber risk management and improve their defence against such threats. To handle cyber risks effectively, it is important to understand its key stages. Elucidate the stages of cyber risks that any organisations should focus on? [MTP - I MAY 25] (05)

Q.5 Remote audit is an audit where the auditor uses the online or electronic means to conduct the same. It could be partially or completely virtual, auditor engages using technology to obtain the audit evidence or to perform documentation review with the participation of the auditee. For example, an auditor might use video conferencing and cloud-based file sharing to review financial records remotely. What are the advantages and disadvantages of remote auditing? [MTP - II NOV 24] (04)

Q.5-A CA Kabir, an auditor assigned to conduct a remote audit of Beetal Limited. The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Kabir address to ensure the effectiveness and security of the remote audit? [MTP - I NOV 24] (04)

Q.6 Mr. Karan is a consultant tasked with helping a mid-sized manufacturing company modernize its operations by integrating Internet of Things (IoT) technology. The company wants to connect various devices such as manufacturing equipment, smart

home security systems for their facility, and inventory management systems. They aim to leverage IoT to improve operational efficiency, predict equipment maintenance needs, and enhance overall security. However, they are concerned about the potential risks and the impact on their audit processes. Describe the key components and benefits of IoT, the risks associated with IoT implementation, and the implications for the company's audit processes. How should the company address these concerns to ensure a smooth transition?

[RTP NOV 24]

Q.7 Certain studies have suggested that increase in cyber-attacks and rise in global payment processing cost have hit global banking and finance industries enormously. Therefore, such industries are going to place reliance on new technologies such as Blockchain. Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. However, such technology comes with its weaknesses and associated risks. What are common risks for Blockchain technology? Also discuss probable audit implications where such technology can be used.

[RTP MAY 24]

Q.8. While planning the audit of a company that heavily relies on automated processes, the auditor notices that several key financial reports used for decision-making are system-generated, and data is transferred across multiple IT applications through automated interfaces. Given this scenario, how do such IT dependencies arising from system-generated reports and interfaces develop within an entity's operations? Why is it important for the auditor to identify and understand these IT dependencies in order to design an effective and efficient audit approach? [MTP - II SEPT. 25] (05)

Q.9. KLM Industries Ltd., a mid-sized company engaged in consumer electronics manufacturing, has recently undergone a major digital transformation by implementation of a fully automated production tracking system, cloud-based accounting software, and a blockchain-based vendor payment system. These changes were introduced during the financial year 2024-25. The management believes that these technologies will increase the efficiency and reduce the chances of errors, and

hence, have revised the risk assessment accordingly. As an auditor, what steps should you take to evaluate the impact of such technology changes on the company's internal controls and financial reporting?

[MTP - 1 SEPT. 25] (04)

Q.10. Metaverse is the emerging 3-D digital space that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. It represents a convergence of digital technology to combine and extend the reach and use of Cryptocurrency, Artificial Intelligence (AI), Augmented Reality (AR) and Virtual Reality (VR).

State the key considerations for sustainable future of Metaverse. [MAY 25] (04)

Q.11. M/s ST & Co., Chartered Accountants, are appointed as auditors of Hitech Ltd, an IT company, engaged in providing diverse range of services like digital transformation, software development and cloud solutions. The auditors have to use online means to conduct the audit. Hence, ST & Co. decided to go for Remote Audit technology to obtain audit evidence and perform documentation review with the participation of management. The audit team got first hand evidence directly from the IT system as direct access had been provided to them. M/s ST & Co. have been developing tailored strategies to ensure that the remote audit meets the requirements and deliver results equivalent to the traditional onsite audits. They are concerned with confidentiality, Security and Data protection aspects while conducting the Remote audit. Guide them.

[SEPT. 25] (05)

Q.12. During the audit of Long Ltd., the auditor came across the following instances:

- (i) The finance team relies on a system-generated customer ageing report while reviewing overdue balances of trade receivables.
- (ii) The payroll module is designed in such a way that the person entering employee attendance cannot approve the salary disbursement thereby enforcing segregation of duties.
- (iii) The purchase order system of the company does not allow processing of duplicate vendor codes and automatically rejects entries where the vendor GST number is already present.

(iv) The ERP system automatically computes depreciation on fixed assets by applying straight-line method based on input values of cost, residual value and useful life. Identify the type of IT dependency involved in each of the above scenarios

[RTP JAN 26]

13. GROUP AUDITS

Q.7 Girdhar Ltd. owns 61% voting power in Meera Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its accounts. The shares are held exclusively with a view to their subsequent disposal in the near future. Girdhar Ltd. represents that while preparing Consolidated Financial Statements, Meera Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal? [MTP - II NOV 24] (05)

Q.7.A L & K Investments Ltd. is a company having paid up share capital of ₹ 1 Crore, it has a subsidiary, Wealth Fund Management Ltd. The primary business of L & K Investments Ltd. is to pool funds from investors on a collective basis and invest this money in various financial instruments. The company pooled ₹ 12 Crore from a number of clients, which represent the company's shareholders. During the audit of L & K Investments Ltd., CA Shiv observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company.

CA Shiv raised an issue while auditing financial statements of L & K Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion.

[MTP - II MAY 25] (05)

Q.7.B Advik Investments Ltd. is a company having paid up share capital of ₹ 1 crore, it has a subsidiary, Investors Fund Management Ltd. Major business of Advik Investments Ltd. is to pool money from investors on a collective basis and invest this money in various funds. This company pooled ₹ 10 crore from a number of clients, which represent the Company's shareholders.

While auditing books of accounts of Advik Investments Ltd. CA Chirag observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company. The performance of all of its investments is measured on fair value basis.

Now, CA Chirag raised an issue while auditing financial statements of Advik Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion.

[RTP MAY 25]

Q-2 CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA H regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors?

[MTP - 1 NOV 24] (05)

Q-3 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 consolidates 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.

[MAY 24] (05)

Q-4 You are appointed as an auditor of Imperial Industries Limited, a listed company with a turnover of ₹ 3.5 billion, operating through 15 business units and nearly 200 branches across the country. Imperial Industries Limited is a key supplier to the

American building and construction market. As an auditor, how will you draft the report in case:

- (a) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent?
- (b) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent?
- (c) Where the financial statements of one or more components are not audited?

[RTP NOV 24]

Q.5. CA Rajul has been appointed as the statutory auditor of the consolidated financial statements of Nemi Limited for the financial year 2024-25. The consolidated financial statements include the financial statements and financial information of 9 subsidiaries, all of which have been audited by other auditors. The management of Nemi Limited has provided CA Rajul with the audited financial statements, financial information, and audit reports of these subsidiaries. The following summary information pertains to these subsidiaries for the financial year 2024-25:

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

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

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

[RTP SEPT. 25]

Q.6. M/s CES & Associates, Chartered Accountants are appointed as auditors for consolidated financial statements of King Ltd. for financial year 2024 - 25. Pawn Ltd., Rook Ltd., Bishop Ltd. and Queen Ltd. are the subsidiaries of King Ltd.

The consolidated financial statements consist of financial statements and financial information of these subsidiaries audited by other auditors. Such financial statements, financial information and auditor's reports of subsidiaries have been furnished by management of King Ltd. to them. Following further information is also available in respect of these subsidiaries for the financial year 2024 - 25:-

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

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

You are required to draft a suitable paragraph based on the above information financial statements by making necessary assumptions. [SEPT. 25] (05)

Q.7. TRP Ltd. is a holding company with three subsidiaries namely T Manufacturing Pvt. Ltd., R Traders Ltd. and P Services Pvt. Ltd. While auditing the consolidated financial statements of TRP Ltd., the auditor observed that although management of all the subsidiaries have provided written representations, no formal written representation has been provided by the management of parent company TRP Ltd. acknowledging its responsibility for the true and fair presentation of the consolidated financial statements. Furthermore, the auditor could not find any evidence that the management of the parent company has approved the consolidated financial statements. How should the auditor of the parent company deal with this situation? [RTP JAN 26]

14. UNIT - 1 BANKING

Q.1 Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of Herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG.

[RTP MAY 24]

Q.1-A Your firm ABC Associates is appointed as Central Statutory Auditors of a Nationalised Bank for the year 2023-24. The Bank follows the financial year as accounting year. During the audit, CA Aadi, the Audit Manager has noticed following issues and placed the same before the team.

Particulars	
Consortium Cash Credit Facilities to Prime Ltd.	₹ 75 crores
Bank's own Share in Cash Credit Facilities	₹ 15 crores
Debits towards Interest in the Last Two Quarters	₹ 2.25 crores
Credits in Prime Ltd.'s Account in the Last Two Quarters	₹ 1.75 crores
Classification of Prime Ltd.'s Account (Based on Lead Bank's Certificate)	Performing Account

As an auditor, how will you deal with the above mentioned matter? [RTP NOV 24]

Q.2 NRF Bank Ltd. is suffering from huge number of NPAs. During the month of April 2023, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Fin Pvt. Ltd.	2019-20	36.55
Dairy Works	2021-22	55.24
Book Store	2018-19	29.85
Fancy Corp.	2017-18	61.42
RSM and Associates	2020-21	19.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

[MTP - II MAY 24] (05)

Q.2.B Nutan & Co. has been appointed as a statutory auditor of JOE Bank Ltd., a private sector bank, registered with RBI. Mr. Chahal, the engagement partner, while performing the audit as per the checklist, noted down the following points, which would be part of the audit queries, as tabulated below:-

Sr. No.	Queries
1.	One of the NPAs' was sold for a value higher than the net book value. Profit was not recognized but the excess provision in respect of the same has been reversed.
2.	Interest in a State Government Guaranteed advance has been taken to income even though such advance has remained overdue for more than 90 days.
3.	There is an account for which the ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction and such account has been treated as a performing asset in the books.
4.	On verification of outstanding forward exchange contracts, the 'net position' in respect of one of the foreign currencies was not squared and was uncovered by a substantial amount.
5.	In the case of one of the accounts, an additional temporary limit has been sanctioned for 25% of the existing limit and for 120 days tenure.

Please provide the reasons due to which such queries would have been raised by Mr. Chahal and describe the actions that may be taken by the person responsible on behalf of JOE Bank Ltd. for solving such queries.

[RTP MAY 25]

Q.3 CA J is the statutory auditor of branch of a nationalized bank. During the audit, he is also focusing upon verification of Current Accounts & Savings Accounts (CASA) maintained at the branch. Suggest a few audit procedures he should follow.

[MTP - I NOV 24] (05)

Q.4. You have been appointed as Concurrent auditor of a branch of Silver Bank Ltd., which primarily deals in foreign exchange transactions. During the audit, you noticed discrepancies in certain inward and outward remittances, as well as unusual fluctuations in Nostro account balances. What audit procedures would you implement to verify the accuracy and compliance of foreign exchange transactions of this branch.

[MTP - II MAY 25] (05)

Q.5. You are auditing the branch operations of XS Bank, a scheduled commercial bank, for the year ending 31st March 2025. During the audit of the loans and advances portfolio, you observed the following:

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

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

[RTP SEPT. 25]

Q.6. Clm Limited is enjoying cash credit facility sanctioned from Ludhiana branch of DDL Bank for ₹ 300 crore. However, for practical considerations, various sub-limits have been fixed for the borrower company for operation at Amritsar, Patiala and Rajpura branches of the same bank. The manager of the Amritsar branch notices that there are no credit transactions in sub-limit account being operated at the Amritsar branch for more than 90 days as on 31st March, 2025. Discuss the approach of CA Krish, statutory branch auditor of Ludhiana branch of DDL Bank, in the matter of asset classification of the above borrower account. Also discuss considerations for classifying said account at the Amritsar branch.

[MTP - II SEPT. 25] (05)

Q.7. CA. Garvit has been appointed as the auditor of Liv Bank, a nationalised bank. During the audit, he observes that the bank has recently expanded its credit card division and is witnessing a significant rise in the number of credit card applications. He also comes to know about an incident where a few unissued credit cards went missing from a branch, raising concerns about the effectiveness of the bank's internal controls. Liv Bank is aware that there should be strict control over the storage and issuance of credit cards to prevent misuse and fraud. In the given situation, how will CA. Garvit evaluate the internal control system in the area of credit card operations of the bank?

[MTP - II SEPT. 25] (05)

Q.8. M/s. TZ and Associates are appointed as a statutory branch auditors of the Delhi Branch of ABC Bank Limited for the F.Y. 2024 - 25. CA T is the engagement partner for this assignment. He is verifying the advances and has obtained the list of advances outstanding as on 31st March, 2025. On sampling basis, he selected one account of Mr. X who has borrowed 1.00 crore in the form of housing loan in the year 2021-22. The account was operating positively till 2023 - 24. Since April 2024, the account was often remaining overdue. On 01-10-2024, Mr. X approached the Branch and requested to increase the repayment period and to reduce the rate of interest as he was facing some financial crunch due to sudden medical emergency in the family. On 01-11-2024, the Branch accepted the proposal of Mr. X and increased the repayment period and reduced the rate of interest. The Branch classified the account of Mr. X as a Standard Asset as on 31-03-2025. CA T insisted the Branch Manager to classify the account as Sub-standard Asset as on 31-03-2025 as there is a change in the terms of payment. CA T started to draft Memorandum of Changes (MOC) for account of Mr. X to be submitted to the Branch. The rate of provision for secured portion of Sub-standard Assets as prescribed by the Board of ABC Bank Limited is 20% whereas the requirement as per IRAC norms is 15% for secured portion. In this context: IRAC norms is 15% for secured portion. In this context:

- (i) Justify the classification instated by CA T regarding the account of Mr. X as on 31-03-2025. (03)
- (ii) Guide CA T in deciding the rate to be applied for secured portion of Sub-standard Asset while finalizing the Memorandum of Changes (MOC). [SEPT. 25] (02)

Q.9. Fair Bank has appointed CA Riya as statutory auditor for the financial year 2024-25. During the audit, she observed the following:

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

Considering the above, CA Riya is concerned regarding claims not acknowledged as debts.

State the audit procedures that CA Riya should perform to verify the 'Claims Not Acknowledged as Debts'.

[RTP JAN 26]

15. UNIT - 2 NON - BANKING FINANCIAL COMPANIES

Q.1 Singh Ltd. is a company registered under the Companies Act, 2013. The company is engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by government or local authorities. For the year ended 31st March 2024 following are some extracts from the financial statements:

i.	Paid-up share capital	₹ 50 Cr.
ii.	Non-Current Assets - Loans & Advances	₹ 61.75 Cr.
iii.	Current Assets - Loans and advances	₹ 312.25 Cr.
iv.	Total assets of the company	₹ 620 Cr.
v.	Intangible assets	₹ 12 Cr.
vi.	Profit for the Year	₹ 7.25 Cr.
vii.	Income from interest and dividends	₹ 68 Cr.
viii.	Gross income	₹ 118.75 Cr.

Directors intend to apply for registration as Non-Banking Financial Company (NBFC) under Section 45-IA of the Reserve Bank of India (Amendment) Act, 1997. Advise

[MTP - I NOV 24] (05)

Q.1-A Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/- (one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29th March 2024. The company appointed Mr. Yuvan as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020?

[MTP - II NOV 24] (05)

Q.2 Qura Capital Ltd., a Non-Banking Financial Company (NBFC) classified under the Scale-Based Regulation framework, is required to maintain a minimum capital ratio of 15% of its aggregate risk-weighted assets (RWA) and risk-adjusted off-balance sheet items. The company has provided the following financial data for computing of its Tier 1 and Tier 2 capital as per the RBI Master Directions:

Particulars	Amount in (₹)
Owned Fund	₹ 1,000 crore
Investment in shares of other NBFCs and in group companies (exceeding 10% of owned fund)	₹ 150 crore
Perpetual Debt Instruments issued by Qura Finance Ltd.	₹ 120 crore
Preference Shares (not compulsorily convertible into equity)	₹ 80 crore
Revaluation Reserves	₹ 200 crore
General Provisions & Loss Reserves	₹ 50 crore
Hybrid Debt Capital instruments	₹ 90 crore
Subordinated Debt	₹ 140 crore
Risk-Weighted Assets (RWA)	₹ 8,000 crore

Considering that Qura Finance Ltd. is neither an NBFC-MFI nor primarily engaged in lending against gold jewellery, compute the following:

- Tier 1 capital of Qura Finance Ltd. as per RBI guidelines.
- Tier 2 capital, ensuring it does not exceed the Tier 1 capital.

Also, determine whether Qura Finance Ltd. meets the minimum capital adequacy requirement of 15% of RWA.

[MTP - 1 MAY 25] (05)

Q.3. CA M is appointed as the Statutory auditor of Fincorp Limited for the financial year 2023-24. This company is an NBFC covered under Non-Banking Financial Company-Systemically Important Non-Deposit-taking Company. To comply with the RBI Prudential Norms for asset classification, Fincorp Limited has made the following provisioning in respect of loans, advances and other credit facilities as on 31st March, 2024:

Particulars	Balance outstanding as on 31 st March, 2024	Provision for the Financial year 2023-24
Standard Assets	₹ 200 crores	NIL
Sub-standard Assets	₹ 15 crores (Fully secured)	₹ 1.50 crores
Doubtful Assets (one to three years)	₹ 8 crores (Fully secured)	₹ 2.00 crores
Loss Assets	₹ 2 crores	₹ 2.00 crores
Total Provision for NPA		₹ 5.50 crores

CA M is of the opinion that the company has not done the provisioning correctly. Is the opinion of CA M, correct? In this context, explain the provisioning requirements applicable to this NBFC and comment on the provision for NPA made by the company. [NOV 24] (05)

Q.4. Yo-Yo Finance Limited is a NBFC-ML as per revised categorisation of NBFC done by RBI. YAK & Associates, firm of chartered accountants, are appointed as Statutory Auditors of the Company for the year 2023-24. The audit team consist of CA Y, 1 Audit Manager and 3 junior assistants. The Audit Manager is recently appointed, who is not having much exposure in the field of Auditing of NBFCs. During the engagement team meeting, the Audit Manager asked CA Y, regarding the audit procedures to be undertaken to verify whether the aforesaid Company has followed Prudential Norms? As an Engagement partner suggest any four procedures to the Audit Manager. [MAY 24] (04)

Q.5. Instant Finance Ltd. is a Non-Banking Financial Company (NBFC-BL) primarily engaged in providing loans to small businesses and individuals. As per its audited financials for the year ending March 31, 2025, the following information was observed:

- (1) Instant Finance Ltd. has an aggregate risk-weighted asset base of ₹ 1,000 crore.
- (2) The company has reported Tier 1 capital of ₹ 130 crore, which includes ₹ 15 crore raised through perpetual debt instruments.
- (3) Instant Finance Ltd. has investments in shares and bonds of other NBFCs totaling ₹ 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 1 capital requirements as per the RBI prudential norms.

(ii) Discuss the treatment and impact of perpetual debt instruments in the calculation of Tier 1 capital for NBFCs primarily engaged in lending against gold jewellery. Analyse the adjustment required in Tier 1 capital for Instant Finance Ltd. due to its investments in other NBFCs. [MAY 25] (05)

Q.6. During the statutory audit of ELITE Bank Ltd., a leading private sector bank, for the financial year 2024-25, the following issue emerged to statutory central auditors. ELITE Bank Ltd. acquired a commercial property in satisfaction of a loan default by a borrower in Financial Year 2016-2017. The property was recorded at net book value of the loan. The bank plans to sell this property in the next fiscal year to recover its dues.

A legal dispute has emerged over the ownership of the property, with a third party claiming partial rights. The matter is pending in court. The management has not disclosed this dispute in the financial statements but contends that a favourable court ruling is expected. The auditor's review reveals that the property's fair market value is significantly lower.

Based on the above facts, you are required to:

- (i) Identify specific audit procedure the auditor should undertake to ensure compliance of the Banking Regulation Act, 1949.
- (ii) Under which head ELITE Bank Ltd. should record the above mentioned property?
- (iii) Suggest also other audit procedures that an auditor should focus upon. [MAY 25] (05)

16. OVERVIEW OF AUDIT OF PUBLIC SECTOR UNDERTAKINGS

Q.1 Abhinandan Ltd., a company wholly owned by Delhi government was disinvested during the previous year, resulting in 38% of the shares being held by public. The shares were also listed on the NSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the NSE etc.

Paras, the Finance Manager of the company is of the opinion that now the company is subject to stringent control by NSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act, 2013 would be applicable to the company and the C&AG will not have any role to play. Comment.

[MTP - II NOV 24] (05)

Q.2 DBH & Associates are the statutory auditors of MBPC Limited, a public sector undertaking in the power sector. It is engaged in constructing large sized thermal power stations to accelerate development of the power sector in the country. One of the financial committees of Parliament has decided to examine its physical and financial performance. It has also examined the audit findings of C&AG in respect of which action is yet to be taken by the said PSU. The committee also proposes to include in its report the performance of the company in various operational matters. Which financial committee of Parliament deals with such matters? Outline its main functions.

[MTP - I MAY 25] (04)

Q.3 During the course of an audit of a state government department, the Office of the Comptroller & Auditor General of India (CAG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit
- Buildings with a total area surpassing a threshold limit

However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team

directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India. To whom report of such audit was likely to have been submitted

[MTP - II MAY 24] (05)

Q.4 Direct Benefit Transfer (DBT) is a major reform initiative of the Government of India to ensure better and timely delivery of benefits from Government to people. It marks a paradigm shift in the process of delivering benefits like wage payments, fuel subsidies, food grain subsidies, etc. directly into the bank accounts of the beneficiaries removing leakages and enhancing financial inclusion.

The office of C & AG of India is likely to undertake a performance audit for a block of years in a state of some selected social security pension schemes and scholarship schemes under DBT. What are likely to be objectives of such performance audit? Explaining meaning of "audit criteria", discuss how these can be determined in above case.

[MTP - I MAY 24] (05)

Q.4A Comptroller & Auditor General appointed Saha & Associates, a Chartered Accountant firm, to conduct Performance audit of herbal Ltd., a public sector undertaking of Government of India. The firm conducted the audit with a view to check that all the expenses of the unit are in conformity with the public interest and publicly accepted customs. The audit report submitted by the audit firm was rejected by C&AG. Give your opinion on the action of C&AG.

[RTP MAY 24] (05)

Q.5 A state government owned PSU was involved in setting up of a thermal power plant in the state. The C & AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out. What kind of audit is referred in the above case? Describe the methods which could be used in conducting such audits.

[RTP MAY 25]

Q.5.A The Comptroller and Auditor General of India has appointed a Chartered Accountant firm to conduct the comprehensive audit of Saras Company Limited, a listed government company, handling major Railway project of the metropolitan city for the period ending 31-03-2024. The work to be conducted under Project A handled by the Saras Company Limited was of laying down railway line of 130 kilometers. During the audit, the firm reviewed the internal audit report and observed the shortcoming reported about the performance of Project A regarding the understatement of the Current liabilities and Capital work in progress by ₹ 75.32 crore.

What key aspects should the chartered accountant firm focus on while conducting the comprehensive audit of Saras Company Limited? [MTP - II MAY 25] (05)

Q.6 The Government of India launched a rural development scheme to undertake projects aimed at improving infrastructure, healthcare and education in the rural areas. To execute the projects the Central Government provided funds to the state government. The Comptroller and Auditor General of India wants to ensure that the funds provided to the State Governments have been utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized for the identified purposes and that public interest has not been harmed. You are appointed by C & AG to conduct the propriety audit and report on the funds utilized by the state government for building hospitals, school buildings and roads and submit a report on the wastefulness in public administration and cases of improper, avoidable and infructuous expenditures, if any, has been done. What functions as an auditor will be performed by you?

[NOV 24] (04)

Q.7 The Comptroller & Auditor General (C&AG) appointed Rajni & Associates, a chartered accountant firm, to conduct Performance audit of LBC Ltd., a public sector undertaking under the Government of India. The firm carried out the audit to examine whether the expenses incurred by the unit were in conformity with the public interest and publicly accepted customs. However, the audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG. [MTP - II SEPT. 25] (05)

Q.8. LNG Corporation is a government-owned entity, is engaged in operating liquefied natural Gas. The organization recently underwent a compliance audit conducted by the Comptroller and Auditor General (C & AG) of India. The audit aimed to assess whether the PSU's financial transactions, procurement activities and operations complied with relevant laws, regulations and internal guidelines.

In context of the above, you are required to:

- (i) Explain the concept of compliance audit and its perspective. (02)
- (ii) What shall be the concern of the auditor when undertaking compliance audit?

[SEPT. 25] (02)

Q.9. The Comptroller & Auditor General of India (C&AG) appointed Sharma & Associates, a firm of Chartered Accountants, to conduct performance audit of NAL Ltd., a public sector undertaking of Government of India. The audit was conducted with the objective of examining whether all expenses of the unit were in conformity with public interest and accepted customs. However, audit report submitted by the firm was rejected by C&AG. Whether action of the C&AG is justified? [RTP JAN 26]

17. INTERNAL AUDIT

Q-1 One of the independent directors sought information regarding the appointment of internal auditors for the following Group Companies in accordance with the Companies Act, 2013 of which certain financial information are given below:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposits
XYX Limited	Listed	100	230	20	48
MNM Limited	Unlisted Public	60	100	50	24
GFG Limited	Unlisted Private	70	180	80	-

You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss. [MTP - 1 NOV 24] (05)

Q-2 Rishi is appointed as internal auditor for a SPOM Limited, a medium- sized manufacturing company, while CA Nitin is the statutory auditor of the SPOM Limited.

(a) During the review, Rishi notices several discrepancies in the disbursement records and suspects there might be weaknesses in the internal control system. Additionally, there have been recent changes in the company's business policies that he was not informed about. Rishi is concerned about maintaining his independence and objectivity while ensuring that management is aware of these issues. What are the responsibilities of Rishi as an Internal Auditor with respect to the accounting function and financial records of the organisation?

(b) CA Nitin asked Rishi to provide direct assistance to him regarding evaluating the appropriateness of management's use of the going concern assumption. In view of Standards on Auditing, whether Nitin can ask direct assistance from Rishi as stated above? [RTP NOV 24]

Q-3 CA Sanjana has recently joined as Chief Internal Auditor of Up Scale Limited, a listed company. Her subordinate staff in internal audit department brings to her knowledge many prior audit issues highlighted in the previous internal audit reports which are

still open. Does she have any responsibilities in this regard? How should she proceed in this situation?

[RTP MAY 24]

Q.4 The management of High Limited is concerned with the reporting requirement cast through Rule 11 of the Companies (Audit and Auditors) Rules, 2014 for the financial year 2023-24 with regard to the Audit Trail (edit log). Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software. Consequently, the management of the company approached CA J and asked him to suggest them list of internal controls which may be required to be implemented and operated to demonstrate that the Audit trail (or Edit Log) feature was functional, operated and was not disabled. Help CA J.

[MAY 24] (04)

Q.5 Jeneva Technologies Pvt. Ltd., a private limited company engaged in the manufacturing of automation equipment, having turnover of ₹ 210 crores during the financial year 2023-24. Additionally, the company had taken a loan of ₹ 95 crores from a consortium of banks during the same year, which remained outstanding as of the balance sheet date.

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

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

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

As a professional consultant, you are required to advise:

(a) Whether Jeneva Technologies Pvt. Ltd. is required to appoint an internal auditor for the financial year 2024-25.

(b) Whether Cross Buildcon Ltd. is required to appoint an internal auditor for the financial year 2024-25.

(c) State who can be appointed as internal auditors under the Companies Act, 2013.

[RTP SEPT. 25]

Q.6. CA. Jayesh has recently been appointed Chief Internal auditor of a listed company. The internal audit charter inter alia includes long term view of internal audit function, purpose and objectives of internal audit, reporting structure, scope & approach, accountability for certain deliverables like reducing risk ratings, improving control environment etc. & authority attached. Given his sharp insight, he realizes that a proper plan needs to be put in place for reviewing performance/ training of professional staff constituting in-house teams and acquisition of fresh professional talent. Does the above fall within purview of critical activities to be performed by Chief Internal Auditor to achieve objectives of Internal audit function? Comment on the above with regards to critical activities intended to achieve objectives of internal audit function outlined in internal audit charter.

[MTP - 1 SEPT. 25] (05)

Q.7. 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.

[MAY 25] (05)

18. DUE DILIGENCE, INVESTIGATION AND FORENSIC AUDIT

Q-1. CA. Rajul is designated as the Credit Manager at a branch of APP Bank Limited. PQR Ltd has approached the branch with a request to sanction credit facilities worth ₹ 12 crore for meeting its regular business needs. This is a potential new client for the bank. She has reviewed the company's past history, the background of its promoters and directors, the shareholding pattern, and the nature of its business. She also conducted an assessment of the financial results of past years and future projections. Additionally, she carried out a SWOT analysis of the company. She also evaluates the net worth of the directors, checks the CIBIL score, and verifies whether the names of the promoters or directors appear on the RBI defaulters' list. Furthermore, she makes discreet inquiries with a few clients of the branch who are engaged in a similar line of activity regarding the creditworthiness of the company, its promoters, and directors.

Based on the above:

- Identify the procedures followed by CA Rajul and discuss its nature.
- Would your answer be different if this activity was to be performed by a person not qualified as a Chartered Accountant? Can a non- CA perform such activity? State reason.
- Name any three other areas where the identified activity can be undertaken.

[RTP NOV 24]

Q-2 Vicky is a financial analyst working for a large corporation that is considering the acquisition of a mid-sized manufacturing company. The initial financial statements provided by the target company appear to be in order, showing profits and a solid asset base. However, his team is concerned about potential risks that may not be immediately visible in the financial documents provided.

Guide Vicky on what specific aspects should be focused during due diligence to ensure that there are no hidden liabilities in this deal?

[MTP - I NOV 24] (04)

Q.3 PMP Bank Ltd. received an application from a pharmaceutical company for the takeover of their outstanding term loans secured on its assets, availed from and outstanding with a nationalised bank. PMP Bank Ltd. requires CA Arpan to conduct due diligence for valuation aspect of assets of the pharmaceutical company. State the areas of analysis in order to ensure that the assets are not overvalued. (04)

[MTP - 1 MAY 25]

Q.4 Quality Ltd. is engaged in the business of manufacturing and distribution of various Ready to cook products like vegetables, Noodles etc. The government made certain changes in rules and regulations relating to this sector, consequently management decided to go for expansion. Management was looking for some financial investor who can fund some part of the proposed expansion. Mr. Aman is interested in the venture and appoints you to act as an advisor to the proposed investment in the business of Quality Ltd. You have to investigate the audited financial statements and ensure that the valuation of shares of the company on the basis of audited financial statements is appropriate. What process will be used for checking and can reliance be placed on the already audited statement of accounts? (04)

Q.5 Joy World Pvt. Ltd. operates five amusement centres that offer recreational activities for families, especially children and young adults. These centres are spread across different locations within a 250-kilometer radius. Since ticket sales and ride fees are collected primarily in cash, ensuring proper control over collections is crucial to prevent fraud, mismanagement, and revenue leakage. To maintain transparency and accuracy in cash handling, what internal control measures should Joy World Pvt. Ltd. implement for ticket sales and collections? (04)

Q.5.A Core Limited submitted a credit proposal to XYZ Bank Limited for the sanction of a Term Loan of 150.00 crore required for procuring and installing a latest Plant and machinery for their upcoming project. Based on the application, XYZ Bank Limited approached CA P to investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by Core Limited, as well as the value

of the security in the form of assets of the business already possessed and those which will be created out of the loan. Elucidate the steps that should be undertaken by CA P?

[MAY 24] (05)

Q.6 CEP Ltd., a manufacturing company, has a diverse range of suppliers for raw materials and components. Several new suppliers have been added during the past year. It is the responsibility of the Accounts payable department for managing the Suppliers' Ledger, processing invoices and making payments. The management of CEP Ltd. has experienced unexpected financial discrepancies and they suspect fraudulent activities within the Suppliers' Ledger. The management assigns CA K to conduct a detailed investigation to identify any potential fraud that might have occurred. Discuss the ways in which frauds can be committed through Suppliers' Ledger. Explain the procedures that CA K will adopt to investigate the potential fraud.

[NOV 24] (04)

Q.7 Mr. Rajat, while reviewing the anti-fraud controls for a construction company, found that the company has witnessed a few frauds in the past mainly in the nature of material theft from the sites and fake expense vouchers. Mr. Rajat is evaluating options for verifying the process to reveal fraud and the corrective action to be taken in such cases. As an expert in fraud prevention, you have been asked to brief Mr. Rajat about the inventory fraud and verification procedure with respect to defalcation of inventory?

[MTP - II MAY 24] (05)

Q.7.A MF Ltd., a manufacturing company specialising in industrial and consumer products, has been experiencing significant inventory shortages despite maintaining detailed procurement and production records. The management suspects fraudulent activity, as discrepancies have been noticed in stock reconciliation, production wastage reports, and inventory adjustments.

Some of the reason for suspicion include:

- Manual adjustments in stock records on frequent basis.
- Higher than usual production wastage, inconsistent with historical data.
- Raw materials recorded as issued for production but missing from factory floors.
- Finished goods dispatched but not recorded in sales accounts.

- Unexplained inventory shrinkage over consecutive months.

Considering the above, you are appointed by MF Ltd. to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory?

[RTP MAY 25]

Q.8 CA. Puran Jay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company. The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?

[MTP - 1 MAY 24] (04)

Q.9. Navyam Limited is into the business of construction for the past 20 years. Management of the Company came to know that building material sent to construction sites is of substandard quality whereas the payment released by the accounts department of the Company is on the higher side. Forensic Accountant was asked to carry out detailed investigation. Forensic Accountant completed his investigation and now preparing his report. What are the broad areas of information that needs to be incorporated in the report of forensic accountant?

[RTP SEPT. 25]

Q.10. CA Purva is working as Credit manager in branch of ADC Bank Limited. A company has approached the branch for a request to sanction credit facilities worth ₹ 12 crore for meeting usual business requirements. As part of the appraisal process, CA Purva undertakes a comprehensive review which includes:

- Examining the past history of the company and background check of its promoters and directors.

- Review of the shareholding structure and understanding the nature of company's business.
- Analysis of the company's past financial statements along with its future financial projections.
- SWOT analysis to evaluate the company's internal and external position.
- Assessing the net worth of the directors, reviewing their CIBIL scores, and verifying if their names appear in the RBI's defaulter list.
- Discreet inquiries from existing clients of the branch engaged in a similar line of business to assess the creditworthiness of the company its promoters and directors.

(i) What is the nature of the activity being performed by CA Purva? Discuss its nature.

(ii) Would your answer be different if the same activity was performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.

(iii) Name any three other areas where identified activity can be undertaken.

[MTP - II SEPT. 25] (05)

Q.11. Gupta, Sharma and Khandelwal are partners in a firm engaged in trading activities. They share profits and losses in the ratio of 2:2:1 respectively. As part of their expansion plan and expertise, the existing partners have mutually agreed to admit Mr. Jain as a new partner in the firm with effect from 1st April 2025. Mr. Jain is to be given a 1/4th share in the future profits of the firm. To safeguard his interest before investing capital and entering into the partnership, Mr. Ankit, a Chartered Accountant, has been appointed by Mr. Jain to conduct an independent investigation of the firm. What are the important steps involved in conducting the investigation by Mr. Ankit on behalf of Mr. Jain, the incoming partner?

[MTP - I SEPT. 25] (05)

Q.12. KLIM Ltd., a construction company, engaged in constructing and selling residential or commercial properties, having suspected potential fraud of substantial amount, engaged CA J, a forensic accountant, to investigate the matter. During the course of performing a forensic accounting engagement in relation to suspected fraud, which aspects CA J should take care of while undertaking the process of obtaining relevant evidence?

[MAY 25] (04)

Q.13. BIL Limited is a company manufacturing premium shampoos since last decade. The company functions through various salesmen appointed across the country. The management of company came across the news that the salesmen in the central and western regions have exaggerated their sales through fictitious billings to achieve higher commission and to accommodate the sales volume achieved by one employee with other employees, who falls short of their target. The management of the company appointed you to investigate and unearth such type of fraud, if it is prevailing in their company. What procedures will be followed by you to investigate such type fraud?

[SEPT. 25] (04)

Q.14. During the course of audit of Limca Ltd., CA Ranjan observed frequent changes in accounting estimates of receivables, delays in providing information requested by management including altered documents. He also noticed discrepancies between the company's records and external party confirmations. These factors made him suspect the possibility of fraud in the entity.

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

[RTP JAN 26]

19. EMERGING AREAS SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT SOCIAL AND GOVERNANCE (ESG) ASSURANCE

Q-1 SEBI has made Business Responsibility and Sustainability Report (BRSR) mandatory for certain listed companies. It is an evolutionary step in Environment, Social and Governance (ESG) reporting. Discuss the nature of ESG reporting. How can corporates contribute to Sustainable Development Goals (SDGs)? [RTP MAY 24]

Q-2 You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.
In above context, dwell upon what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits. [MTP - II MAY 24] (04)

Q-3 Consistent Enterprises Ltd., a listed company, has been voluntarily preparing and disclosing its sustainability report based on the internationally accepted "Integrated Reporting" framework for some years, even before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key focus of Integrated Reporting is how the company creates value over the short, medium, and long term. Following further information is provided in respect of the above company:

- (i) It has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production.
- (ii) It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Discussing the above information, identify which of the capitals of “Integrated Reporting” are being referred to at [i] and [ii] respectively?

[MTP - II NOV 24] (04)

Q.3.A Miger Ltd. is a multinational corporation that prides itself on sustainable business practices and holistic value creation. During a recent board meeting, the CEO emphasised the importance of disclosing not just financial performance but also non-financial aspects that contribute to long-term success. The company's sustainability team highlighted their investments in cutting-edge research, employee skill development, strong supplier relationships, and eco-friendly infrastructure. To ensure a well-rounded and transparent report, the company's Chief Financial Officer (CFO) suggests adopting Integrated Reporting. The board members, however, are unfamiliar with the concept and ask for a clear breakdown of its key elements. As a consultant, how would you explain the essential components of Integrated Reporting to the board?

[MTP - II MAY 25] (05)

Q.4 SU Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires SU Limited to make disclosures on their performance against the various principles of the “National Guidelines on Responsible Business Conduct”. One of the principles emphasizes that the business decisions in an organization should be open to disclosure & accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle.

[MAY 24] [MTP - II SEPT. 25] (04)

Q.5 CTO Limited is engaged in the fintech business. It is a member of few prominent industry chambers and trade associations and has come under mandatory purview of Business Responsibility and Sustainability Reporting (BRSR) for year 2022-23. The company had submitted inputs on draft Digital personal data protection bill to concerned Ministry during year 2022-23. It had also submitted to one of the industry chambers during the same year certain key inputs on leveraging India's digital public infrastructure for creating solutions by banks and fintechs together as its

taskforce member on the subject. Considering the above, discuss how above information would likely be disclosed by company in "Principle-wise performance disclosures" as part of BRSR for year 2022-23?

Whether information discussed above would require to be disclosed mandatorily?

[MTP - 1 MAY 24] (04)

Q-6 Pink Ltd., a leading manufacturing company, is expanding its operations globally. However, the company has received multiple complaints from stakeholders regarding misleading advertisements and a lack of transparent grievance redressal mechanisms. As part of its Business Responsibility and Sustainability Reporting (BRSR) compliance, which principle is the company required to adhere to? This principle emphasizes engaging with and providing value to consumers responsibly and transparently. What are the key consumer protection aspects that Pink Ltd. should focus on under this principle of BRSR?

[MTP - 1 MAY 25] (05)

Q-7 Kapil is appointed as an external auditor to provide assurance on a company's Business Responsibility and Sustainability Report (BRSR). To ensure the report's accuracy and reliability, he needs to follow a comprehensive methodology that includes several key steps. What methodology should Kapil follow to provide assurance on the BRSR?

[RTP NOV 24]

Q-7-A Sukaran Ltd., a leading textile manufacturing company, has been facing criticism from its employees regarding various workplace concerns. Some employees have raised issues about delayed salary payments, while others have reported excessive working hours that affect their work-life balance. Additionally, a few workers have complained about inadequate safety measures in the factory, leading to frequent minor accidents. Which principle of BRSR deals with this? Mention the core elements of this principle.

[RTP MAY 25]

Q-8 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. [NOV 24] (04)

Q.9. SkinGlow Ltd., an e-commerce company dealing in skincare products, promotes its newly launched cream on its official website as "100% natural and chemical-free." However, a review of the product label reveals the presence of artificial fragrance and preservatives. A customer who noticed the same tried to complain, but there was no proper complaint form or helpline available on the website. Additionally, the company's website states that its primary business objective is to offer useful products and services to customers in exchange of reasonable profits. With reference to the principles of the Business Responsibility and Sustainability Reporting (BRSR) framework, identify which principle is being referred to in this case. Also, state the core elements of this principle. [RTP SEPT. 25]

Q.10. XYZ Ltd., a listed entity, is preparing its Annual Report for the financial year 2024-25. The company has operations in many countries and has implemented policies on ethics, diversity, and environmental sustainability. The management has taken steps to align its reporting with the National Guidelines on Responsible Business Conduct (NGRBC). As part of its BRSR submission, the company provides information on its workforce strength, gender diversity, number of subsidiaries, and policies on human rights. It also discloses data on energy consumption, carbon emissions, and the number of employees trained in sustainability practices. However, it does not include life cycle assessments or details of its biodiversity conservation initiatives. Identify which sections of the BRSR reporting framework are covered by XYZ Ltd. based on the disclosures mentioned. Also, comment whether XYZ Ltd. has complied with the minimum mandatory disclosures required under BRSR. [MTP - 1 SEPT. 25] (05)

Q.11. 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 amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities." Elucidate the essence of core elements associated with the aforesaid principle. [MAY 25] (05)

Q.12. KLM Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to enhancing its Environmental, Social and Governance (ESG) transparency. Sustainability Reporting plays a crucial role in enhancing transparency and accountability regarding an entity's Environmental, Social and Governance (ESG) performance. The company wants to apply Sustainable development in its corporate policy. During the review of its sustainability practices, the management is keen to assess the safety of the products, its quality and labour relations. What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. [SEPT. 25] (04)

Q.13. GreenTech Manufacturing Ltd., engaged in production of electronic appliances, has been facing criticism from environmental activists and local communities for its high energy consumption, discharge of untreated industrial waste and dependence on non-renewable resources. Considering the same, the company's management now wants to strengthen its environmental responsibility practices and align them with national and international commitments such as Paris Agreement and National Action Plan on Climate Change. Identify the principle which is being referred to in this case. Also, state the core elements associated with this principle. [RTP JAN 26]

20. PROFESSIONAL ETHICS

Q.1 CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification & feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner & other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence & due care that a Chartered Accountant needs to possess all the time. Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence & Due Care.

[NOV 24] (04)

Q.2 In terms of subsection 114 of Revised code of Ethics, a professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as result of professional and employment relationships. Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in knowledge that the information will not be disclosed to a third party. In this context, enumerate the circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate. In deciding whether to disclose confidential information what are the points that should be kept in the mind of professional accountants? [MAY 24] (04)

Q.3 Shri Limited, a listed Company, having its registered office at Mumbai is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside the factory, the level of pollution is kept at a level below the prescribed standard. The company managed to get the pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. The amount of ₹ 18.75 Lacs had been incurred for arranging clearance certificate and the amount

incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached those in governance, & the Director-Finance, who is a Chartered Accountant, came to know of these matters on review of major expenditure incurred during the period. Comment the action/responses expected of Director - Finance (CA Gopal) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics.

[MTP - 1 NOV 24] (05)

Q.4 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.

[MAY 24] (04)

Q.5 CA. Gyan is a Chartered Accountant in practice and also an engineer by qualification. He wants to pursue a registered valuer course and work as a registered valuer for plant and machinery under the Companies Act, 2013. Comment on above with reference to provisions of the Chartered Accountants Act, 1949.

[MTP - 1 MAY 24] (05)

Q.6 CA Ram, a practicing chartered accountant, is well known for his expertise in handling Goods and Services Tax (GST) cases at the GST Tribunal and he does not provide any assurance services. Given his long- standing reputation in the field, CA Ram is approached by DEF Limited to file an appeal in the Tribunal against a GST demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals), and to represent DEF Limited in the matter. CA Ram offers to accept a fee of ₹ 3,50,000 for filing the appeal and pleading at the GST Tribunal.

Comment on the act of CA Ram in terms of the Chartered Accountant Act, 1949 and Schedules thereon.

[MAY 24] [MTP - II NOV 24] (04)

Q.6.A Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirt which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, a facilitation centre was opened in the industrial cluster. The proprietor managed, both the office and the facilitation centre, by himself. No intimation was made to the Institute of Chartered Accountants of India. Examine whether there is any professional misconduct in this respect.

[MTP - II MAY 25] (04)

Q.7 The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA H, the proprietor of M/s HA & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, and penalty was imposed by an order passed against him dated 15th June, 2024.

Against the said order, CA H preferred an appeal with the Appellate Authority on 5th August, 2024 by submitting the statement of appeal along with application form of appeal. During such appellate proceedings, it was discovered that the said statement of appeal contained some facts which were false to which CA H admitted it to be false and apologized for it.

Based on the above stated scenario of the matters placed before The Director (Discipline) of ICAI against CA H, you are required to answer the following:

- (i) Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA H.
- (ii) Before which authority, the matters of CA H would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

(iii) Has CA H filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? [MAY 24] (05)

Q.8 A special notice has been issued for a resolution at 4th annual general meeting of TRIM Ltd., providing expressly that CA. Lucky shall not be re-appointed as an auditor of the company. Consequently, CA. Lucky submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Lucky included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. [MTP - II MAY 24] (05)

Q.9 GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform. Whether a firm of Chartered Accountants can register on GeM portal for rendering professional services to government departments? [MTP - I MAY 24] (04)

Q.10 Sanjeev & Associates, a firm of Chartered Accountants responded to a tender from a PF Office, Chembur for filing quarterly e-TDS returns. The terms of tender are as follows:

(i) Earnest Money Deposit of ₹ 7,500/-

(ii) It is open for all categories

(iii) Maximum fees of ₹ 7,500/- per quarter

Discuss whether Sanjeev & Associates can respond to the said tender with reference to provisions of the Chartered Accountants (Amendment) Act, 2006 & Schedules thereto. [RTP NOV 24]

Q.11 PN and Associates are appointed as the Statutory Auditors of The Iron Company Ltd. The Central Government holds 65% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to PN and Associates for accepting the audit. CA N, the engagement partner communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving reply from the previous auditor. Hence CA N gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 19949 and the schedules thereunder, whether CA N has complied with the same.

[NOV 24] (05)

Q.11.A

(a) KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 72% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to KB and Associates for accepting the audit. CA Yash, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Yash gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA Yash has complied with same.

(b) If CA Yash is guilty of misconduct in the above situation given in part (a), then before which authority, the matters of CA Yash would have been placed and what punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

[RTP MAY 25]

Q.12 CA Kumar, a practicing-chartered accountant, is well known in the field of pleading of Income Tax cases at Income Tax Tribunal and does not provide any assurance services. Considering the long standing in the field, CA Kumar is approached by XYZ Limited to file an appeal in the Tribunal against the Income Tax Demand of ₹ 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case with the following fee structure:

The fees for filing an appeal and to plead at Income Tax Tribunal will be higher of the following (a) or (b):

- (i) ₹ 5,00,000/-
- (ii) 10% of Tax Demand Reduced.

Comment on the act of CA Kumar in terms of the Chartered Accountant Act, 1949 and Schedules thereon.

[MAY 24] (04)

Q-13 Comment on the following with reference to the provisions of the Chartered Accountant Act 1949:

- (1) CA Pankaj accepted professional work of acting as valuer under direct taxes. He charges fees on a percentage of the property valued.
- (2) CA Anita joined as an audit executive in a CA firm on April 1, 2023. Despite receiving multiple reminders from ICAI, she has failed to respond with her appointment date and submit her membership certificate.

[RTP MAY 24]

Q-14. CA Yug, a practicing chartered accountant, is a promoter director of CDS Pvt. Ltd. and is also a sleeping partner in his family's garments manufacturing business. Is CA Yug liable for professional misconduct as per the Chartered Accountant Act, 1949?

[MTP - II MAY 25] (04)

Q-15 Mr. S is a practising Chartered Accountant based out of Chennai. During the weekends, he involved himself in equity research and used to advise his friends, relatives and other known people who are not his clients. Apart from this, he was also involved as a paper-setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 20X1, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 20X3, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

[MTP - II MAY 24] (05)

Q.15.A The Cashier of a company committed a fraud and absconded with the proceeds thereof. The Chief Accountant of the company also did not know when the fraud had occurred. During the audit, auditor failed to discover the fraud. However, fraud was discovered by the Chief Accountant after the audit was completed. Investigation made at that time indicates that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

[MTP - II MAY 25] (05)

Q.15.B CA Meet, a practicing Chartered Accountant was on foreign tour between 12-08-24 and 27-08-24. On 20-08-24, a message was received from one of his clients requesting a stock certificate to be produced to the bank on or before 22-08-24. Due to urgency, CA Meet directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf.

[MTP - II MAY 25] (04)

Q.16 Mr. Jay is a practicing Chartered Accountant working as proprietor of M/s Adhya & Co. He went abroad for 4 months. He delegated the authority to Mr. Vijay a Chartered Accountant his employee for taking care of routine matters of his office. During his absence, Mr. Vijay has conducted the under mentioned jobs in the name of M/s Adhya & Co.

- (i) Asking for information or issue of questionnaire.
- (ii) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
- (iii) Acknowledging and carrying on routine correspondence with clients.
- (iv) Comment on eligibility of Mr. Vijay for conducting such jobs in name of M/s Adhya & Co. and liability of Mr. Jay under the Chartered Accountants Act, 1949.

[MTP - II NOV 24] (05)

Q.17 CA. Tanya, the auditor of KBC Pvt. Ltd. has delegated following works to his articles and staff:

- i. Issue of audit queries during the course of audit.

- ii. Issue of memorandum of cash verification and other physical verification.
- iii. Letter forwarding draft observations/financial statements.
- iv. Issuing acknowledgements for records produced.
- v. Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

[RTP MAY 24]

Q.17-A DND and Associates are the statutory auditor of XYZ Ltd. Audit of the company is pending for F.Y. 2022-23 and 2023-24 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2022-23. The company removed the auditor on 06-05-2024 in shareholders meeting complying with all legal formalities. DND and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. XYZ Ltd. complained to ICAI against DND and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

[MTP - II MAY 25] (04)

Q.18 CA F is the Chief Financial Officer of ABC General Insurance Limited. Being in insurance business, the company gets majority of its clients through their agency contracts. CA F has the practice of releasing the commission payments on the condition that he gets 20% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

[NOV 24] (04)

Q.19 Hitesh, a Chartered Accountant, applied for obtaining a Certificate of Practice. However, while filling out the application form, he intentionally did not fill the section requiring disclosure of any engagement in other occupations or businesses. Hitesh was actively involved in a business, making this non-disclosure a case of withholding crucial information that was explicitly sought by the Institute. Analyse whether Hitesh's actions amount to professional misconduct as per the provision of the Chartered Accountants Act, 1949.

[MTP - I MAY 25] (04)

Q.20 Mr. Johny, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics?

[RTP MAY 24] (05)

Q.21 Mr. Mayank, a Chartered Accountant was the auditor of 'Chew Limited' for the year 2021-22 and 2022-23. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 7.5 lac and was the same amount as in the last year 2021-22. Later it was found that the company's investments were only for ₹ 56,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

[MTP - I MAY 24] (05)

Q.22 Mr. Aditya, a Chartered Accountant was the auditor of 'DRAW Limited'. During the financial year 2023-24, the investment appeared in the Balance Sheet of the company of ₹ 23 lakh & was the same amount as in the last year. Later on, it was found that the company's investments were only ₹ 76,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the provisions of the Chartered Accountants Act, 1949 & Schedules thereto.

[MTP - I NOV 24] (05)

Q.23 CA. Evan has been in practice for two years and runs his proprietorship firm in the name of "Evan & Co." He maintains notes in his mobile where he records the fees received from various clients. Using these records, he prepares and files his income tax return. Comment with respect to the provisions of the Chartered Accountant Act, 1949.

[MTP - II MAY 24] (04)

Q.24 CA Vaayu is the auditor of Viva Limited having a turnover of more than ₹ 200 Crores. The audit fee for the year is fixed at ₹ 80 Lakhs. During the year, the company offers CA Vaayu an assignment of representation before Income Tax Appellate Tribunal for

certain matter for remuneration of ₹ 1.75 crores. CA Vaayu accepted the assignment. Discuss action of CA Vaayu with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. [RTP NOV 24]

Q.25 CA Dhanush is the auditor of Jivi Limited having a turnover of more than ₹ 300 Crores. The audit fee for the year is fixed at ₹ 2.25 crore. During the year, the company offers CA Dhanush an assignment of representation before Income-tax Appellate Tribunal for certain matter for remuneration of ₹ 2.85 crores. CA Dhanush accepted the assignment. Discuss action of CA Dhanush with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 & Schedules thereto. [MTP - 1 MAY 25] (04)

Q.26 CA Shubh, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Shubh accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Varun informed him that now he cannot retain full time certificate of practice, thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - 1 NOV 24] (05)

Q.27 CA Z, in practice, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of his name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA Z has transacted in futures and options derivatives (equity) and has reflected income from such transactions in his return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Z had earned income from transacting in currency derivatives and commodity derivatives? [MTP - I MAY 24] (05)

Q.28 CA. Kapila, in practice, is desirous of filling Multi-purpose Empanelment Form (MEF) for inclusion of her name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA. Kapila has transacted in futures and options derivatives (equity) and has reflected income from such transactions in her return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Kapila had earned income from transacting in currency derivatives and commodity derivatives? [MTP - II NOV 24] (05)

Q.29. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto:

(a) CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core.

(b) M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months. [RTP SEPT. 25]

Q.30. CA Ajay is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaign promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period. Comment on the action of CA Ajay with reference to the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - II SEPT. 25] (04)

Q.31. Mr. Dharam has been appointed as the statutory auditor of Great Ltd., a listed company. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 1.5 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be done after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 21st, 2025, along with the remaining part of the Audit Fee. Comment on the validity of this fee structure and the terms of payment with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the guidelines issued by ICAI. [MTP - II SEPT. 25] (05)

Q.32. CA Deepali is a practicing Chartered Accountant having office in Surat. She is owner of creative.net. In order to generate additional revenue CA Deepali sold this domain name to GRIP Limited for earning royalty of ₹ 3,50,000. One of the directors of GRIP Limited contended that CA Deepali has violated the Code of Conduct. CA Deepali responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. Comment on the action of CA Deepali with reference to the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - II SEPT. 25] (05)

Q.33. Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners

reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services.

Comment.

[MTP - 1 SEPT. 25] (04)

Q.34. Mr. Ramesh, a practicing Chartered Accountant and partner at RR & Associates, recently ordered a new set of visiting cards and letterheads for his firm. He made following changes in the CA India logo to make the cards attractive:

- Changed the background from white to grey to match the firm's colour theme;
- Reduced the size of the logo to fit it in a smaller area on the top-right corner.
- Replaced the word "India" in the logo with his firm's initials.
- Added a gradient effect to the blue colour in the letters "CA".

He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

[MTP - 1 SEPT. 25] (05)

Q.35. CA. Sudeep, a newly qualified Chartered Accountant holding Certificate of Practice, approached CA. Suraj, the statutory auditor of his father's company Kings Ltd., to allow him to gain some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA. Suraj allowed him to sit in his office for 6 months and allotted a small chamber with other office infrastructure facility. During his association with CA. Suraj's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST returns and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA. Suraj's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 4,00,000 by CA. Suraj for his association out of gratitude. Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto.

[MTP - 1 SEPT. 25] (05)

Q.36. CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. Being in the insurance business, the company gets majority of its clients through their agency

contracts. CA Rudra has the practice of releasing the commission payments on the condition that he gets 25% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. [MTP - I SEPT. 25] (04)

Q.37. M/s. CDR & Associates is one of the three firms shortlisted by JDB Cooperative Bank for assignment of Statutory Audit for the F.Y 2024-25. The bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. CDR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. [MTP - I SEPT. 25] (04)

Q.38. TP & Associates were statutory auditors of Deepa Ltd. The audit for the financial years 2023-24 and 2024-25 is still pending due to a dispute between the auditor and the company regarding certain remarks proposed to be included in the audit report for the financial year 2023-24. Subsequently, in a shareholders' meeting held on 06-05-2024, the company removed TP and Associates as auditors after complying with all applicable legal formalities. TP & Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. Deepa Ltd. complained to ICAI against TP & Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. [MTP - II SEPT. 25] (04)

Q.39. 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/44ADA
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.

[MAY 25] (05)

Q.40. 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.

[MAY 25] (05)

Q.41. M/s GSTR & Associates, Chartered Accountants, is an audit firm consisting of three partners. The partnership firm was formed in the year 2019. M/s GSTR & Associates, specialised in internal audits and tax consultancy services, admitted CA Y as partner in the year 2024. CA Y had vast experience in audit of listed companies as he was the senior audit manager of a leading audit firm before he joins M/s GSTR & Associates.

Ruby Limited, a listed entity, appointed M/s GSTR & Associates, Chartered Accountants as statutory auditors for the year ended 31st March 2025. CA Y, the engagement partner signed the balance sheet of Ruby Limited for the year ended 31st March 2025 on 21st May 2025.

M/s GSTR & Associates, Chartered Accountants never subjected themselves to the Peer Review process of the Institute. Comment with reference to the Chartered Accountants Act, 1949.

[MAY 25] (04)

Q.42. Ring Limited is a subsidiary of Pearl Limited. For the financial year 2024 - 25 M/s Vani & Co., Chartered Accountants were appointed as the statutory auditors of Ring Limited. The CEO of Pearl Limited was impressed with the professional competence of CA Devi, one of the partners of the firm and hence, he offered CA Devi to take up the position of Director (not MD/whole time director) of Pearl Limited. CA Devi is in a dilemma whether to accept the offer. She approaches you and seeks your advice on the same. Advise what CA Devi can do with the offer with reference to the Chartered Accountants Act, 1949 and schedules thereto.

[MAY 25] (04)

Q.43. CA Suba is a senior partner in a chartered accountancy firm in Mumbai. She and few other CA firms, each specializing in different sectors, agree to form a network to enhance their service portfolio and geographical reach. They apply to the ICAI for the network name approval, which is granted as "Suba & Affiliates". They are under the process of submitting relevant forms to the ICAI for Registration.

Simultaneously, M/s. RS & Associates, one of the member firms in the group, signs a collaboration agreement with an international accounting network based in Singapore. Based on above facts, you are required to:

Guide CA Suba & M/s. RS & Associates with regard to Guidelines for Networking issued by the ICAI in respect of registration of Network with entities in India and outside India.

[SEPT. 25] (05)

Q.44. F & F Associates, Chartered Accountants, are appointed as the statutory auditors of TQR Limited, an unlisted company, for the financial year 2024 - 25. The net-worth of the company has remained at 500 crores for last 2 years. CA F is the engagement

partner for the audit of the company. During the audit, CA F became aware of an imminent breach of law that would cause substantial harm to investors, creditors and employees of the company. He discussed this matter with Mr. X, who was one of the senior-most directors of the company and who also happened to be a Chartered Accountant. He is of the view that it is the responsibility of Mr. X, being a senior professional accountant, to respond to such non-compliance of law. However, Mr. X is of the view that there is no responsibility casted on him for responding to the aforesaid non-compliance. In view of the following:

(i) Comment on the contention of Mr. X in terms of relevant section of Revised Code of Ethics. (02)

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

[SEPT. 25] (03)

Q.45. CA Neha, a Chartered Accountant in practice, is approached by Growtech Ltd., a startup company planning to raise capital through an Initial Public Offering (IPO). The company requests her assistance in guiding them through the selection of advertising agencies, co-ordinating with bankers and brokers to issue. Besides helping the company as an advisor, she also underwrote the public issue of the company to the extent of 20% at a commission of 1%. She contends that provisions of code of conduct are not binding such services. Do you agree with the view of CA Neha? Analyse the facts and give your comments in the light of applicable code of conduct.

[SEPT. 25] (04)

Q.46. SAFE Cooperative Bank shortlisted M/s VW & Colleagues, Chartered Accountants, out of the five audit firms, for assignment of Statutory Audit for the F.Y. 2024 - 25. Bank emailed the list of branches to the audit firms along with the maximum fee per branch and requested them to submit the quotations. M/s VW & Colleagues responded to the bank and submitted their quotations. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto.

[SEPT. 25] (04)

Q.47.

(a) Aditya & Co., a firm of Chartered Accountants in practice has been approached by Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. Scope of work of the same includes reviewing the efficiency of operations, utilisation of funds, quality of training imparted and suggesting measures for improvement. In this context, the partners of the firm are concerned about the permissibility of accepting such an engagement. Would accepting this assignment amount to a service prohibited for members in practice under the Chartered Accountants Act, 1949?

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

[RTP JAN 26]