



PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Part – I : Academic Update

**(Legislative Amendments / Notifications / Circulars / Rules / Guidelines
issued by Regulating Authority)**

Chapter 14 - Unit 2 - Special Features of Audit of Non-Banking Financial Companies

1. **Registration Exemption for Certain NBFCs – 2026 Amendment: On page no 14.90 following amendment may be read as an addendum to Chapter 14 and should be read along with the existing provisions.**

While the Registration Directions 2025 themselves introduced no substantive change from the SBR Directions 2023, a subsequent and significant amendment was introduced vide Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (hereinafter referred to as the "Registration Amendment Directions 2026"), issued on April 29, 2026, effective from July 01, 2026. The Registration Amendment Directions 2026 introduced a three-category definitional framework:

- 1) **Unregistered (Type I – Exempt):** Non-deposit-taking NBFCs with no public funds, no customer interface, and asset size below ₹ 1,000 crore are exempted from the provisions of Sections 45IA and 45IC of the RBI Act. Such existing NBFCs, including those holding a Certificate of Registration as Type I NBFC, can apply for deregistration by December 31, 2026.
- 2) **Type I NBFC (Registered):** Non-deposit-taking NBFCs with no public funds and no customer interface, but with an asset size exceeding ₹ 1,000 crore, continue to require registration.

- 3) **Type II NBFC (Registered):** NBFCs that avail public funds or have a customer interface, regardless of asset size, continue to require registration.

This is a material departure from the position under the SBR Directions 2023, which did not provide for any such statutory exemption from registration for non-public fund, non-customer-facing NBFCs below the ₹ 1,000 crore threshold.

This deregulation specifically targets micro-NBFCs, private investment vehicles, holding companies, and family offices that previously bore the disproportionate administrative and financial compliance burden of maintaining a CoR simply because their balance sheets mathematically satisfied the 50-50 Test. The new three-tier registration model summary:

Classification Category	Customer Interface Requirement	Acceptance of Public Funds	Asset Size Threshold	RBI Registration Status
Unregistered Type I NBFC	Strictly None	Strictly None (Direct or Indirect)	Less than ₹ 1,000 crore	Exempt from Section 45-IA
Type I NBFC	Strictly None	Strictly None (Direct or Indirect)	Greater than ₹ 1,000 crore	Mandatory (CoR Required)
Type II NBFC	Permitted	Permitted	Any Asset Size	Mandatory (CoR Required)

2. As per the circular DoR.FIN.REC.25/03.10.038/2025-26 dated June 06, 2025, if an NBFC-MFI fails to maintain the criteria specified in following para for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

“NBFC-MFI” means a non-deposit taking NBFC which has a minimum of 60 percent of its total assets (netted off by intangible assets), on an ongoing basis, deployed towards “microfinance loans” as defined under

Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

3. Capital Requirements on page no. 14.92 to be read as:

Every applicable NBFC as defined in the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 shall maintain the minimum capital ratios given below, depending on the layer in which it is placed under the Scale Based Regulation (SBR) framework.

With effect from November 28, 2025 (as updated up to July 01, 2026), the RBI (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025 prescribe the capital adequacy requirement on a layer-wise basis under the Scale Based Regulation (SBR) framework, summarised below.

- (a) NBFC primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of its financial assets), irrespective of layer: minimum Tier 1 capital 12 percent and minimum CRAR 15 percent of aggregate risk weighted assets (Tier 2 capital shall not, at any time, exceed 100 percent of Tier 1 capital);
- (b) NBFC – Middle Layer (NBFC-ML) and above (other than gold-jewellery lending NBFCs covered in (a) above): minimum Tier 1 capital 10 percent and minimum CRAR 15 percent of aggregate RWAs (Tier 2 capital $\leq$ 100 percent of Tier 1 capital);
- (c) NBFC – Upper Layer (NBFC-UL): all the requirements at (b) above PLUS a minimum Common Equity Tier 1 (CET1) capital of 9 percent of aggregate RWAs. CET1 is the highest-quality slice of Tier 1 capital – broadly, paid-up equity capital, share premium, statutory/capital/other free reserves and retained earnings, less specified regulatory deductions (e.g. goodwill, intangibles, certain DTAs);
- (d) NBFC – Top Layer: all the requirements at (c) above, PLUS a higher capital charge specifically communicated by the RBI to the NBFC at the time of its classification in the Top Layer; and

- (e) NBFC – Base Layer (other than gold-jewellery lending NBFCs): no specific CRAR/Tier 1 ratio is prescribed under Chapter II of the Directions; however, its Leverage Ratio (Total Outside Liabilities ÷ Owned Fund) shall not exceed 7 at any point of time.

CRAR = (Tier 1 Capital + Tier 2 Capital) ÷ Risk Weighted Assets (RWAs);
Tier 1 Capital Ratio = Tier 1 Capital ÷ RWAs; CET1 Capital Ratio = CET1 Capital ÷ RWAs.

“Tier 1 capital” for NBFCs (except NBFCs-BL) is the sum of

- (i) Owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund; and
- (ii) Perpetual debt instruments issued by a non-deposit taking NBFCs in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous financial year.

Notes:

1. NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.
2. Common Equity Tier 1 (CET1) capital: CET1 is Tier 1 capital as computed above, further reduced by items such as Perpetual Debt Instruments (PDI) included in Tier 1, goodwill and other intangible assets, specified deferred tax assets, and other regulatory deductions. An NBFC-UL and an NBFC in the Top Layer must additionally maintain CET1 of at least 9 percent of aggregate RWAs [see (c) and (d) above]; this requirement does not apply to NBFC-BL and NBFC-ML.

“Tier 2 capital” for NBFCs (except NBFCs-BL) is the sum of

- (i) Preference shares other than those which are compulsorily convertible into equity;
- (ii) Revaluation reserves at discounted rate of 55 percent;

- (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and 1.25% of risk weighted assets;
- (iv) Hybrid debt capital instruments;
- (v) Subordinated debt; and

Provided that book value of subordinated debt shall be subject to discounting as provided under

Remaining Maturity of the instruments	Rate of discount
Up to one year	100%
More than one year but up to two years	80%
More than two years but up to three years	60%
More than three years but up to four years	40%
More than four years but up to five years	20%

to the extent such discounted value does not exceed fifty percent of Tier 1 capital; and

- (vi) Perpetual debt instruments issued by a non-deposit taking NBFC which is in excess of what qualifies for Tier 1 capital;

to the extent the aggregate does not exceed Tier 1 capital.

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital. For in-depth understanding student may refer the detailed Directions issued by RBI available on https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12959

4. Addition of ROU Assets to Other Assets definition in Weighted risk assets - On-Balance Sheet items table given on page no 14.94

S. No.	Weighted risk assets – On Balance Sheet Items	Percentage weight
(ii)	(e)(i) Loans to 'High-quality infrastructure projects' as defined in the Reserve Bank of India (Non-Banking Financial Companies - Concentration Risk	75

	Management) Directions, 2026 and where the borrower has repaid at least 2 per cent of the sanctioned project debt:	
	(ii) Loans to 'High-quality infrastructure projects' as defined in the Reserve Bank of India (Non-Banking Financial Companies - Concentration Risk Management) Directions, 2026 and where the borrower has repaid at least 5 per cent of the sanctioned project debt: Provided that, for Sl. no.(e)(i) and (e)(ii) above, in the event the projects that qualify as High-quality infrastructure projects subsequently fail to meet these conditions, they shall be subject to risk weights prescribed under Sr. no.3(e) or (g), as applicable, of this table. Provided further that for Sl. no.(e)(i) and (e)(ii) above the repayment threshold should be determined based on the sanctioned project debt. Additional debt, if any, sanctioned as a part of takeover of the loan or otherwise should be clubbed with previous loan(s) sanctioned against the project assets and/or cash flows to determine the repayment threshold. Provided further that, in case of exposures attracting a lower risk weight under the guidelines applicable up to March 31, 2026, but will be subject to higher risk weights in terms of Sl. no. (e)(i) and (e)(ii) above, NBFCs can continue to maintain the extant risk weights till the next review / renewal or March 31, 2027, whichever is earlier.	50
(v)	Other assets: (d) Others (to be specified) including ROU assets	100

5. On page no. 14.99, Standard asset provisioning to be read as

Standard Asset Provisioning – NBFC-ML: NBFC-ML shall make provisions for standard assets at 0.40 percent of the outstanding (including microfinance loans), which shall not be reckoned for arriving at net NPAs.

Standard asset provisioning – NBFC-UL (category-wise): Individual housing loans / loans to SMEs – 0.25%; housing loans at teaser rates – 2.00% (decreasing to 0.40% one year after reset, if still 'standard'); advances to CRE-RH – 0.75%; advances to CRE (other than CRE-RH) – 1.00%; restructured advances – as per the Resolution of Stressed Assets Directions, 2025; all other loans/advances (incl. Medium Enterprises) – 0.40%.

Illustration: An NBFC-UL has the following 'standard' assets outstanding: individual housing loans ₹ 200 crore; CRE (other than CRE-RH) advances ₹ 50 crore; and other loans ₹100 crore. Standard asset provision = $(200 \times 0.25\%) + (50 \times 1.00\%) + (100 \times 0.40\%) = ₹ 0.50 \text{ crore} + ₹ 0.50 \text{ crore} + ₹ 0.40 \text{ crore} = ₹ 1.40 \text{ crore}$.

The above regulatory requirements are to be amended in a phased manner under the Scale- Based Regulation prescribed by RBI for NBFCs.

Students may note that (a) an NBFC may factor in Default Loss Guarantee (DLG) cover while computing Ind AS Expected Credit Loss provisions, subject to conditions; and (b) on implementation of a resolution plan under Chapter VI-A of the Resolution of Stressed Assets Directions, 2025, an additional specific provision of 5% of the outstanding debt is required per instance of restructuring (capped at 100%), written back once the borrower repays at least 20% without slipping back into NPA.

[Students may refer Master Direction – Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 for detailed guidelines on prudential norms relating to Non-Banking Financial Companies covered in these Directions.]

Chapter 19- Professional Ethics & Liabilities of Auditors**1. On page no. 19.68 amendment in Clause (9) of Part I of First Schedule**

Clause (9) accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with;

2. On page no. 19.109 insertion of Clause (5) in Part II of Second Schedule

Clause (5) acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

3. On Page no 19.111, Chapter VI to be read as

In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be effected by issuance of new guidelines, as follows –

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

Part – II: Questions and Answers**QUESTIONS****PART A: Multiple Choice Questions****Integrated Case Scenarios**

PNBM & Associates, Chartered Accountants, is a firm comprising four partners. Chetan, one of its partners, had accepted and signed 68 tax audit reports under Section 44AB of the Income-tax Act, 1961, excluding tax audits covered under Sections 44AD, 44ADA and 44AE. When this came to light, Chetan justified his action by stating that since the firm had 4 partners, the firm's aggregate ceiling was 240 tax audits, and therefore any partner could sign more than 60 reports if the firm's overall ceiling was not exceeded.

PNBM & Associates also serves as the statutory auditor of Solaris Renewables Ltd., a listed company, for the year ended March 31, 2026. During the course of the audit, the engagement team observed the following matters:

- (i) CA Priya is employed as the Chief Financial Officer of Solaris Renewables Ltd. During assessment proceedings, she appeared before the Income-tax authorities as the company's authorised representative. Subsequently, a fellow employee of the company, Mr. Karan, asked Priya to represent him in his personal income-tax assessment, and she agreed to do so.
- (ii) During the audit, the audit team observed that Solaris Renewables Ltd. had early adopted a new Ind AS, which would otherwise become mandatory from April 1, 2027. Such early adoption was permitted under the applicable regulatory framework. The early adoption had a material effect on the financial statements and was adequately disclosed in the notes to accounts. The audit team performed appropriate procedures and concluded that the accounting treatment adopted was appropriate.
- (iii) As part of the audit of accounts receivable, the firm sent positive confirmation requests to Solaris Renewables Ltd.'s top 60 customers, whose balances represent 70% of total receivables. Positive confirmation requests were also sent to banks to confirm balances held and

outstanding loans. In addition, negative confirmation requests were sent to 180 small suppliers with low-value account balances.

The following events occurred during the confirmation process:

- (1) Out of the 60 positive confirmation requests, 15 responses confirmed agreement with the stated balances, 5 responses reported discrepancies, and 40 customers did not respond at all.
- (2) One of the responses to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information that did not match the customer's usual correspondence.
- (3) 120 negative confirmation requests receive no responses.
- (4) In the case of non-response, the audit team examined subsequent cash receipts/payments, correspondence, and goods received/dispatch records as alternative evidence.

Based on the above facts, answer the following MCQs:

1. With reference to the provisions of the Chartered Accountants Act, 1949 and the applicable ceiling on tax audit assignments, whether Chetan is guilty of professional misconduct?
 - (a) No, Chetan is not guilty, as the aggregate limit for the firm is 240 tax audits, and any partner may sign beyond 60 reports if the firm's overall limit is not exceeded.
 - (b) Yes, Chetan is guilty of professional misconduct, as the ceiling of 60 tax audit reports is applicable individually to each member, irrespective of the number of partners in the firm.
 - (c) No, Chetan is not guilty, as corporate and non-corporate tax audits are counted separately for determining the ceiling applicable to a member.
 - (d) No, Chetan is not guilty, as the ceiling is determined with reference to the tax audit assignments undertaken by the firm and the number of partners associated with the firm.

2. In relation to Priya's representation before the Income-tax authorities, which of the following is correct?
- (a) Priya is permitted to represent both Solaris Renewables Ltd. and Karan, since both are connected with the same employer and the representation arises in the course of their employment.
 - (b) Priya is permitted to represent Karan in his personal income-tax proceedings, since a Chartered Accountant in employment may undertake such representation for another employee without affecting her employment with the company.
 - (c) Priya is permitted to appear as the tax representative of her employer, Solaris Renewables Ltd., but is not permitted to represent Karan in his personal income-tax proceedings; such representation would amount to professional misconduct.
 - (d) Priya is not permitted to appear before the Income-tax authorities even on behalf of Solaris Renewables Ltd., since a Chartered Accountant in service is prohibited from acting as a tax representative.
3. Considering the circumstances relating to the early adoption of Ind AS, how should the matter be dealt with in the auditor's report?
- (a) The matter should be included under Other Information, as the early adoption relates to information that is relevant to users of the financial statements but does not form part of the financial statements.
 - (b) The matter should be reported as a Key Audit Matter, as the early adoption had a material effect on the financial statements and required significant attention from the audit team.
 - (c) The matter should be reported in Other Matter paragraph, since early adoption of an accounting standard represents information that is fundamental to users' understanding of the financial statements.
 - (d) The matter may be highlighted through an Emphasis of Matter paragraph, since the early adoption has a material effect, is

appropriately accounted for and is adequately disclosed in the financial statements.

4. Assume, contrary to the facts given, that the early adoption of the new Ind AS was not adequately disclosed in the notes to accounts, even though the auditors still regarded the accounting treatment itself as appropriate. How would this change the reporting requirement?
 - (a) The auditor would issue a qualified or adverse opinion for material misstatement, since an Emphasis of Matter paragraph can only be used for a matter that is already adequately disclosed, inadequate disclosure is itself a misstatement, not a basis for such a paragraph.
 - (b) The auditor would still issue an Emphasis of Matter paragraph, since its purpose is precisely to draw attention to matters that have not been adequately disclosed by management.
 - (c) The auditor would issue an Emphasis of Matter paragraph and separately note within it that the related disclosure was inadequate, without any change to the opinion.
 - (d) The auditor would instead report the matter as a Key Audit Matter, since inadequate disclosure automatically elevates any matter into one of most significance in the audit.
5. Which of the following is the most appropriate for PNBM & Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing?
 - (a) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.
 - (b) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.

- (c) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.
- (d) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Independent MCQs

6. A large infrastructure company, Vikas Constructions Ltd., is developing an industrial corridor project in a semi-rural area. The project involves land acquisition, construction activities, and possible relocation of a small local settlement. The company aims to align its actions with Principle 8 – Promote Inclusive Growth and Equitable Development.

During the ESG compliance and CSR strategy meeting, the sustainability director proposes several actions to align the project with Principle 8. However, the internal audit team observes that one of the proposed actions is not consistent with the core elements of this principle.

Which of the following actions is not aligned with Principle 8?

- (a) The entity should have systems in place to identify and address impacts of its activities on the social, cultural, and economic aspects of the people, including issues like land acquisition and construction activities for new facilities.
- (b) The entity should review, measure, and track the adverse impacts of its activities on society and environment and make action plans to mitigate them adequately.
- (c) The entity should ensure that business decisions primarily focus on maximising economic efficiency even if it results in business induced displacement or relocation of communities, without requiring participative or informed negotiations.
- (d) The entity should make efforts to bring up creative products, technologies, and business concerns that help marginalized communities to have well-being and a better quality of life.

7. A bank proposes to shift certain Government securities from the "Available for Sale" (AFS) category to the "Held to Maturity" (HTM) category. The securities satisfy the conditions for classification as HTM, and the ALCO has approved the proposed shift. However, no approval of the Board of Directors has been obtained. The management contends that the absence of Board approval should not affect the classification since the securities otherwise qualify for HTM. Which of the following is the most appropriate treatment?
- (a) The securities may be classified as HTM, since compliance with the eligibility conditions for HTM is the primary requirement and the approval of ALCO provides adequate internal authorisation for the transfer.
 - (b) The securities cannot be transferred to HTM merely on the basis of ALCO approval, since the prescribed approval requirements for such transfer must be complied with in addition to the eligibility conditions for HTM classification.
 - (c) The securities may be classified as HTM if the bank discloses the absence of Board approval and demonstrates that its intention to hold the securities until maturity existed at the time of their original acquisition.
 - (d) The securities should continue to be classified as AFS only for the year of transfer and may thereafter be classified as HTM once the Board subsequently approves the transfer.
8. During the statutory audit of Kavya Industries Ltd. for the year ended March 31, 2026, the auditor completed the audit of the financial statements and was in the process of finalising the auditor's report. The company's annual report also contained a Directors' Report, which was not part of the audited financial statements.

Before the date of the auditor's report, while reading the Directors' Report, the auditor noted that it stated that the company's revenue had increased by 22% during the year, whereas the audited financial statements showed that revenue had increased by only 9% over the previous year. The auditor confirmed that the figures and disclosures in

the audited financial statements were correct and that the difference arose solely from an incorrect statement in the Directors' Report.

In the above circumstances, which of the following is the most appropriate course of action for the auditor?

- (a) Modify the audit opinion on the financial statements, since the inconsistency between the Directors' Report and the audited financial statements represents a material misstatement affecting the annual report.
- (b) Request management to correct the Directors' Report and, if management refuses and the auditor concludes that the other information is materially misstated, communicate the matter to those charged with governance and consider the implications for the auditor's report in accordance with SA 720.
- (c) Take no further action, since the Directors' Report is outside the financial statements and the auditor's responsibility under SA 720 does not extend to information contained in the annual report other than the financial statements.
- (d) Withdraw from the audit engagement, since management's refusal to correct a material misstatement in the Directors' Report constitutes a scope limitation that prevents the auditor from expressing an opinion on the financial statements.

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Audit Planning, Strategy & Execution

9. During the statutory audit of KPK Manufacturing Ltd., the engagement partner noted that the company has a well-established and effective internal audit function. The internal auditors have recently completed the following assignments:
- Testing of the operating effectiveness of internal controls over the purchase and payment cycle.
 - Observed the year end physical inventory count at various warehouses.

- Determined the materiality for the audit of the financial statements.
- Verified compliance with applicable environmental and labour regulations.
- Evaluated the appropriateness of management's assumptions used in estimating the provision for pending litigation.
- Reviewed the financial information of a small overseas subsidiary that is not a significant component of the group.
- Decided the nature, timing and extent of substantive audit procedures to be performed for revenue recognition and drafted the proposed audit opinion on the financial statements.

The engagement partner proposes to use the work of the internal audit function extensively with a view to reduce the extent of external audit procedure. As the statutory auditor, analyse each of the above areas and identify which assignments can be used and which cannot be used by the external auditor as per relevant Standard on Auditing.

Completion and Review

10. While conducting the audit of LML Ltd., the auditor, CA Hema, observed a continuous decline in revenues, significant operating losses, and delays in repayment of bank dues during the year. The company is also facing difficulty in obtaining further financing, and a major portion of its customers have shifted to competitors. Management has prepared cash flow forecasts and is confident of turning around the business through cost-cutting measures and proposed funding arrangements.

However, the auditor has concerns regarding the reliability of the assumptions used in the forecasts and the feasibility of management's plans. The financial statements include a note disclosing these circumstances.

The auditor is in the process of concluding the audit and forming an opinion on the financial statements.

Analyse the matters that the auditor should consider in the above situation and discuss the implications for the auditor's report, with reference to relevant auditing standards.

Reporting

11. CA Ravi is the Statutory Auditor of Rajhans Textiles Ltd., a listed company, for the financial year 2025-26. During the audit, the following matters came to the auditor's attention:
- (i) The company has granted a loan of ₹5 crore to its subsidiary. No repayment schedule has been stipulated and no repayment has been received during the year.
 - (ii) The company had availed a term loan of ₹ 50 crore from a consortium of banks. During the year, the company defaulted in repayment of instalments aggregating to ₹ 6 crore for a period of 95 days. However, the default was subsequently cleared before the balance sheet date.
 - (iii) The company has an outstanding Income-tax demand of ₹ 2 crore, which is disputed before the appellate authority. The amount has been appropriately disclosed in the financial statements.

Examine each of the above situations and state how CA Ravi should report the same under CARO 2020.

Specialised Areas

12. JKL Ltd. has published a set of condensed financial information for its shareholders, summarizing its audited financial statements for the year. The summary financial statements have been circulated independently and are not accompanied by the complete audited financial statements. The management has stated that the full financial statements are available upon request at the company's registered office.

The auditor has been engaged to report on these summary financial statements. While reviewing the same, the auditor noted that the level of aggregation appears quite high, certain disclosures regarding the basis of preparation are unclear, and there is limited reference to the audited financial statements.

In the given circumstances, discuss the procedures that the auditor should consider while forming an opinion on such financial information.

Review of Financial Information

13. Luck & Associates, a firm of Chartered Accountants, was approached by Best Ltd. to undertake a review of its financial statements. During initial discussions, the engagement partner observed certain issues such as possible limitations on the scope of work, concerns regarding availability and reliability of information, and doubts about management's integrity. Further, the engagement was proposed to meet certain regulatory expectations, though it was unclear whether a review would be appropriate in the given circumstances. The firm also needs to evaluate its ability to comply with ethical requirements, including independence.

Discuss the considerations that the practitioner should evaluate in the above situation before accepting/proceeding with the engagement.

Prospective Financial Information and Other Assurance Services

14. Mr. B, a Chartered Accountant in practice, has been approached by ABC Ltd. to examine and report on its prospective financial information prepared for the purpose of raising finance from investors. The management intends to circulate the information widely.

During initial discussion, CA B notices that certain assumptions used in the preparation of such information appear to be unrealistic. He is also uncertain about the reliability of historical financial data and the exact purpose and scope of circulation of such information.

CA B is considering whether to accept the engagement and, if so, what are the factors he should evaluate before doing so?

Digital Auditing and Assurance

15. CA Jiya was conducting a remote audit of Nova Ltd. using an online document-sharing platform. To expedite the audit process, the company granted unrestricted access to all employees and auditors on the platform. During the audit, CA Jiya downloaded several documents and retained them on the shared platform even after completing her review.

While discussing audit observations through a video conference, she took screenshots of employees appearing on the screen as evidence of discussions without obtaining prior consent. She also captured screenshots of certain confidential company records without seeking

authorization from the auditee. Further, while accessing the company's ERP system from her home office, she logged in through a public internet connection without using a Virtual Private Network (VPN).

The management of Nova Ltd. later raised concerns regarding confidentiality, security, and data protection practices followed during the audit.

Discuss the security, confidentiality, and data protection concerns arising from the above situation. What safeguards and controls should an auditor implement while conducting a remote or digital audit to ensure protection of client information and compliance with applicable regulations?

Group Audits

16. CA Ananya has been appointed as the statutory auditor of PQR Ltd. (the parent company) as well as of every subsidiary, wholly owned and partly owned, within the PQR group. While finalising the audit of the Consolidated Financial Statements (CFS) for the year ended March 31, 2026, she notices that although the CFS are broadly compliant with the applicable consolidation Accounting Standards, one subsidiary's figures have not been adjusted in the manner required by the standard. This omission constitutes a material departure from the prescribed consolidation principles.

CA Ananya brought the matter to the attention of management and requested the necessary adjustments. However, management refused to revise the CFS (i.e., Consolidated Balance Sheet, Consolidated Statement of Profit and Loss and Consolidated Cash Flow Statement) stating that the impact was limited to a single subsidiary and did not affect the overall presentation significantly.

Discuss the responsibilities of CA Ananya as auditor of the CFS in the given situation, and the course of action she must adopt while framing her audit opinion.

Special Features of Audit of Banks & Non-Banking Financial Companies

17. XYZ Investments Pvt. Ltd. is a company incorporated under the Companies Act, 2013, engaged solely in acquiring and holding shares and debentures of group companies as an investment activity. It does

not accept public deposits, does not avail public funds, has no customer interface and does not intend to avail public funds or have customer interface as part of its business model. Its total asset size as per the latest audited balance sheet is ₹ 850 crore. The company had earlier obtained a Certificate of Registration (CoR) from the RBI as a NBFC-BL under the SBR Directions, 2023, since its financial assets and financial income satisfied the 50-50 Test.

The statutory auditor of XYZ Investments Pvt. Ltd., while planning the audit for FY 2026-27, is examining the applicability of the Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026 to the company.

Examine, with reasons, whether XYZ Investments Pvt. Ltd. is required to continue holding a Certificate of Registration under the RBI Act, 1934, in light of the Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions, 2026. What compliance requirements and exit option, if any, are available to XYZ Investments Pvt. Ltd.?

Overview of Audit of Public Sector Undertakings

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

The audit team is considering various sources such as internal records of the implementing agencies, legislative discussions, reports of committees, prior audit findings, independent research studies, and inputs from stakeholders to develop a comprehensive understanding of the programme before finalising the audit plan.

Identify the stage of the performance audit process represented in the above scenario. Further discuss how the various sources of information

referred to above assist the audit team in developing an in-depth understanding of the entity/programme for effective audit planning.

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

19. Green Limited, engaged in electric vehicle manufacturing has recently expanded its operations in multiple states. During the audit, the auditor noted the following:

- The company faces litigation for alleged environmental violations.
- Management has highlighted sustainability achievements through press releases and investor presentations.
- Certain climate-related risks have been disclosed in the Board's Report, but similar disclosures are absent from the financial statements.

Discuss the auditor's responsibilities in evaluating the above matters while completing the audit of the financial statements.

Professional Ethics & Liabilities of Auditors

20. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:

- (a) CA Anshul is appointed as the statutory auditor of Rise Ltd. During the audit, he obtained details of significant litigation, regulatory investigations, and tax disputes of the company. The Managing Director of the company requested him to share certain audit working papers and internal findings with the company for the purpose of internal restructuring.
- (b) Mr. Raman is a Chartered Accountant in practice holding a Certificate of Practice. He is also enrolled as an advocate after obtaining the requisite permission from the Bar Council. While appearing before the High Court in a tax litigation matter, he files the vakalatnama and appears using the designation "CA Raman, Chartered Accountant & Advocate." He also uses both designations on his visiting card and letterhead for his advocacy practice.

**SUGGESTED ANSWERS****PART A: Answers to Multiple Choice Questions**

Question No.	Answer
1.	(b)
2.	(c)
3.	(d)
4.	(a)
5.	(c)
6.	(c)
7.	(b)
8.	(b)

PART B: Answers to Descriptive Questions

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

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

Accordingly, the engagement partner's proposal to rely extensively on all the work of the internal audit function is not appropriate. The external auditor must independently perform and conclude on areas involving significant professional judgment and remain solely responsible for expressing the audit opinion.

10. As per SA 570, "Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

In the given case, CA Hema has observed such points that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, CA Hema should follow audit procedures such as:

- Review of management's assessment of the company's ability to continue as a going concern.
- Examine and challenge the reasonableness of the company's cash flow forecasts and key assumptions.

- Review events after the reporting period that might affect the going concern assumption, such as further financial deterioration or inability to secure financing.
- Analysis of the company's key financial ratios and compliance with loan agreements to assess liquidity and solvency.
- Review of the company's challenges and efforts to secure additional financing and the reasons for the bank's reluctance to provide further credit.
- Assess the impact of declining customer base, delayed payments, and other operational challenges on the company's ability to continue as a going concern.

Further, as per SA 570 if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- (a) Draw attention to the note in the financial statements that discloses the matters set out in above; and
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

- 11. (i) Loan granted to Subsidiary:** As per Clause (iii)(a)(A) of Paragraph 3 of CARO 2020, the auditor is required to report, inter alia, whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;

Further, as per Clause (iii)(c) of Paragraph 3 of CARO 2020, the auditor is required to report in respect of loans and advances in

the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

Furthermore, as per Clause (iii)(f) of Paragraph 3 of CARO 2020, the auditor is required to report, whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013.

In the given case, the company has granted a loan of ₹ 5 crore to its subsidiary, for which no repayment schedule has been stipulated and no repayment has been received during the year. Accordingly, CA Ravi should make appropriate reporting under Clause (iii)(a)(A), Clause (iii)(c), Clause (iii)(f) of Paragraph 3 of CARO 2020.

- (ii) **Default in repayment of Loans/Borrowings:** As per Clause (ix)(a) of Paragraph 3 of CARO 2020, where the company has defaulted in repayment of loans or other borrowings, the auditor is required to report the amount of default and the period of default, along with lender-wise details.

In the given case, the company had availed a term loan of ₹ 50 crore from a consortium of banks and defaulted in repayment of instalments aggregating to ₹6 crore for a period of 95 days. Although the default was subsequently cleared before the balance sheet date, the default had occurred during the year. Accordingly, CA Ravi should report the amount of default of ₹ 6 crore and the period of default of 95 days, lender-wise, under Clause (ix)(a) of Paragraph 3 of CARO 2020.

- (iii) **Disputed Income-tax Demand:** As per Clause (vii)(b) of Paragraph 3 of CARO 2020, the auditor is required to report the amounts of statutory dues not deposited on account of disputes, along with the nature of the dues and the forum where the dispute is pending.

In the given case, the company has an outstanding Income-tax demand of ₹ 2 crore, which is disputed before the appellate authority and has been appropriately disclosed in the financial statements. Accordingly, CA Ravi should report the amount of ₹ 2 crore, nature of the dues and the forum where the dispute is pending under Clause (vii)(b) of Paragraph 3 of CARO 2020.

- 12.** As per SA 810, "Engagements to Report on Summary Financial Statements", the auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:
- (a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
 - (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
 - (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
 - (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
 - (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
 - (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the

information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements as discussed already.

13. As per SRE 2400, "Engagements to Review Historical Financial Statements", factors affecting Acceptance and Continuance of Client Relationships and Review Engagements: Unless required by law or regulation, the practitioner shall not accept a review engagement if:

- (a) The practitioner is not satisfied:

- (i) That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.

It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.

- (ii) That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example,

believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
 - (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
 - (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
 - (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.
- 14.** As per SAE 3400, "The Examination of Prospective Financial Information", before accepting an engagement to examine prospective financial information, CA B, the auditor would consider, amongst other things:
- The intended use of the information;
 - Whether the information will be for general or limited distribution;
 - The nature of the assumptions, that is, whether they are best estimates or hypothetical Assumptions;
 - The elements to be included in the information; and
 - The period covered by the information.

Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified.

Like in other engagements, it is necessary that terms of engagements should be agreed with client by sending an engagement letter.

- 15. Confidentiality, Security and Data Protection:** To ensure data security and confidentiality, access to document sharing platform should be sufficiently restricted and secured by encrypting the data that is sent across the network. The information, once reviewed and documented by auditor, is removed from the platform, and stored according to applicable archiving standards and data protection requirements.

Auditors should take into consideration legislation and regulations, which may require additional agreements from both sides (e.g., there will be no recording of sound and images, or authorizations to using people's images). Auditors should not take screenshots of auditees as audit evidence. Any screenshots of documents or records or other kind of evidence should be previously authorized by the audited organization. In case of accessing the auditee's IT system auditor should use VPN (Virtual private network). VPN is a service which creates safe and encrypted online connections. It prevents unauthorized users to enter into network and allows the users to perform work remotely.

In the given case, CA Jiya failed to adhere to several important requirements relating to confidentiality, security, and data protection during a digital audit.

Therefore, the auditor's actions of using an unsecured platform, retaining reviewed information on the platform, taking unauthorized screenshots, and accessing the auditee's systems without a VPN are inconsistent with the principles of confidentiality, security, and data protection applicable to digital audits.

- 16. When the Parent's Auditor is also the Auditor of all its Components:**

In the given case, CA Ananya is the statutory auditor of both the parent company, PQR Ltd., and all its subsidiaries. Accordingly, she needs to consider the following:

- While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed.

In case of any departure or deviation, the auditor should consider the requirements given in SA 705, "Modifications to the Opinion in the Independent Auditor's Report" in the audit report so that users of the consolidated financial statements are aware of such deviation.

- Auditor should issue an audit report expressing an opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit.
- Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.

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

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

Accordingly, CA Ananya should:

- evaluate the effect of the unadjusted consolidation adjustment on the CFS;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Therefore, XYZ Investments Pvt. Ltd. should:

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

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

- 18.** The activities described in the case represent the initial stage of planning a performance audit, commonly referred to as understanding the entity/programme. It is the starting point for planning individual performance audit.

The auditor may use the following sources for understanding the entity:

- (i) Documents of the entity: Documents on administration and functions of the entity, policy files, annual reports, budget documents, accounts, minutes of meetings, information on the website, internal audit reports, electronic databases and MIS reports, RTI material etc.
- (ii) Legislative documents: Legislation, parliamentary questions and debates, reports of the Public Accounts Committee, the Committee on Public Undertakings, the Estimates Committee and letters from Members of Parliament.
- (iii) Policy documents: Documents of Planning Commission, Ministry of Finance etc.
- (iv) Academic or special research: Independent evaluations on the entity, academic research and similar work done by other governments and other SAs.
- (v) Past audits: Past financial and performance audits of the entity provide a major source of information and understanding.
- (vi) Media coverage: Print and electronic media - their systematic documentation on regular basis in a transparent manner.
- (vii) Special focus groups: Audit Advisory Committee concerns, annual and special reports of World Bank, Reserve Bank of India, reports by special interest groups, NGOs, etc.

19. The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

In developing the understanding of an entity, the auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance, energy, transportation, materials and buildings, agriculture, food, and forestry products.

Many investors and stakeholders are seeking information from auditor's reports about how climate-related risks were addressed in the audit. With this increased user focus on climate change, auditor need to be aware of, and may face, increasing pressure for transparency about climate matters in our auditor's reports. However, the auditor's reports must follow the requirements of applicable auditing standards.

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

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

The auditor should also read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial

statements, such as management report narratives in the annual report, press releases, or investor updates. This is a requirement under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

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

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

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

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

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

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

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

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

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