

Mock Test Paper - Series I: November, 2025

Date of Paper: 21st November, 2025

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. CA Ram and CA Krishna are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On the back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative. However, the person declined the same informing that this act was against professional ethics and would lead to disciplinary action from ICAI. Whether the act of conducting joint training session on GST by CA Ram & Krishna and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?
 - (a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Krishna are guilty of professional misconduct.
 - (b) Yes, CA Ram & Krishna will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.
 - (c) Yes, this is a case of solicitation of client whereby, CA Ram can influence clients of CA Krishna and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule of the Chartered Accountants Act 1949.

- (d) No, as per the recent decisions of Ethical Standards Board, it is permissible for two or more CAs in practice collectively to have joint training sessions for their clients on GST, and share the fee collected from the clients thereof.
2. CA Harsh was auditing the quarterly financial results prepared in accordance with Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The financial results are prepared using recognition and measurement norms of Ind AS 34 and include disclosures as prescribed by SEBI. These financial results would be hosted on the website of the entity and the stock exchange. Should CA Harsh include Key Audit Matters in the audit report on such financial results?
- (a) No, SA 701 applies to audit of complete set of general-purpose financial statements of a listed entity.
 - (b) Yes, SA 701 applies to audits of any entity.
 - (c) No, SA 701 applies to review of the complete set of general-purpose financial statements of any entity.
 - (d) Yes, SA 701 applies to any audit of listed entity.
3. During the statutory audit of Surat branch of Worthy bank, the auditor observes that the Surat branch has created a single uniform provision of 0.40% on all standard advances, without classifying them sector-wise. On inquiry, the branch manager explains that since all accounts are standard, there is no need to apply different provisioning rates Which of the following would be the most appropriate response by the auditor in this situation?
- (a) Accept the provision as adequate since it covers all standard assets uniformly.
 - (b) Provision for standard assets is required to be made at variable rates in respect of different sectors for the funded outstanding in accordance with RBI norms as a matter of prudence.
 - (c) Ignore the issue as it is a minor classification matter not affecting total advances.
 - (d) Accept management's judgment and only verify that total provision has been made.

Case Scenario I [MCQ 4-8]

TechNova Solutions Ltd., a software development company and one of the Top 500 listed entities on the NSE, specialises in delivering customised enterprise resource planning (ERP) solutions.

During the year, the Chief Financial Officer (CFO) received a highly realistic voice message from a known vendor, "Apex Systems," detailing a last-minute change to their bank details for

an upcoming ₹ 45 lakh payment for server maintenance licenses. The message seemed urgent and was syntactically correct, mimicking the vendor's typical communication style. The CFO, pressed for time, verbally approved the change to the accounts payable team without calling back the vendor to verify.

A week later, while the accounts team was preparing for year-end closing, they found that Apex Systems had sent a formal inquiry regarding the delay in payment for the ₹ 45 lakh invoice. Investigation revealed the initial voice message was a sophisticated AI-generated deepfake designed to commit fraud. The money was transferred to a fraudulent account, and the ₹ 45 lakh loss was confirmed and recorded in the financial statements. The company immediately filed a police report and engaged its IT security team.

The statutory auditors, M/s A & P Associates, determined that the company's internal controls over disbursements were deficient, specifically regarding change management for vendor banking details. The loss, though material (as it impacts profitability metrics), was determined not to be pervasive to the financial statements as a whole. The auditor's primary concern shifted to the design and implementation of internal controls to prevent future deepfake fraud. The audit efforts related to testing controls and substantive procedures on cash and payables increased by 15%.

The management of TechNova had recently launched a new service line for green computing consultancy. They decided to prepare a statement detailing their environmental, social, and governance (ESG) performance to attract institutional investors.

The management, impressed by the auditor's in-depth knowledge of IT security during the fraud investigation, proposed to appoint M/s A & P Associates to provide internal audit services for the current financial year's Quarter 4 period.

Based on the above facts, answer the following:

4. In the given case, the cyber-attack technique encountered by the Company is known as:
 - (a) IOT-Based attack
 - (b) Vishing
 - (c) Ransomware attack
 - (d) Mobile Malware attack
5. Considering the facts given in the case relating to loss and deficiency in internal controls which led to the fraud, what is the most appropriate reporting implication for the auditor regarding the opinion?
 - (a) The auditor should issue an Adverse Opinion due to the material misstatement resulting from the fraud.

- (b) The auditor should issue a Disclaimer of Opinion as the internal controls were completely compromised.
 - (c) The auditor should issue a Qualified Opinion due to the material but not pervasive misstatement related to the fraud.
 - (d) The auditor should issue an Unmodified Opinion, disclosing the matter in an Emphasis of Matter (EOM) paragraph.
6. The management of TechNova decided to prepare a statement detailing their Environmental, Social, and Governance (ESG) performance. If the company were to follow the SEBI mandate for disclosure on non-financial metrics, which report would it primarily be required to file, being a Top 500 listed entity?
- (a) The Corporate Social Responsibility (CSR) Report.
 - (b) The Integrated Report (IR).
 - (c) The Business Responsibility and Sustainability Report (BRSR).
 - (d) The Directors' Responsibility Statement.
7. Can M/s A & P Associates accept the offer to provide internal audit services for TechNova Solutions Ltd. for the current financial year's Quarter 4 period?
- (a) Yes, provided they also obtain sufficient appropriate audit evidence for the annual statutory audit.
 - (b) Yes, provided the fee for the internal audit is separately agreed upon and documented.
 - (c) No, the statutory auditor of a listed entity cannot provide internal audit services to the same company.
 - (d) No, the statutory auditor can only provide internal audit services if the company is not a listed entity.

Case Scenario II [MCQ 8-12]

Jupiter Industries Ltd., an established chemical manufacturer based in Vadodara, Gujarat, is listed on both the BSE and NSE. The company produces a variety of industrial chemicals and is a multi-faceted entity.

M/s Pinnacle & Associates, a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2024-25. CA Rishi was the engagement partner for the said assignment. He noticed that those charged with governance in the company are also involved in managing the entity.

During the ongoing audit engagement, M/s Pinnacle & Associates had already issued the Limited Review Reports for the first and second quarters (Quarter 1 and Quarter 2). Before commencing the review for the third quarter (Quarter 3), the management informed CA Rishi that they would not provide access to a critical overseas subsidiary's books and records, citing confidentiality agreements with a joint venture partner. This imposed a scope limitation on the audit.

CA Rishi considered this limitation likely to result in the need to express an opinion modification on the full-year financial statements and accordingly, he requested management to remove such limitations. However, the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, finally, CA Rishi with his engagement team, concluded that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualified opinion would be inadequate to communicate the gravity of the situation. Accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 25th November, 2024. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

Based on the above facts, answer the following:

8. What was the immediate responsibility of M/s Pinnacle & Associates with respect to the issue of the Limited Review Report at the time of proposing resignation on 25th November 2024?
 - (a) The Limited Review Report for Quarter 3 was required to be issued, and consequently, the audit report for the full year is also required to be issued before resignation.
 - (b) The Limited Review Report for Quarter 3 was required to be issued before resignation.
 - (c) Since Limited Review Report for Quarter 1 and Quarter 2 was already issued, no further Limited Review Report was required, and the firm could resign immediately.
 - (d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.
9. What was the responsibility of CA Rishi when the management refused to remove the said limitation?
 - (a) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

- (b) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
 - (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.
10. If the auditor proposed to resign on 25th November before issuing Limited Review Report for second quarter, then what will be the responsibility of M/s Pinnacle & Associates with respect to withdrawal from engagement and issue of limited review report at the time of resignation?
- (a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third quarter were required to be issued.
 - (b) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
 - (c) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second quarter was required to be issued.
 - (d) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second quarter was required to be issued.
11. Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal?
- (a) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

- (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
 - (c) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
 - (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
12. Assuming Jupiter Industries Ltd., to be an unlisted company, whether the reason for resignation by M/s Pinnacle & Associates was proper?
- (a) Yes, in the given case, the reason of resignation was due to the limitations imposed by the management and refusal to provide reasons for the same. Since, the company is unlisted, it was entirely at the auditor's discretion whether to disclose detailed reasons for the resignation or not.
 - (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.
 - (c) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
 - (d) No, the reasons should have been a little extensive and further the exact reason must be provided to the new auditor to be appointed by the company.

Case Scenario III [MCQ 13-15]

Helix & Company, a well-established Chartered Accountants firm, has been appointed as the statutory auditor of Titan Metals Limited, a company engaged in the large-scale production of alloy steel products. Titan Metals has grown remarkably over the years, supplying several million units annually to the automobile and infrastructure industries.

Recently, Titan Metals set up another entity, MetalCore Innovations Pvt. Ltd., by acquiring 48% of its equity. However, as per shareholders' agreement, Titan Metals holds complete control over the composition of the Board of Directors, giving it absolute power over key financial and operating decisions. The company is currently listed on the London Stock Exchange (LSE) and is in the process of filing for listing on Indian stock exchanges. Its net worth stands at ₹ 260 crore. The company's brand ambassador, a well-known industrial influencer, promotes Titan's flagship products across global markets.

Upon hearing about the efficient services provided by Helix & Company Chartered accountants, they were approached by PQR Cooperative Society to act as its statutory auditor for the upcoming financial years. The firm accepted the proposal and considered the following options regarding the fees to be charged:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 15,000/-.

Based on the above, answer the following:

13. The Trainee asked whether the audit team is required to perform any procedures for the investment of Titan Metals' investment in MetalCore Innovations Pvt. Ltd:
- (a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.
 - (b) The auditor needs to perform audit procedures on the investment balances and transactions with related parties.
 - (c) The auditor need not perform any procedures as the investment in MetalCore Innovations Pvt. Ltd was already made in the previous year.
 - (d) Both (a) & (b).
14. The trainee asked about role of auditor in case the investment in MetalCore Innovations Pvt. Ltd is increased to 62% in the next year:
- (a) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 48% to 62%.
 - (b) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.
 - (c) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.
 - (d) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.

15. With respect to the fees to be charged for its new assignment, which option can be opted by Helix & Company?
- (i) To charge fees of ₹ 15,000/-, or
 - (ii) To charge fees as percentage of Net Profits.
 - (a) (i) Only.
 - (b) (ii) Only.
 - (c) Neither (i) nor (ii).
 - (d) Either (i) or (ii).

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

- 1 (a) Data Group Limited is availing the services of Zone Limited for processing of its accounting data including payroll operations. Payroll costs account for 75% of the total costs of Data Group Limited. CA Mir, the auditor of Data Group Limited wants to obtain an understanding of the nature and significance of the services provided by Zone 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 Mir 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 Zone Limited as per relevant Standard on Auditing.

(5 Marks)

- (b) As auditor of Kite Limited, you have sent positive confirmation requests to 49 creditors of the company in March 2025. All 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 49 creditors, GST registrations of 42 concerns have been cancelled during financial year 2024-25 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?

(5 Marks)

- (c) You are appointed as the Statutory Auditor of DCD Pvt. Ltd. for financial year 2024-25 following the resignation of SM & Co. Chartered Accountants. SM & Co. had certain concerns on the accounting matters of the company leading to change of auditors. All the requirements given under Sections 139 and 140 of the Companies Act, 2013 are duly complied by the Company with regard to resignation and appointment.

During the course of audit, it came to your notice that a survey has been conducted on December 10, 2024 by the Income-tax Department and department has unearthed unrecorded sales of ₹ 5 lakhs which had been made in cash on different dates during the year 2023-24. DCD Pvt. Ltd. has purchased gold from such collections and these transactions are not recorded. Company surrendered and disclosed these transactions before the assessing officer and paid taxes thereon. However, company has not recorded those transactions in books of account even after surrender before Income-tax authorities.

You want to report the above matters in CARO but the management requested you not to report them. Comment with respect to auditor's response to the management and his reporting requirements to the shareholders. **(4 Marks)**

2. (a) CA Ajay is a senior partner of M/s DRF Associates. M/s DRF Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of listed companies across various industry sectors and has more than 52 qualified experienced professionals. CA Ajay has been appointed as an Engagement Quality Control Reviewer (EQCR) for an audit engagement of a listed company. What are the aspects which would be looked into by CA Ajay as an EQCR in relation to the engagement?

Upon completion of the review, CA Ajay has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Ajay are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Ajay and the engagement partner. **(5 Marks)**

- (b) PKT Limited holds 51% equity in AB Limited and 61% equity in XY Limited. There are various information and explanations which are disclosed by the respective companies in the notes to their financial statements. At the time of consolidation, management of PKT Limited has consolidated all the information and explanations disclosed in the notes as well. The principal auditor is of the view that only those information and explanations should form part of the notes to the consolidated financial statements which are relevant at group level. Please mention any five aspects given in the notes to the separate financial statements of the parent and the subsidiaries that need not be included in the consolidated financial statements.

(5 Marks)

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

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

(4 Marks)

3. (a) During the course of audit of Sky Ltd., CA K 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."

(5 Marks)

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

(5 Marks)

- (c) KMS Ltd. has recently undergone a major digital transformation by integrating new technologies such as cloud-based accounting software, automated inventory

management, and data analytics tools into its financial reporting systems. The management claims that these changes have enhanced accuracy and efficiency in financial reporting.

As the auditor of KMS Ltd., what are the aspects you should consider while obtaining an understanding of the impact of technology on the company's business, internal controls, and financial reporting? **(4 Marks)**

4. (a) The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA K, the proprietor of M/s KM & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (6) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (4) of Part I of the First Schedule of the Chartered Accountants Act, and penalty was imposed by an order passed against him dated 19th June, 2025.

Against the said order, CA K preferred an appeal with the Appellate Authority on 9th August, 2025 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 K 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 K, 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 K.
 - (ii) Before which authority, the matters of CA K 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 K filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? **(5 Marks)**
- (b) R & J Associates, Chartered Accountants, are the statutory auditors of Trikon Ltd., a listed manufacturing company. During the audit for F.Y. 2024-25, the engagement team identified areas such as valuation of obsolete inventory, impairment of plant assets, and a major tax dispute pending before the appellate authority that required significant auditor attention. The Audit Committee, however, expressed concern that highlighting the tax dispute in the auditor's report could attract negative publicity and advised the auditors not to include it in

their report. As the engagement partner, evaluate the professional considerations and reporting implications in this situation.

In the given case, R & J Associates are required to determine and communicate Key Audit Matters (KAMs) in accordance with SA 701. **(5 Marks)**

- (c) 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, elaborate your understanding of "Sustainability reporting"? You are also required to list its expected benefits. **(4 Marks)**

5. (a) During the statutory audit of Royal Bank Ltd., a leading private sector bank, for the financial year 2024-25, the following issue emerged to statutory central auditors. Royal 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 Royal Bank Ltd. should record the above mentioned property?
- (iii) Suggest also other audit procedures that an auditor should focus upon.

(5 Marks)

- (b) Pari Ltd. is a company engaged in the manufacturing of iron doors. ARB & Associates are the statutory auditors of Pari Ltd. for the Financial Year

2024-25. During the course of audit, CA Krish, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2025. 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 Krish express in case of Pari Ltd.? **(5 Marks)**

- (c) Ground Private Limited requested CA Sukh, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Nishant, one of Directors of Ground Private Limited, along with the copy of resignation letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Nishant was simply copied and pasted by another Director. CA Sukh, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

(4 Marks)

6. (a) ABC & Associates are the statutory auditors of Rise Ltd., a listed company, for the financial year 2024-25. CA Amit is the engagement partner for the audit assignment. He was of the understanding that as per the requirement of one of the SAs, he has a responsibility to communicate the following matters to those charged with governance:

- (a) The auditor's responsibilities in relation to the financial statement audit.
- (b) Planned scope and timing of the audit.
- (c) Auditor independence.

Which of the matters is not included in the list prepared by CA Amit. Discuss such matters in detail. **(5 Marks)**

- (b) 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 is 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
AKR Limited	Unlisted Public	70	120	70	27
TAK Limited	Unlisted Private	90	195	98	-
PRM Limited	Listed	100	197	25	53

You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss. **(5 Marks)**

- (c) CA Naman is conducting an audit of AIR Ltd. for the year 2024-25. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2025. However, it becomes known to CA Naman that one of overseas buyers has made a legal claim against the company on 1st June 2025 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 2024. In December 2024, buyer had filed a suit for recovery of claim against the company for ₹ 6 crore. 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 Naman should proceed to deal with the above issue. **(4 Marks)**

OR

- (c) Ms. Lata, a practicing Chartered Accountant, 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 2024-25. 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 Lata 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 Lata had earned income from transacting in currency derivatives and commodity derivatives? **(4 Marks)**

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FINAL COURSE: GROUP I

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1. (d)
2. (a)
3. (b)
4. (b)
5. (c)
6. (c)
7. (c)
8. (a)
9. (b)
10. (d)
11. (a)
12. (c)
13. (d)
14. (d)
15. (d)

PART – II: DESCRIPTIVE QUESTIONS

1. (a) **Using A Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation:** As per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation", in determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, CA Mir, the user auditor shall be satisfied as to:
 - (i) The service auditor's professional competence (except where the service auditor is a member of the Institute of Chartered Accountants of India) and

independence from the service organisation; and

- (ii) The adequacy of the standards under which the Type 1 or Type 2 report was issued.

If the user auditor plans to use a Type 1 or Type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organisation Zone Ltd., CA Mir, the user auditor shall:

- (i) Evaluate whether the description and design of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;
 - (ii) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the user entity's internal control relevant to the audit; and
 - (iii) Determine whether the complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls.
- (b) SA 505, "External Confirmations", states that if the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

In the instant case, GST registrations of 42 concerns have been cancelled in the year 2024-25. It indicates that businesses at those addresses were closed. Further, there are no fresh registrations pertaining to the PANs of these parties. However, the auditor sent external confirmation requests in March 2025, which were duly responded. It raises questions on the reliability of responses received.

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

- Was received by the auditor indirectly or
- Appeared not to come from the originally intended confirming party.

Keeping in view the circumstances described in the given situation, there is a risk that the response has not come from the originally intended confirming party. Unreliable responses may indicate a fraud risk factor that requires evaluation.

Since the confirmations from 42 creditors may not be reliable, the auditor must obtain additional audit evidence to address those concerns and reassess the risk of material misstatement, including the possibility of fraud, and accordingly perform further audit procedures as required by SA 505, SA 500 and SA 240.

- (c) **Clause (xviii) of Paragraph 3 of CARO, 2020:** In the given situation of DCD Pvt Ltd, the auditors SM & Co. resigned due to concerns on the accounting matters of the company. However, all the compliances regarding resignation and appointments discussed in section 139 and 140 of the Companies Act, 2013 are also being complied with. The auditor would be required to report the same in CARO, 2020 as per Clause (xviii) of Paragraph 3 of CARO, 2020 given hereunder:

Clause (xviii) of Paragraph 3 of CARO, 2020 requires the auditor to report whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

Clause (viii) of Paragraph 3 of CARO, 2020: Further, the auditors noticed that a survey was conducted by the Income Tax Department and unrecorded sales of Rs 5 Lakhs were unearthed which had been made in cash on different dates during the year. DCD Pvt Ltd. has also purchased gold and the transactions remained unrecorded. Though Company surrendered and disclosed these transactions before the Assessing Officer and paid taxes thereon. The auditor would be required to report in CARO as per Clause (viii) of Paragraph 3 of CARO, 2020.

Clause (viii) of Paragraph 3 of CARO, 2020 requires the auditor to report -whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

Since it is a statutory obligation on the part of the auditor to report in terms of CARO, 2020 as given above and consequently management's request to the auditor that not to report the above transactions is not tenable.

2. (a) As per SA 220, “Quality Control for an Audit of Financial Statements”, for audits of financial statements of listed entities, CA Ajay, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
- (i) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;
 - (ii) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations;
 - (iii) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

As per SQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”, there might be difference of opinion within engagement team, with those consulted and between engagement partner and engagement quality control reviewer. The report should only be issued after resolution of such differences. In case, recommendations of engagement quality control reviewer are not accepted by engagement partner and matter is not resolved to reviewer’s satisfaction, the matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.

In the given situation, under completion of review, CA Ajay, Engagement Quality Control Reviewer has identified certain issues. However, the view of CA Ajay, the EQCR are not accepted by the Engagement Partner. This difference of opinion among the CA Ajay and Engagement Partner should be resolved with abovementioned manner as per SQC 1.

- (b) Ind AS 110 does not give a list of information which is part of the separate financial statement of the components but that need not be reported in the notes and other explanatory material of the consolidated financial statements, however, based on section 129(4) and circular issued by MCA, it can be construed that, even in consolidated financial statements under Ind AS, only those disclosures should be given which are relevant to consolidated financial statements.

Based on the above discussion, in case of companies, information such as the following given in the notes to the separate financial statements of the parent

and/or the subsidiary, need not be included in the consolidated financial statements.

- (i) Source from which bonus shares are issued, e.g., capitalization of profits or reserves or from securities premium account.
- (ii) Disclosure of all unutilized monies out of the issue indicating the form in which such unutilized funds have been invested.
- (iii) Disclosure required under Micro, Small and Medium Enterprises Development Act, 2006.
- (iv) A statement of investments (whether shown under “financial assets or non-financial assets as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.
- (v) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:
 - (a) raw materials;
 - (b) components and spare parts;
 - (c) capital goods.
- (vi) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.
- (vii) Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.
- (viii) The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.

- (ix) Earnings in foreign exchange classified under the following heads, namely:
- export of goods calculated on F.O.B. basis;
 - royalty, know-how, professional and consultation fees;
 - interest and dividend;
 - other income, indicating the nature thereof.

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

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

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

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

- (i) Discrepancies in Accounting Records including non-recording or partial recording or incorrect recording or delayed recording of amounts, misclassifications, etc.
- (ii) Conflicting or missing evidence including missing documents, altered documents, significant unexplained items in reconciliations, discrepancies between entity's records and confirmations received etc.
- (iii) Unacceptable management responses such as – denial of access to

records/facilities/employees, undue time pressure to resolve complex issues, unusual delays in providing requested information, denial for use of Computer Assisted Audit Techniques, unwillingness to address identified deficiencies in internal control etc.

- (iv) Other indications such as – Accounting Policies in variance with Industry Norms, Frequent changes in accounting estimates etc.

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

Fraud Diamond: Four Elements of Fraud are:

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

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

- The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable;
- Identification of the applicable financial reporting framework;
- The objective and scope of the compilation engagement;
- The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements;
- The responsibilities of management for:
 - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
 - (ii) Design, implementation and maintenance of such internal control as

management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

- (iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
- (iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and

- The expected form and content of the practitioner's report.

(c) Key Steps for Auditors in a Changing Technology Environment:

As auditors obtain an understanding of the impact of technology on a company's business, its systems of internal control, and its financial reporting, some important reminders include the following:

- Maintain sufficient professional skepticism when reviewing management's risk assessment for new systems.
- Understand the direct and indirect effects of new technology and determine how its use by the entity impacts the auditor's overall risk assessment.
- Understand how the technologies impact the flow of transactions, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.
- Assess the appropriateness of management's processes to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.

- 4. (a) (i) As per Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949**, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

In the instant case, CA K preferred an appeal with the Appellate Authority on 09th August, 2025 by submitting the statement of appeal along with application form for the same. However, it was discovered that the said

statement of appeal contained some facts which were false, and CA K admitted it to be false.

Therefore, CA K would be held guilty of professional misconduct under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

- (ii) **In case where CA K was found guilty of professional misconduct under Clause (6) of Part I of the Second Schedule and Clause (4) of Part I of the First Schedule of the Chartered Accountants Act, 1949:** the matter would have been placed before Disciplinary Committee as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee. The maximum punishment that the Disciplinary Committee could have imposed would be:

- (I) Reprimand the member
- (II) Remove the name of the member from the Register permanently or for such period as it may think fit.
- (III) Impose such a fine which may extend to rupees five lakhs.

- (iii) **Timeline for Filing an Appeal:** Any member aggrieved by an order of the Board of Discipline or the Disciplinary Committee can prefer an appeal within 90 days from the date of order. In the given case, CA K has preferred an appeal with the appellate authority on 9th August, 2025 against the order passed on 19th June 2025. From 19th June to 9th August, 90 days' timeline has not been lapsed. Thus, it can be said that CA K has filed an appeal within the time limit prescribed under the said Act.

- (b) The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:
- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
 - Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

- The effect on the audit of significant events or transactions that occurred during the period.

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

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

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

- (c) Sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development

Sustainability reporting refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way. It is a comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

Expected Benefits: It can help stakeholders to understand organisation's performance vis a vis sustainability and impacts. The reporting process emphasizes the link between financial and non-financial performance.

Such reporting can help entities to focus on long-term value creation, by addressing environmental, social and governance (ESG) issues. Since investors are increasingly recognizing that environmental and social issues provide both risks and opportunities in respect of their investments and are seeking disclosures on environmental and social performance of businesses, they can use ESG performance of companies to make investment decisions.

Investing in social and environmental issues will not only improve own business continuity of companies but also put them in a better position with their B2B (Business to Business) customers as well as enable them to acquire new ones.

5. (a) (i) The auditor should ensure compliance with Section 9 of the Banking Regulation Act, 1949, which restricts a banking company from holding any immovable property, regardless of how it is acquired, including in satisfaction of claims, for a period exceeding seven years from the date of acquisition, unless such property is required for the bank's own use.
- (ii) Such property should be classified under the "Other Assets" head in the Schedule to the financial statements by Royal Bank, i.e., Non-Banking Assets Acquired in Satisfaction of Claims.
- (iii) Other audit procedures the auditor should focus upon are to:
- ensure that the heading includes those immovable properties/tangible assets which the bank has acquired in satisfaction of debts due or its other claims, and these are being held with the intention of being disposed off.
 - verify such assets with reference to the relevant documentary evidence, e.g., terms of settlement with the party, order of the Court, or the award of arbitration, etc.
 - check that the ownership of the property is legally vested with the bank. If there is any dispute or other claim about the property, the auditor should examine whether the recording of the asset is appropriate or not. In case the dispute arises subsequently, the auditor should examine whether a provision for liability or disclosure of a contingent liability is appropriate, keeping in view the requirements of AS 29, "Provisions, Contingent Liabilities and Contingent Assets".
 - ensure that the assets should be recorded at the lower of the net book value of the advance or the net realisable value of the asset acquired on the date of acquisition.
- (b) In the present case based on the audit evidence obtained, CA Krish has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the entity is considering bankruptcy. The financial statements of Pari Ltd. omit the required disclosures relating to the material uncertainty.

In such circumstances, CA Krish should express an adverse opinion because the effects on the financial statements of such omission are material and pervasive.

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

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, the financial position of the entity as at March 31, 2025, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

The financing arrangements of Pari Ltd. have expired, and the amount outstanding was payable on March 31, 2025. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

- (c) As per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of this professional duties.

In the given case, Ground Private Limited requested CA Sukh, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Nishant, one of the Directors of Ground Private Limited, along with the copy of Resignation Letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Nishant was simply copied and pasted by another Director of Ground Private Limited.

CA Sukh, without verifying the genuineness of the Resignation Letter, digitally signed the Form and the said form was uploaded on the website of Registrar of Companies.

Due to forged resignation letter, the resignation of Mr. Nishant from directorship of the Ground Private Limited had been affected. It was noted that CA Sukh had not taken any step to verify forged signature on resignation letter which anyone would have undertaken in normal circumstances.

Hence, CA Sukh would be held liable for professional misconduct as per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

6. (a) SA 260 “Communication with Those Charged with Governance” deals with auditor’s responsibility to communicate with those charged with governance in relation to an audit of financial statements. Among various matters as included by CA Amit in his list, one of the matters that is not mentioned in the list is Significant findings from the audit. With respect to this matter, the auditor shall communicate with those charged with governance: -
- (i) The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;
 - (ii) Significant difficulties, if any, encountered during the audit;
 - (iii) Unless all of those charged with governance are involved in managing the entity: -
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management;
 - (ii) Written representations the auditor is requesting.
 - (iv) Circumstances that affect the form and content of the auditor’s report, if any; and
 - (v) Any other significant matters arising during the audit that, in the auditor’s professional judgment, are relevant to the oversight of the financial reporting process.

The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

(b) As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of the Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely: -

- (I) every listed company;
- (II) every unlisted public company having-
 - (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - (ii) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (III) every private company having-
 - (i) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, AKR Limited is unlisted public company. The company is having ₹ 70 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, AKR Limited is required to appoint an internal auditor as per section 138 of the Companies Act, 2013.

Further, TAK Limited is an unlisted private company and having ₹ 90 crore as equity share capital, ₹ 195 crore as turnover and ₹ 98 crore loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below the prescribed limit for a private company. Therefore, TAK Limited is not required to appoint an internal auditor.

Furthermore, PRM Limited is a listed company and as per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of the above, PRM Limited is required to appoint an internal auditor.

In view of above, it can be concluded that AKR Limited and PRM Limited are required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas TAK Limited is not required to do the same.

- (c) In the given case, the auditor CA Naman has come to know about the legal claim against the company before the issuance of the audit report. It has also come to his knowledge that the management of the company has agreed to an out of court settlement of ₹ 4 crore.

This is an example of a subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements.

Further as per SA 560, "Subsequent Events", the auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all the events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

In view of above, CA Naman should ensure that appropriate adjustments are made by the management. In the absence of the same, he should consider the impact of the said event and report accordingly.

OR

- (c) Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a Chartered accountant from being a director of a Company, (not being a managing director or a whole-time director), unless he or any of his partners is interested in such company as an auditor.

Ethical Standards Board of ICAI has announced that it is permissible for a member in practice to engage in derivative transactions in his personal capacity but not in professional capacity i.e. for clients. Such engagements in derivatives are not violative of provisions of Clause 11 of Part I of First Schedule to the Chartered

Accountants Act, 1949. Further, members are allowed to transact in equity and currency derivatives. There is no requirement to take permission of Council in this matter.

Therefore, there is no difference if CA Lata had earned income from currency derivatives. However, in accordance with announcement of Ethical Standards Board of ICAI, it is not permissible for members in practice to transact in commodity derivative transactions. In such a case, CA Lata would be held guilty of professional misconduct for engaging in business other than profession of Chartered Accountancy.