Mock Test Paper - Series II: December, 2025

Date of Paper: 8th December, 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 Neha is auditing Rich Hotels Ltd., which processes vendor master modifications through email requests. Approvals are routed through an automated workflow. The entity does not use multi-factor authentication for email accounts. Recently, the company suffered a fraud where a spoofed email led to unauthorized changes in vendor bank details and inappropriate disbursement of funds. Based on the above situation, which risk arising from usage of IT should the auditor primarily consider?

   (a) Data loss or data corruption due to inadequate cybersecurity controls

   (b) Unauthorized changes to IT applications or other aspects of the IT environment

   (c) Unauthorized access to data resulting in improper changes to master data

   (d) Inappropriate manual intervention leading to inaccurate recording of transactions

2. Swarna Metals Ltd., a top - 1000 listed entity, has recently undertaken a major expansion project involving construction of a new manufacturing unit. During the process, several local communities expressed concerns regarding displacement, loss of livelihood, and inadequate communication from the company. The company has conducted an internal review and has now initiated steps to assess social and economic impacts, engage with communities, and create an action plan to mitigate adverse effects.

Based on the above situation, under which BRSR principle would the company's actions and disclosures primarily fall?

(a) Protection and restoration of environment

(b) Respect for stakeholders' interests and responsiveness

(c) Ethics, transparency and accountability

(d) Promote inclusive growth and equitable development

3. Ruhi & Co., Chartered Accountants, mainly into statutory audit and tax audit, has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation. Ruhi & Co. is contemplating getting the assistance of an expert with respect to certain matters.

Can Ruhi & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below option?

(a) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.

(b) Yes, Ruhi & Co. should consider whether the assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.

(c) No, the objective of SA 620 is to use the work of an expert for audit of historical financial statements and not for investigation purposes.

(d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

Case Scenario I [MCQ 4-7]

CKS Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. CKS Limited appointed Mr. Mir, Mr. Bir and Mr. Dir as its central joint auditors for the year 2024-25. After making sure that all of them are qualified to be appointed as statutory auditors of the bank, CKS Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year, CKS Limited has acquired another bank called Royal Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2.5 crore, determination of amount of minority interest of ₹ 60 lakh and some intra-group transaction adjustment of ₹ 17 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both CKS Limited and Royal Limited which was of ₹ 34 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Bir. But Mr. Bir failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Mir. While performing audit on compliance with SLR requirements Mr. Mir used 12 odd dates in different months of financial year. Mr. Mir with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	5th	Friday
May	12th	Sunday
June	6th	Thursday
July	27th	Saturday
August	20th	Tuesday
September	6th	Friday
October	28th	Monday
November	12th	Tuesday
December	5th	Thursday
January	12th	Sunday
February	21st	Friday
March	2nd	Sunday

Mr. Dir was entrusted with responsibility for calculation of Demand and time liability. On 31st March 2025, total liability stood at ₹ 250 crore. It includes Margin held for funded facilities of ₹ 3.5 crore, credit balance for one branch of ₹ 4.5 crore, adverse balance of Nostro Mirror Account of ₹ 2.3 crore and unadjusted deposit for agency business of ₹ 7.5 crore.

Wife of CA Mir was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of CKS Limited of ₹ 100 each for ₹ 19,50,000. All the required communication were made among the joint auditors, and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued, which was signed by all three joint auditors.

Based on the above facts, answer the following:

4. Which of the following statement is true as per given situation?

   (a) For giving the effect of merger permanent consolidation adjustment of ₹ 361 lakh.

   (b) For giving the effect of merger, permanent consolidation adjustment of ₹ 344 lakh and current period consolidation adjustment of ₹ 17 lakh was made.

   (c) For giving the effect of merger, permanent consolidation adjustment of ₹ 310 lakh and current period consolidation adjustment of ₹ 51 lakh was made.

   (d) For giving the effect of merger, permanent consolidation adjustment of ₹ 327 lakh and current period consolidation adjustment of ₹ 34 lakh was made.

5. List down all the months whose date has been selected inappropriately by CA Mir for calculation of SLR compliance?

   (a) April, September and February.

   (b) June and December.

   (c) August and November.

   (d) May, January and March.

6. While calculating SLR compliance of CKS Limited, what will be value of demand and time liability as on 31st March?

   (a) ₹ 242 crore.

   (b) ₹ 239 crore.

   (c) ₹ 238 crore.

   (d) ₹ 250 crore.

7. Will CA Mir be held guilty of professional misconduct after his wife purchased 100 shares for ₹ 19,50,000?

   (a) Mr. Mir will be held guilty for professional misconduct as he is disqualified as an auditor of CKS Limited, since his relative owns shares of more than ₹ 100,000 market value.

   (b) Mr. Mir will not be held guilty for professional misconduct as he is not disqualified as an auditor of CKS Limited, as his relative owns shares of less than ₹ 20,00,000 market value.

(c) Mr. Mir will not be held guilty for professional misconduct as he is not disqualified as an auditor of CKS Limited, as his relative owns shares of less than ₹ 100,000 face value.

(d) Mr. Mir will be held guilty for professional misconduct as he is disqualified as an auditor of CKS Limited, as his relative owns shares in CKS limited irrespective of amount of investment.

Case Scenario II [MCQ 8-11]

CA. Ashu is in midst of finalising audit reports of four clients. On reviewing each file, it is noticed as under:

[A] With respect to a company engaged in business of selling of agricultural products which are outside ambit of GST, the engagement team has found that substantial part of revenue of the company (about 75%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenue generated through cash sales. Therefore, the team has been unable to verify such revenue generated through cash sales.

[B] Another client, Grow Limited has been dragged to court by Glow Limited for stealing its trade secrets using cyber theft and filed a claim for ₹ 52 crore. On reviewing audit file of Grow Limited, CA Ashu finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of Grow Limited are silent on this litigation matter.

[C] It is noticed on review of audit file of a client that net profit before tax was ₹ 2.10 crore on a turnover of ₹100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹ 3.20 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.

[D] On reviewing file of a client, it is noticed that team was not informed about finished goods of ₹ 1.10 crore lying at a location taken on rent in March 2025. The said issue was flagged at time of reconciling inventories by the team. Hence, the audit team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is ₹ 8.5 crores. PBT of client is ₹10 crores.

Based upon above, answer the following questions:

8. As regards description regarding revenue generated through cash sales of the company, which of the following statements is most appropriate in terms of SA 705?

   (a) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "auditor was engaged to audit financial statements."

   (b) Adverse opinion will be issued and basis for adverse opinion will also be provided.

   (c) Qualified opinion will be issued and basis for qualified opinion will also be provided.

   (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from "financial statements have been audited" to "financial statements have not been audited."

9. Considering litigation matter of Grow Limited, which of the following statements is most appropriate in this regard?

   (a) Unmodified opinion needs to be expressed by auditor.

   (b) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs be expressed by auditor.

   (c) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.

   (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.

10. Considering description of issue regarding non-recoverability of export receivable of ₹ 3.20 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?

    (a) Disclaimer of opinion

    (b) Unmodified opinion

    (c) Qualified opinion

    (d) Adverse opinion

11. Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in March 2025, which type of opinion is appropriate to be issued in case of this client?

   (a) Qualified opinion

   (b) Modified opinion

   (c) Unmodified opinion

   (d) Either Modified or Qualified opinion

Case Scenario III [MCQ 12-15]

AKZ & Associates is a firm of Chartered Accountants based in Kerla. CA A, CA K and CA Z are the partners of the firm. The firm is engaged in various assignments including audits and its engagement partners who were handling their respective assignments for the financial year 2024-25 dealt with the following issues raised during and after the course of their respective audits.

AKZ & Associates are appointed as statutory auditors of JOY Ltd. for the financial year 2024-25. CA K, the engagement partner while conducting an audit of JOY Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of JOY Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA K wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of JKP Ltd. for the year ended on 31st March 2025 were signed by CA Z, the engagement partner on 20th May 2025. The AGM was decided to be held during the month of August 2025. On 22th May 2025, the company had received a communication from the Central Government that an amount of ₹ 9200 crore on account of incentives in respect of F.Y. 2022-23 which was kept in abeyance would be released to the company by 20th June 2025. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31st March, 2025 and requested CA Z to consider this matter.

During the course of audit of BAC Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain machineries. The management gave a certificate to prove the existence and value of machinery as appearing in the books of account. The certificate from the Registered Valuer shows a value which is inconsistent with the written representation of management.

LN institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA A of AKZ & Associates is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the LN institute of professional studios is highly satisfied with his teaching skills and the level of knowledge he possesses. Due to his capabilities, the management offers CA A to take up the assignment of statutory audit of their institute for the financial year 2024-25.

Based on the above facts, answer the following Questions

12. Since there arose a doubt on the management representation and considering the responsibilities of AKZ & Associates to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:

    (a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

    (b) The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

    (c) In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

    (d) The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.

13. CA K, engagement partner, in the course of audit of JOY Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA K in getting identified incorrect circumstance from the below mentioned circumstances.

(a) when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.

(b) when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.

(c) when there are no key audit matters to be communicated in accordance with SA 701.

(d) when a material uncertainty related to going concern is reported in accordance with SA 570.

14. In view of the Board of Directors of the JKP Ltd. agreeing to include an amount of ₹ 9,200 crore on account of incentives in respect of F.Y. 2022-23 in the financial statements of the company for the Financial Year ended on 31 March, 2025 by amending the accounts, CA Z shall consider the following procedures. Identify the incorrect procedure from the following:

(a) Modify the opinion as required by SA 705 and then provide the auditor's report.

(b) Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

(c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

(d) Carry out the audit procedures necessary in the circumstances on the amendment

15. In response to the management offer, guide CA A, whether to take up the assignment of statutory audit of LN institute of professional studies for the financial year 2024-25.

Select the correct option with reference to provisions of the Chartered Accountants Act, 1949.

(a) CA A can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.

(b) CA A cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.

(c) CA A can accept the statutory assignment as he does not have any substantial interest in the LN Institute of professional studies.

(d) CA A cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

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

(1) Annual Report:

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

(2) Chairman's Message:

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

(3) Future Projections:

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

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

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

Issues Identified:

(1) In the MD&A, M/s AXT & Co., noted a misstatement regarding the company's claim of achieving a 22% reduction in production costs. Audit evidence suggests the reduction was only 15%.

(2) The Chairman's Message, which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.

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

(i) What should M/s AXT & Co., include in the "Other Information" section of the auditor's report for ABC Motors Ltd.?

(ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s AXT & Co. report under the "Other Information" section? **(5 Marks)**

(b) Alex & Associates is the statutory auditor of VC Ltd., a listed company and started its operations 6 years ago. The fieldwork for the audit of the financial statements of the company for the year ended 31st March, 2025 was completed on 5th May, 2025. The auditor's report was dated 19th May, 2025. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 22nd May, 2025. The engagement partner had completed his reviews in its entirety by 16th May, 2025. Comment. **(5 Marks)**

(c) GRF Private Limited has appointed Mohit & Associates as the statutory auditors for the financial year 2024–25. The company operates a chain of fitness centres and health clubs. During the audit, the engagement partner, CA M noted the following:

- The customer base is declining due to intense competition.
- Payments to creditors are delayed, and overdue interest is being charged.
- Salaries of staff and trainers are not being paid on time.
- Key financial ratios such as current ratio and debt-service coverage ratio have deteriorated sharply.
- Bankers have refused additional working capital limits.

As the statutory auditor, discuss the audit procedures that CA M should perform under relevant SA, and also explain how he should report if the use of going concern assumption is appropriate but a material uncertainty exists which has been adequately disclosed in the financial statements. **(4 Marks)**

2. (a) While conducting audit of PKT Limited, a listed company, for year 2024-25, CA. Sonal notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under:

S. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	₹ 3.75 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	₹ 2.25 crores

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

She is contemplating inclusion of above matters under "Key Audit Matters" in audit report. Analyse the situation threadbare. **(5 Marks)**

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

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

As the statutory auditor, explain the audit procedures you would perform to detect and address possible inflation of cash payments and fraud in cash disbursements in the above circumstances. **(5 Marks)**

(c) GKL Ltd. has recently integrated several Internet of Things (IoT) enabled devices into its production and retail operations, including connected manufacturing equipment, smart inventory systems, and mobile-based payment tools. The adoption of these technologies has created new data flows, automated controls, and greater dependence on third-party service providers.

As the statutory auditor, identify the key audit implications arising from the use of IoT in such an environment and outline the procedures you would perform to address the related risks. Also state the common risks of IOT. **(4 Marks)**

3. (a) Tree Ltd. appointed GH & Associates and IJ & Co. as joint auditors for conducting the audit for the year ending on 31st March 2025.

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

Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing. **(5 Marks)**

(b) Shine Appliances Ltd. uses a customised ERP system for recording all financial transactions. The management is concerned about compliance with Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014, which mandates reporting on whether the company's accounting software had an Audit Trail (Edit Log) feature enabled, operative, and not tampered with during FY 2024–25.

Since the ERP allows both system-level and database-level logging, the management seeks guidance from CA M, the statutory auditor, on the internal controls that should be implemented to demonstrate that the Audit Trail feature was continuously enabled and not disabled at any point of time.

Advise CA M on the internal controls the company should establish and operate in this regard. **(5 Marks)**

(c) CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 74% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to CD & Associates for accepting the audit. CA Sunny, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Sunny gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the Schedules thereunder, whether CA Sunny has complied with same.

(4 Marks)

4. (a) Mr. Tony, the auditor of NDT Pvt. Ltd. has delegated following works to his articles and staff:

- Issue of audit queries during the course of audit.
- Issue of memorandum of cash verification and other physical verification.
- Letter forwarding draft observations/financial statements.
- Issuing acknowledgements for records produced.
- Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements? **(5 Marks)**

(b) ALP Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to improving its Environmental, Social and Governance (ESG) transparency. Sustainability reporting plays a crucial role in enhancing accountability for the entity's ESG performance. The company has been discharging untreated chemical water into a nearby river, adversely affecting aquatic life. Management now plans to install an effluent treatment plant. What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar. **(5 Marks)**

(c) SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400. **(4 Marks)**

5. (a) CA Vir was appointed as the auditor of Rise Limited for the financial year 2024-25. During the course of planning for the audit, CA Vir intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA Vir, if Rise Limited is engaged in:

(i) the manufacture and sale of air conditioners and is having regular profits.

(ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic. **(5 Marks)**

(b) RJN & Co is the statutory auditor of Plan My Trip Ltd. The company is in the business of tours and travels. The annual turnover of the company is ₹ 2200 crores and profits are ₹196 crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that it is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of, and period covered by written representation in view of SA 580. **(5 Marks)**

(c) Mr. Nilesh, a Chartered Accountant was the auditor of 'Gum Limited' for the year 2023-24 and 2024-25. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹7.75 lac and was the same amount as in the last year 2023-24. Later it was found that the company's investments were only for ₹59,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

6. (a) YT Ltd had a net worth of INR 1450 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor’s expert to audit valuation of derivatives. The auditor and auditor’s expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of audit. The auditor did not enter into any formal agreement with the auditor’s expert. Please advise. **(5 Marks)**

(b) STS Associates, Chartered Accountants, conducting the audit of RPT Ltd., a listed company for the year ended 31-03-2025 is concerned with the presentation and disclosure of segment information included in Company's Annual Report. STS Associates want to ensure that methods adopted by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework. Guide STS Associates with 'Examples of Matters' that may be relevant when obtaining an understanding of the methods used by the management with reference to the relevant Standards on Auditing. **(5 Marks)**

(c) PARK Bank Ltd. is reviewing the Cash credit limit worth ₹ 3 crores of Manish Manufacturing Pvt. Ltd. During the quarterly review, the credit officer noticed that the latest stock statement available was more than three months old. Based on this old statement, the drawing power (DP) calculations showed that the outstanding amount exceeded the permissible limit. Further, the sanction limits were due for renewal, but the renewal process had not been completed on time. However, the excess outstanding was only temporary and resulted from a short-term timing mismatch in receipts. The officer is unsure whether the account should be classified as a Non-Performing Asset (NPA) in light of these observations. Evaluate the situation and determine, with reasons, whether the bank should classify the account as NPA. **(4 Marks)**

OR

(c) Mr. Rai who passed his CA examination of ICAI on 25th July, 2025 and started his practice from August 20, 2025. On 21st August 2025, one female candidate approached him for articleship. In addition to monthly stipend, Mr. Rai also offered her 1.5% profits of his CA firm. She agreed to take both 1.5% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. Rai objecting the payment of 1.5% profits. Mr. Rai replies to the ICAI stating that he is paying 1.5% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. Rai liable to professional misconduct?

(4 Marks)

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1. (c)

2. (d)

3. (b)

4. (c)

5. (a)

6. (b)

7. (c)

8. (a)

9. (b)

10. (d)

11. (a)

12. (b)

13. (c)

14. (a)

15. (b)

PART – II: DESCRIPTIVE QUESTIONS

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

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

- A statement that management is responsible for the other information included in the annual report.
- Identification of other information obtained:
  - The Director's Report and MD&A have been obtained prior to the date of the auditor's report.
  - Mention of other information expected to be obtained later (e.g., Chairman's Message and Future Projections)
- A statement that the auditor's opinion does not cover the other information, and the auditor does not express any form of assurance conclusion on it.
- A description of the auditor's responsibilities relating to reading, considering, and reporting on the other information as per SA 720.
- A statement on the results of the auditor's review of the other information:
  - If no misstatement is identified, a statement to that effect.
  - If a material misstatement is identified, a description of the uncorrected misstatement (as applicable).

(ii) As per SA 720 (Revised), if the auditor identifies a material misstatement in the other information and management refuses to correct it, M/s AXT & Co. shall report the uncorrected misstatement in the "Other Information" section as:

- We have identified a material misstatement in the MD&A regarding the company's claim of a 22% reduction in production costs. However, based on our audit evidence, the reduction was only 15%.

(b) As per SA 220, "Quality Control for an Audit of Financial Statement", the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. For audits of financial statements of listed entities, the engagement partner shall:

- Determine that an engagement quality control reviewer has been appointed;
- Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and

- Not date the auditor's report until the completion of the engagement quality control review.

Further, SA 700," Forming an Opinion and Reporting on Financial Statements", requires the auditor's report to be dated not earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.

In this case, the audit of VC Ltd. for the year ending on 31st March 2025 was conducted by Alex & Associates and was completed on 5th May, 2025. Subsequently, the engagement partner reviewed the audit by 16th May, 2025. The audit report issued by Alex and Associates was dated 19th May, 2025. However, the engagement quality control review was finalized on 22nd May, 2025, which is later than the date of the audit report. In view of above, the date of auditors' report before the completion of the engagement quality control review, is not correct.

(c) As per SA 570, when events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, the auditor must obtain sufficient appropriate audit evidence to determine whether a material uncertainty exists. Accordingly, CA M should perform following audit procedures:

- 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.
- 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.
- 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.

- Considering whether any additional facts or information have become available since the date on which management made its assessment.
- Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

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:

- o Draw attention to the note in the financial statements
- o 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.

In the given situation, CA M should express an unmodified opinion in view of above.

2. (a) A liability is a present obligation of the entity to transfer an economic resource as a result of past events. Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example: -

(i) settle the obligation by negotiating a release from the obligation;

(ii) transfer the obligation to a third party; or

(iii) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

In the above situations, an entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation.

In the given situation, the company has written back liabilities due to creditors unilaterally. The company has not settled the obligation by negotiating a release from the obligation from respective creditors. Such an accounting treatment by management is questionable and against the conceptual framework for financial reporting under Ind AS.

CA. Sonal wanted to send external confirmations in accordance with SA 505, "External Confirmations" but management informed her that sending such requests may be used by creditors as proof of existence of liability. In fact, she should display professional skepticism and be alert to the possibility of misstatements in financial statements, if restrained by management from obtaining external confirmations. The reasons advanced by management do not appear to be valid and reasonable. In accordance with SA 505, she should reassess risks and perform alternative audit procedures to mitigate such risks. Besides, she should consider implications of same for her audit opinion.

Further, SA 705," Modifications to the Opinion in the Independent Auditor's Report" requires that the auditor shall modify the opinion in the auditor's report when:

(i) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(ii) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

SA 705 also states that misstatements in financial statements arise when selected accounting policies are not in accordance with an applicable financial reporting framework. It also states that examples of an inability to obtain sufficient appropriate audit evidence arise from a limitation on the scope of audit imposed by management when management prevents the auditor from requesting external confirmation of specific account balances. Therefore, she needs to issue a modified opinion.

Keeping in view above, her contemplation of including above matters under "Key Audit Matters" is not proper and is not in accordance with SA 701," Communicating Key Audit Matters in the Independent Auditor's Report". It states that the auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 as a result of the matter. Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.

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

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

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

(c) Audit Implications arising from the use of IoT:

- A shift to connected devices and systems may result in auditors being unable to rely only on manual controls. Instead, auditors may need to scope new systems into their audit.
- Audit firms may need to train and upskill auditors to evaluate the design and operating effectiveness of automated controls.
- Consumer-facing tools that connect to business environments in new ways can impact the flow of transactions and introduce new risks for management and auditors to consider. Consider payment processing tools that allow users to pay via credit card at a retail location through a mobile

device. This could create a new path for incoming payments that may rely, in part, on a new service provider supplying and routing information correctly. Auditors would need to consider the volume of those transactions and the processes and controls related to it.

Common risks of IoT: The key risks associated with IoT, including, device hijacking, data siphoning, denial of service attacks, data breaches and device theft.

3. (a) Responsibility and Co-ordination among Joint Auditors: As per SA 299, "Joint Audit of Financial Statements", where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of the work would usually be in terms of audit identifiable units or specified area. In some cases, due to the nature of the business entity under audit, such a division of the work may not be possible. In such situations, the division of the work may be with reference to items of assets or liabilities or income or expenditure or with reference to period of time. The division of the work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.

In respect of the audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate audit of the work performed by him. On the other hand all the joint auditors are jointly and severally responsible –

(i) The audit work which is not divided among the joint auditors and is carried out by all joint auditors;

(ii) Decisions taken by all the joint auditors under audit planning phase concerning the nature, timing and extant of the audit procedure to be performed by each of the auditor;

(iii) Matters which are bought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

(iv) Examining that the financial statements of the entity comply with the requirements of the relevant statute;

(v) Presentation and disclosure of financial statements as required by the applicable financial reporting framework;

(vi) Ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI;

The joint auditors shall also discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to those charged with governance. After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and the same shall be communicated to those charged with governance of the entity.

Hence, in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

In the instant case, Tree Ltd. appointed two CA Firms GH & Associates and IJ & Co. as joint auditors for conducting audit. As observed during the course of audit that there is a significant understatement in the value of trade receivable and valuation of trade receivable work was looked after by GH & Associates.

In view of SA 299, GH & Associates will be held responsible for the same as trade receivable valuation work was looked after by GH & Associates only. Further, there is violation of SA 299 as the division of work has not been documented.

(b) In order to demonstrate that the audit trail feature was functional, operative and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls that may be required to be implemented and operated is given below:

- Controls to ensure that the audit trail feature has not been disabled or deactivated.
- Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under the provisions of the Act.

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

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

In the given case, CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 74% of the paid-up share capital of the company and CA Sunny has given a conditional acceptance of the appointment and commenced the audit. In view of the above, it can be concluded that CA Sunny is not liable for misconduct and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

4. (a) As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

(i) Issue of audit queries during the course of audit.

(ii) Asking for information or issue of questionnaire.

(iii) Letter forwarding draft observations/financial statements.

(iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

(v) Acknowledging and carrying on routine correspondence with clients.

(vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

(vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.

(ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.

(x) Any other matter incidental to the office administration and routine work involved in practice of accountancy.

In the instant case, Mr. Tony, the auditor of NDT Pvt. Ltd. has delegated certain task to his articles and staff such as issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced and signing financial statements of the company.

Therefore, Mr. Tony is correct in allowing first four tasks i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles.

However, if the person signing the financial statements on his behalf is not a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, Mr. Tony is wrong in delegating signing of financial statements to his staff.

Conclusion: In view of this, Tony would be guilty of professional misconduct for allowing the person signing the financial statements on his behalf to his articles and staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

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

The Environment pillar includes the following elements as under:

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

(c) As per SAE 3400 "The Examination of Prospective Financial Information", Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five- year projection.

"Forecast" means prospective financial information prepared on the basis of:

- Assumptions as to future events which management expects to take place and

- The actions management expects to take as of the date the information is prepared (best-estimate assumptions- an assumption that reflects anticipated experience with no provision for risk of adverse deviation).

Example - In present market conditions, supply availability, historical buying patterns and seasonal trends, the CFO of X Ltd. expects sales to increase by 5% over the next quarter. Therefore, a 5% sales increase is his financial forecast for the period.

"Projection" means prospective financial information prepared on the basis of:

- Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- A mixture of best-estimate and hypothetical assumptions (imagined or suggested)

Example- X Ltd. may project a course of action to take when one or more hypothetical situations arise, such as creating a new product to meet the demand of expected market growth. As a result of assuming the possibility of different events occurring, financial projections typically serve as an outline for evaluating the desired outcomes X Ltd. expects to see, including its financial, cash flow and operational outcomes.

Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future- oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. Therefore, an opinion as to whether the results shown in the prospective financial information will be achieved cannot be expressed.

5. (a) Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole: As per SA 320, determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);

- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark.

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

(i) In case if Rise Limited is engaged in manufacture and sale of air conditioner, and is having regular profits: CA Vir, the auditor may consider profit before tax /Earnings.

(ii) In case Rise Limited is engaged in the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic: CA Vir, the auditor may consider Revenue or Gross Profit as benchmarking.

Alternatively, CA Vir, the auditor may consider the criteria relevant for audit of the entities doing public utility programs/ projects, Total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for that particular program/project activity. Where an entity has custody of the assets, assets may be an appropriate benchmark.

(b) As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. The refusal of management to provide written representation is not correct as per SA 580.

(c) **Gross Negligence in Conduct of Duties:** As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he certifies or submits, in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another Chartered Accountant in practice, under Clause (2); does not exercise due diligence, or is grossly negligent in the conduct of his professional duties, under Clause (7); or fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under Clause (8).

The primary duty of physical verification and valuation of investments is of the management. However, the auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day of the accounting year. The auditor should verify the documentary evidence for the cost/value and physical existence of the investments at the end of the year. He should not blindly rely upon the Management's representation.

In the instant case, such non-verification happened for two years. It also appears that auditors failed to confirm the value of investments from any proper source. In case the auditor has simply relied on the management's representation, the auditor has failed to perform his duty.

Conclusion: Accordingly, CA. Nilesh, will be held liable for the professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

6. (a) As per SA 620 "Using the work of an Auditor's Expert", the nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert.

In certain situations, the need for a detailed agreement in writing is required like-

- The auditor's expert will have access to sensitive or confidential entity information.
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

In the given case, considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him.

(b) The auditors, STS Associates wanted to ensure and obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by obtaining an understanding of the methods used by management in determining segment information. SA 501 guides in this regard. As per SA 501- "Audit Evidence—Specific Considerations for Selected Items", example of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

(i) Sales, transfers and charges between segments, and elimination of inter-segment amounts.

(ii) Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.

(iii) The allocation of assets and costs among segments.

(iv) Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

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

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

OR

(c) **Sharing Fees with an Articled Clerk:** As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Rai, stating that he is paying 1.5% profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak is not tenable.

Hence, Mr. Rai is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.