Mock Test Paper - Series I: March 2026

Date of Paper: 20th March 2026

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 Isha has been appointed as statutory auditor for the financial year 2024-25 by Air Ltd., which is on the verge of becoming sick unit and has accumulated losses but the said losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24. The audited accounts for the year 2021-22, 2022-23 were showing liability for payment of undisputed audit fees payable to predecessor auditors but were settled completely during last F.Y. 2023-24.

   In terms of Council General Guidelines, 2008, Chapter VII, read with relevant proviso of the said Guideline, which of the following statement is correct in respect of the aforesaid scenario?

   (a) CA Isha shall be deemed to be guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which had not paid undisputed audit fee for the year 2021-22 and 2022-23 of predecessor auditor, though settled in F.Y. 2023-24.

   (b) CA Isha would not be held guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which is on the verge of becoming sick unit but whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-2024.

   (c) CA Isha would not be held guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd., which is not a sick unit, whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24 and there are no unpaid undisputed audit fees of predecessor auditors.

(d) CA Isha shall be deemed to be guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which is on the verge of becoming sick unit and it had not paid undisputed audit fee of predecessor auditor though settled in subsequent year.

2. Sambhav & Associates, a firm of Chartered Accountants, has been appointed as the statutory auditor of a large manufacturing company XYZ Ltd. Mr. Sambhav, the engagement partner, highlighted the need to obtain a comprehensive understanding of the entity's internal control system across all major areas such as purchases, sales, payroll, and receivables. To accomplish this, the audit team conducted structured discussions with the respective departmental heads using a pre-designed format containing detailed, logically sequenced questions. The responses of the same were formally documented and confirmed by responsible executives so that they can serve as audit evidence of the internal control systems as described by management. Which technique of evaluation of internal control is being referred in this situation?

(a) Check List.

(b) Flow Chart.

(c) Internal Control Questionnaire.

(d) Analytical Procedures.

3. EAT Ltd., a company engaged in the manufacturing of packaged food products, launched an advertising campaign to expand its market share. The campaign promoted its products as "100% natural and completely risk-free for daily consumption." However, internal reports available with the company indicates that certain ingredients used in the products may pose health risks if consumed excessively. Despite this knowledge, the company neither discloses such potential adverse effects on the product packaging nor in its advertisements. Which of the following BRSR principles is primarily violated in the above case?

(a) Principle 1 "Ethics, Transparency and Accountability".

(b) Principle 6 "Protection and Restoration of Environment".

(c) Principle 4 "Respect for Stakeholders' Interests and Responsiveness".

(d) Principle 9 "Provide Value to the Consumers in a Responsible Manner".

Case Scenario I [MCQ 4-8]

RK & Associates, a Chartered Accountant firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Perfact Industries Ltd., an unlisted public company, for the financial year 2024–25.

Mr. Rajat is the engagement partner for the audit assignment of Perfact Industries Ltd. The engagement team, before starting the assignment, was required to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.

Mr. Rajat referred to the engagement letter signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of the following circumstances in the company during F.Y. 2024–25:

- Two senior whole-time directors of the company have retired out of a total of five directors.
- 40% stake in the company was held by promoters, which was reduced by 5% by selling shares to the general public.
- Management has requested the auditor to cover 90% of the transactions with respect to each revenue line item, instead of 60% of the transactions as set out in the audit plan, considering materiality and other factors.

The following data is presented from the audited financial statements of Perfact Industries Ltd. for the financial year 2023–24:

(i) Paid-up Share Capital – ₹ 9 crore

(ii) Turnover – ₹ 65 crore

(iii) Outstanding Borrowings – ₹ 16 crore

(iv) Outstanding Public Deposits – ₹ 29 crore

Mr. Rajat requested the management of Perfact Industries Ltd. to provide the internal audit report. However, the management responded that since the company's paid-up share capital and turnover are very low, internal audit is not applicable.

While preparing a report under Section 143 of the Companies Act, 2013, Mr. Rajat made a statement with respect to the remuneration paid by Perfact Industries Ltd. to one of its directors, Mr. Amit, stating that it was in excess of the limit laid down under Section 197, and also gave such other details as prescribed.

For additional reporting purposes, while auditing with respect to compliance with CARO, 2020, Mr. Rajat observed the following with respect to statutory dues:

Statutory Dues	Undisputed Amount (₹ in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2023-24	1.80	23 September 2024	27 March 2025
GST	1.40	4 October 2024	5 April 2025
Customs Duty	0.90	21 September 2024	10 April 2025
Provident Fund	0.40	11 October 2024	Not paid till date

Apart from receiving his remuneration as a partner in RK & Associates, Mr. Rajat also received a sum of ₹ 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose.

Based on the above facts, answer the following:

4. Based on the financial data of Perfact Industries Ltd. for F.Y. 2023–24, determine whether internal audit is required for the company:

   (a) Internal audit is not required since all thresholds are below limits.

   (b) Internal audit is required because borrowings exceed ₹ 10 crore.

   (c) Internal audit is required because public deposits exceed ₹ 25 crore.

   (d) Internal audit is not required since turnover is less than ₹ 100 crore.

5. Under which section of the auditor's report, Mr. Rajat needs to report with respect to the excess remuneration being paid to Mr. Amit?

   (a) Other Matters Paragraph.

   (b) Report on Other Legal and Regulatory Requirements.

   (c) Basis for Qualified Opinion.

   (d) Auditor's Responsibilities for the Audit of the Financial Statements.

6. Based on the given information, compute the total amount of statutory dues to be reported by Mr. Rajat under Para 3 of CARO 2020.

   (a) ₹ 3.20 lakh.

   (b) ₹ 1.80 lakh.

   (c) ₹ 2.70 lakh.

   (d) ₹ 0.90 lakh.

7. Whether Mr. Rajat is permitted to hold license as a life insurance agent?

   (a) Yes, general permission has been granted by the Council of the ICAI for the said purpose.

   (b) Yes, if specific permission has been obtained by Mr. Rajat from the Council for the same.

   (c) No, it is not permitted for a chartered accountant to do so as per recent decisions of Ethical Standards Board.

   (d) License as a life insurance agent can be held by CA Rajat for purposes other than earning renewal commission, provided it does not amount to degradation of the profession

8. Based on the facts of the case, which of the following options best reflects the auditor's obligation regarding engagement letter?

   (a) A new engagement letter is mandatory as two out of five whole-time directors have retired.

   (b) A new engagement letter is mandatory as Promoters' shareholding is reduced by 5%.

   (c) A new engagement letter is not required, as none of the changes affect the audit engagement terms.

   (d) The auditor should consider revising the engagement terms since management has requested an increase in audit coverage from 60% to 90% of transactions.

Case Scenario II [MCQ 9-12]

Rajesh & Co. has been appointed as the central statutory auditor of Good Worth Bank Ltd., a private sector bank registered with RBI, for F.Y. 2023–24.

Mr. Rajesh, the engagement partner, while examining the computation of DTL (Demand and Time Liabilities), raised his suspicion regarding the inclusion and exclusion of the following items:

Sr. No.	Particulars of Item	Inclusion/ Exclusion
1	Net credit balance of Branch Adjustment Account	Exclusion
2	Amount received from court receiver	Inclusion
3	Amount received from ECGC by invoking the guarantee	Exclusion
4	Unaccounted inward remittances received on behalf of customers	Inclusion
5	Net Income tax provision.	Inclusion

During the course of audit, Rajesh & Co. also observed that one large advance account of the bank had no recovery of principal or interest for the past 15 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee.

Additionally, Rajesh & Co. was offered Stock audit of a sister concern of Good Worth Bank Ltd. for F.Y. 2023–24, and Branch audit of its Borivali Branch for F.Y. 2023–24 and Dadar Branch for F.Y. 2024–25, respectively.

Based upon above, answer the following questions:

9. Items at which serial number, as aforesaid, have been wrongly included or excluded for the computation of Demand and Time Liabilities?

   (a) Items at which Sr. No. 1 & 4, respectively.

   (b) Items at which Sr. No. 2, 3 & 5, respectively.

   (c) Items at which Sr. No. 1 & 3, respectively.

   (d) Items at which Sr. No. 1, 2 & 5, respectively.

10. Whether the classification of advance and income recognition by Good Worth Bank Ltd. is correct?

    (a) The bank is correct in not classifying the advance as NPA for provisioning purposes since the Central Government guarantee has not been repudiated, but interest income should not be recognized unless actually realized.

    (b) The bank is incorrect in not classifying the advance as NPA and in continuing to recognize interest income, since guarantees do not affect IRAC norms.

    (c) The bank is correct in both not classifying the advance as NPA and in recognizing interest income on accrual basis due to Central Government guarantee.

    (d) The bank should classify the advance as NPA only after 90 days of overdue irrespective of whether the guarantee is by Central or State Government.

11. Would the auditor's conclusion change if the advance, which has remained overdue for more than 15 months, was guaranteed by a State Government instead of the Central Government?

    (a) No, both Central and State Government guarantees are treated identically for asset classification and income recognition under RBI IRAC norms.

    (b) Yes, but only income recognition norms would change, while asset classification would remain unaffected.

(c) Yes, since the special exemption from NPA classification is not available for State Government guaranteed advances, and the account would be treated as NPA after 90 days of overdue.

(d) No, the account would be classified as NPA only on invocation and repudiation of the State Government guarantee.

12. Whether Rajesh & Co. can accept the stock audit assignments, as aforesaid?

(a) It can only accept the stock audit assignment of its Dadar Branch and its Borivali Branch.

(b) It can only accept the stock audit assignment of its Dadar Branch.

(c) It can only accept the stock audit assignment of the sister concern of Good Worth Bank Ltd., its Dadar Branch as well as its Borivali Branch. However, it will require NOC from Good Worth Bank Ltd. for accepting the stock audit assignment of its sister concern.

(d) It can only accept the stock audit assignment of the sister concern of Good Worth Bank Ltd.

Case Scenario III [MCQ 13-15]

Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as "Why to worry about a vehicle, when you have steel man". The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of 'Copper Man' and thus, the managerial decision making is left to each version manager. You have assigned the 'Fixed Assets area' to Mr. Mamma Mia and he came out to you with the following points. You need to answer the questions raised by him and go through the notes prepared to reach a reasonable conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):

- The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person's name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company's 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn't be halted as the restart of operations will cost huge amounts and a month's time to get the Company back to current position.

- The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed.

Based on the above facts, answer the following Questions

13. The audit team has asked you about the Benami Transaction:

    (a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.

    (b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.

    (c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO.

    (d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.

14. The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:

    (a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.

(b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.

(c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.

(d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.

15. The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:

(a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.

(b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador.

(c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.

(d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Ananya has been appointed as the statutory auditor of RST TechBuild Ltd. for the financial year 2024–25. The company operates in two business segments:

(i) a home appliances division that manufactures washing machines and refrigerators and generates consistent profits; and

(ii) an infrastructure division undertaking projects such as highways and public utilities under government contracts, which has incurred losses over the past three years due to delays in project execution and escalation in costs.

While planning the audit, CA Ananya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division. **(5 Marks)**

(b) While conducting audit of QWE Limited, a listed company, for the year 2024-25, CA. Deepa the engagement partner, observed that the company had written back certain long outstanding liabilities and recognized the amounts as "Other Income" in the Statement of Profit and Loss.The details in this respect are as under:

S. No.	Particulars	Amount involved
(i)	Outstanding liabilities relating to purchase of components written back on the ground that the materials supplied were not as per agreed specifications	₹ 4.00 crores
(ii)	Payables relating to installation services of production equipment written back due to alleged unsatisfactory performance by vendors	₹ 2.50 crores

The management is of the opinion that these dues are no longer payable and, therefore, retaining these liabilities in the financial statements would result in overstatement of liabilities. Considering it as normal trade practice, the company has written back such outstanding amounts as "Other Income". The Company also discontinued dealing with concerned vendors. The auditor proposed to send external confirmation requests to these vendors. However, management informed her that sending such requests may be used by vendors as proof of existence of liability. CA Deepa is considering whether the matter should be disclosed as a Key Audit Matter (KAM) in the auditor's report. Analyse the situation with reference to relevant Standards on Auditing. **(5 Marks)**

(c) Loyal & Co., a Chartered Accountant firm, has recently experienced significant growth and started auditing several large corporate entities. During a periodic internal assessment of the firm's quality control system, the following observations were made:

- Loyal & Co. often accept new audit engagements based on referrals from existing clients, without conducting a proper evaluation of the client's reputation, integrity of management, or potential risks associated with the engagement.
- The firm is following the same quality control policies for several years without updating them for recent changes in professional standards and regulatory requirements.

Identify the elements of the system of quality control under SQC 1 that are affected in the above situation and briefly explain how these elements contribute to ensuring quality in audit engagements performed by the firm. **(4 Marks)**

2. (a) SKY Hospital is a very renowned hospital for Orthopedic Surgeries in Pune having sophisticated infrastructure. SKY Hospital has recently implemented a comprehensive information system, developed and managed by CT Contractors, which is used for maintaining complete and integrated records of indoor patients. This system captures and processes details relating to patients' diagnosis, treatment plans, medications administered, as well as billing and corresponding receipt transactions, thereby supporting both clinical and financial reporting functions of the hospital. CA Yash is the statutory auditor of SKY Hospital. During the course of audit, he became aware that the hospital is using a system developed and managed by CT Contractors. Since the hospital relies on this system for maintaining patient and billing records, CA Yash is concerned whether the controls implemented at CT Contractors are operating effectively or not. For this purpose, CA Yash requested CT Contractors to provide an assurance report issued by a practicing chartered accountant, containing an opinion on the description of the CT Contractor's system and the effectiveness of the controls in place. Which type of report should be obtained by CA Yash in terms of relevant Standard on Auditing? What aspects are to be considered by CA Yash in using such assurance report as audit evidence that controls at CT Contractors are operating effectively? **(5 Marks)**

(b) CA Ritu has been appointed as the statutory auditor of the consolidated financial statements of Orion Limited for the financial year 2024–25. The consolidated financial statements include the financial statements and information of 8 subsidiaries, all of which have been audited by other auditors. The management of Orion Limited has provided CA Ritu with the audited financial statements, financial information, and audit reports of these subsidiaries.

The following summary information pertains to these subsidiaries for the financial year 2024–25:

Particulars	**Amount**
Total Assets	₹ 1,900 crore
Total Revenue	₹ 1,300 crore
Net Cash Outflows	₹ 35 crore

Four [4] out of the eight [8] subsidiaries are located outside India. Their financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) of their respective countries and audited in accordance with the auditing standards applicable in those jurisdictions.

How should CA Ritu report this matter in the Independent Auditor's Report on the consolidated financial statements of Orion Limited for the year 2024–25, in accordance with the applicable Standards on Auditing? Draft a suitable paragraph to be included in the auditor's report, making any necessary assumptions if required. **(5 Marks)**

(c) An online retail company operates through a website where thousands of customers place orders daily. One day, hackers carried out a cyber-attack and installed ransomware that encrypted the company's database and critical systems. As a result, employees were unable to access operational data, customers could not place orders, and the website became unavailable. The attackers demanded a large ransom payment in exchange for restoring access.

Further, there was a possibility that customers' personal data had been compromised. The company also incurred costs for investigation and system restoration and faced a decline in customer trust along with potential scrutiny from regulatory authorities.

Identify and explain the indicative areas where the organisation may face the impact of cyber risk in the above situation. **(4 Marks)**

3. (a) During the audit of the financial statements of KIN Ltd. for the year ended 31st March 2025, the auditor observed that the company has suffered recurring losses and has negative operating cash flows. Management has prepared the financial statements on a going concern basis and has disclosed in the notes to accounts the major events and conditions creating financial difficulty. The disclosures also include management's plans to improve liquidity and clearly state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

After evaluating the available audit evidence, the auditor concluded that management's use of the going concern basis of accounting is appropriate, and the disclosures made in the financial statements regarding the material uncertainty are adequate.

As the auditor of KIN Ltd., explain how the above matter will be reported in the auditor's report in accordance with the relevant Standard on Auditing. **(5 Marks)**

(b) Mr. Amit is a practising chartered accountant based out of Pune. During the weekends, he was involved as a paper-setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 2023, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2025, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto **(5 Marks)**

(c) Omega Technologies Ltd., a multinational company operating in Chennai, has recently adopted integrated reporting to communicate its value creation to stakeholders. During the preparation of its integrated report for the year ended on 31 March 2025, the management included the following initiatives:

(i) The company invested heavily in research and development to develop new artificial intelligence–based products and registered several patents during the year.

(ii) It conducted training programs for employees and collaborated with universities to promote innovation.

(iii) The company strengthened long-term relationships with its suppliers and customers by introducing transparent grievance mechanisms and ethical sourcing policies.

(iv) It also undertook several community development initiatives and actively engaged with local communities to maintain its reputation and trust, ensuring continued acceptance of its operations in the region.

Based on above information, identify and explain which of the capitals of Integrated Reporting are being referred to at (i) to (iv). **(4 Marks)**

4. (a) Mr. Rohan, a practicing Chartered Accountant in Rohan Arjun & Associates is an Associate member of the Institute of Chartered Accountants of India (ICAI) but he started using the designation "FCA" on his visiting cards and professional correspondence to create a better professional image.

During scrutiny of certain records, the ICAI sought clarification from Mr. Rohan regarding activities that appeared unrelated to his professional practice. Despite multiple letters and reminders from the Institute, he failed to respond or provide the requested information.

Mr. Arjun, another partner of firm, whose name had been removed from the Register of Members of the Institute, continued to train an articled assistant and also failed to respond to the Institute's letters seeking clarification.

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

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

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

However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India, to whom report of such audit was likely to have been submitted. **(5 Marks)**

(c) Evan & Co, a firm of Chartered Accountants, conducting the audit of a listed company PARI Ltd. for the year ended 31-03-2025 are concerned with the presentation and disclosure of segment information included in Company's Annual Report.

The audit team wants to ensure that methods used by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework.

With reference to the relevant Standards on Auditing, explain the 'examples of matters' that the auditors should consider while obtaining an understanding of the methods used by management in determining and presenting segment information in the financial statements. **(4 Marks)**

5. (a) Pandey & Co., Chartered Accountants, have been appointed as the Statutory Auditors of Suchi Ltd. for the financial year 2024–25. The audit work has been completed, and the audit team is preparing the audit report. The management has also prepared a draft annual report to be circulated to shareholders.

While reviewing the draft Annual Report, the audit in-charge observed that the company has included an item in its Annual Report indicating a downward trend in market prices of key commodities/raw material as compared to previous year. However, the audited financial statements indicate that the company's profit margin has actually declined during the year.

The matter was brought to the attention of the Audit Manager, who discussed it with the Engagement Partner. The partner opined that such disclosures form part of management's reporting and fall outside the scope of the auditor's responsibility, and therefore no further action is required from the auditor's side.

Do you agree with the view expressed by the Engagement Partner? Discuss the Auditor's duties with regard to reporting with reference to relevant Standard on Auditing. **(5 Marks)**

(b) During the audit of Rishabh Ltd., a company engaged in manufacturing home appliances, the auditor noted several significant developments in the current financial year. The company implemented a new integrated information system to replace its old accounting software. It also entered into two new foreign markets to expand its sales and hired several new employees in the finance and IT departments to manage the increased operations.

Further, the company introduced innovative smart appliances incorporating advanced technology and experienced substantial growth in its production and sales volumes. In addition, the management changed some of the accounting policies to comply with updated requirements of the applicable financial reporting framework.

While performing the audit, the auditor is evaluating whether these developments could affect the reliability of financial reporting and the effectiveness of internal control within the company.

As an auditor, identify the circumstances in the above situation that may give rise to risks affecting the preparation of financial statements and briefly discuss how such changes may impact the entity's internal control and financial reporting process. **(5 Marks)**

(c) Mr. Venkat who passed his CA examination of ICAI on 18th July, 2025 and started his practice from August 15, 2025. On 16th August 2025, one female candidate approached him for articleship. In addition to monthly stipend, Mr. Venkat also offered her 0.5% profits of his CA firm. She agreed to take both 0.5% 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. Venkat objecting the payment of 0.5% profits. Mr. Venkat replies to the ICAI stating that he is paying 0.5% 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. Venkat liable to professional misconduct? **(4 Marks)**

6. (a) 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. **(5 Marks)**

(b) M/s LMN & Co., Chartered Accountants, has been appointed as the statutory auditors of Integrity Bank Ltd. for the financial year 2024–25. While reviewing the loans and advances portfolio of one of the major branches of the bank, the audit team examined certain credit files and operational records.

During the course of audit, the following observations were made:

(i) A cash credit facility of ₹ 12 crore was granted to Bright Metals Pvt. Ltd. mainly on the recommendation of the branch credit officer. The credit file did not contain adequate evidence regarding appraisal of the borrower's creditworthiness or approval of the competent sanctioning authority.

(ii) In another borrower account of Rajul Enterprises, the loan amount was disbursed before execution of certain loan documents such as the demand promissory note and letter of hypothecation.

(iii) Certain pledged securities requiring registration were not registered in the name of the bank and the documents supporting the bank's title were also not found on record.

(iv) In addition to the pledged securities mentioned in (iii), certain other pledged securities were found to be kept in the custody of a single officer instead of being maintained under joint custody of two responsible officers.

(v) In certain cash credit accounts secured by inventory, the branch had not maintained the prescribed margin against securities as per the credit policy aligned with the directives of Reserve Bank of India.

Identify the audit lapses evident from the above case in respect of loans and advances of the bank. **(5 Marks)**

(c) Mr. Arpit, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. Raja gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. Arpit started a website with colorful, eye-catching designs and shared the website address on all his social media posts and stories. He also tagged 30 traders of his local community with the caption "Easy Online Stock Certification Services". Discuss if the actions of Mr. Arpit are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI. **(4 Marks)**

OR

(c) Grow Ltd. has prepared and presented summary financial statements for the financial year ended 31st March 2025 for circulation among stakeholders. The summary statements are not accompanied by the audited financial statements. Instead, a note has been included stating that the audited financial statements are available at the company's registered office. As the statutory auditor of a company, explain the procedures you would perform to form an opinion on summary financial statements in accordance with relevant Standards on Auditing.

(4 Marks)

Mock Test Paper - Series I: March 2026

Date of Paper: 20th March 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

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

PART – II: DESCRIPTIVE QUESTIONS

1. (a) 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.

In the case of RST TechBuild Ltd.:

(i) **Home Appliances Division:** Since Hone Appliances division generates consistant and regular profits, CA Ananya may consider using profit before tax (PBT) or earnings as the benchmark.

(ii) **Infrastructure Division (Loss-making):** The Infrastructure Division has reported losses due to external factors (delays, overruns). In such cases, profit-related benchmarks may not be appropriate. Instead revenue or gross profit may be used as benchmarks.

Alternatively, considering its public utility nature, benchmarks like total cost or net cost (expenses less revenues) may be suitable. Where significant assets are involved, total assets may also be relevant.

(b) 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 outstanding liabilities. The company has not settled the obligation by negotiating a release from the obligation from respective vendors. Such an accounting treatment by management is questionable and against the conceptual framework for financial reporting under Ind AS.

CA. Deepa wanted to send external confirmations in accordance with SA 505," External Confirmations" but management informed her that sending such requests may be used by vendors 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: -

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

(b) 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.

(c) As per SQC 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", a firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances.

In the given situation, the following specific elements of quality control are affected:

(i) Acceptance and continuance of client relationships and specific engagements: A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about:

- ♦ Integrity of Client, promoters and key managerial personnel.
- ♦ Competence (including capabilities, time and resources) to perform engagement.
- ♦ Compliance with ethical requirements.

In the present case, Loyal & Co. often accepts new engagements based solely on referrals without proper evaluation, which is a clear deficiency in this element.

(ii) Monitoring: The firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. In this case, the firm has been following the same quality control policies for several years without updating them for changes in professional standards and regulatory requirements, indicating a lapse in monitoring.

Therefore, accepting engagements without properly assessing client integrity and continuing with outdated quality control policies by Loyal & Co. highlights deficiencies in the acceptance and continuance of client relationships and monitoring elements of SQC 1. These elements are crucial to ensure that the firm undertakes only appropriate engagements and its quality control framework remains updated, effective, and compliant with professional and regulatory standards. Strengthening these areas will help the firm in maintaining consistent audit quality, especially in view of its recent growth and engagement with large corporate clients.

2. (a) In the given scenario, CA. Yash, as the statutory auditor of SKY Hospital, is concerned about the effectiveness of controls at the service organization, specifically the system managed by CT Contractors. To address this concern, CT Contractors should provide a Type 2 assurance report from a practicing chartered accountant as per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation". This report will offer an opinion on the description of the system in use at SKY Hospital, as well as evaluate the effectiveness of the controls implemented by CT Contractors.

Using a Type 2 report as audit evidence that controls at the service organisation are operating effectively: If, the user auditor plans to use a Type 2 report as audit evidence that controls at the service organisation are operating effectively, the user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by:

(a) Evaluating whether the description, design, and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;

(b) Determining whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness;

(c) Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and

(d) Evaluating whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment.

(b) In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

In the given situation, CA Ritu, the statutory auditor of the consolidated financial statements, is not the auditor of all components included in the consolidation and intends to refer to the work of other auditors, such reference must be made through an Other Matter paragraph in the auditor's report. The draft "Other Matter Paragraph" is as under:

Other Matter Paragraph

We did not audit the financial statements and other financial information, in respect of eight (8) subsidiaries, whose financial statements include total assets of ₹ 1,900 crores as at March 31, 2025, and total revenues of ₹ 1,300 crores and net cash outflow of ₹ 35 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company.

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

Four of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India.

We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.

(c) **Impact of cyber risk:** Cyber-attack can impact one, two or more types of risks. The impact of the attack would vary from organization to organization and most importantly from attack to attack. Some of the indicative areas can be:

- Regulatory costs.
- Business interruptions causing an operational challenge for an organization.
- Data loss, reputational loss and litigation.
- Ransomware - more common these days where entire systems are encrypted.
- Intellectual property theft which may not only take the competitive advantage, but we may also result in any impairment/impediment charge because of the loss of IP.
- Incident response cost which could be for investigations & remediations.
- Breach of Privacy, if personal data of a consumer is hacked it could have a significant impact on the organization.
- Fines and penalties.

3. **(a)** As per SA 570 "Going Concern", if the auditor concludes that the management's use of going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditors shall determine whether the financial statements:

(A) Adequately disclose the principal events or conditions that make a significant doubt on the entity's ability to continue as a going concern and management's plan to deal with these events or conditions, and

(B) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern and therefore, that it may be unable to realize its assets, and discharge its liabilities in the normal course of business.

(C) The disclosures may include:

i. Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or

ii. Significant judgements made by management as a part of its assessment of the entity's ability to continue as a going concern

iii. Disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of the occurrence.

iv. The auditor shall express and unmodified opinion and the auditor's reports shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- Draw attention to the note in the financial statement that discloses the events or conditions and
- State that these events are conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and the auditor's opinion is not modified in respect of the matter and how the matter was addressed in the audit.

In the given case, it was observed that KIN Ltd. has incurred recurring losses and is facing negative operating cash flows, indicating financial difficulty. However, the management has prepared the financial statements on a going concern basis and has adequately disclosed the relevant events and conditions, along with its plans to improve liquidity, clearly stating regarding material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Further, the auditor is also satisfied that the use of the going concern assumption is appropriate and the disclosures are adequate based on the audit evidence. Accordingly, the auditor shall express an unmodified opinion and include a separate paragraph under the heading "Material Uncertainty Related to Going Concern" in the auditor's report, drawing attention to the relevant disclosures without modifying the opinion in line with SA 570 (Revised) "Going Concern".

(b) Given situation can be visualised in following parts:

(I) Mr. Amit is involved in paper-setting for the Accountancy subject in the school where he studied. He also owns agricultural land and does agriculture activities: As per Clause 11 of Part I of First Schedule of the Chartered Accountants Act and regulation 190A of Chartered Accountants Regulations, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Further, Regulation 190A mentions the 'Permissions granted Generally' to engage in a certain category of occupations, for which no specific permission of Council is required. Those cases include:

- Valuation of papers, acting as paper-setter, head examiner or a moderator, for any examination.
- Owning agricultural land and carrying out agricultural activities.

Therefore, in the given case, the activities of Mr. Amit as a paper-setter and involvement in agricultural activities do not make him guilty of professional misconduct.

(II) **Mr. Amit was discharged insolvent: Disabilities for the Purpose of Membership :** Section 8 of the Chartered Accountants Act, 1949 enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, failure on the part of a person to disclose the fact that he suffers from any one of the aforementioned disabilities would constitute professional misconduct. The name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by the Council.

In the given case, it is clearly stated that Mr. Amit was discharged insolvent, and he has also obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Hence, Mr. Amit has not violated the provisions of Section 8, and he is not debarred from having his name entered in the Register of Members.

(c) **Intellectual Capital:** Key element in an organization's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organization's competitive advantage.

Social Capital:

- Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
- Includes:
    - Common values and behaviour.
    - key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners.
    - an organization's social license to operate.

In the given case, the initiatives undertaken by Omega Technologies Ltd. primarily contribute to Intellectual Capital in (i) and (ii), while Social Capital is relevant in (iii) and (iv).

4. **(a)** As per Clause (1) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct, if a Chartered Accountant, in practice or not, not being a fellow of the Institute, acts as a fellow of the Institute.

Further, as per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct if he, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

In the given case, Mr. Rohan being an Associate member of the Institute of Chartered Accountants of India, incorrectly used the designation "FCA" on his visiting cards and professional correspondence. He also failed to respond to the Institute's letters regarding his involvement in activities unrelated to his practice despite multiple reminders.

Further, Mr. Arjun, another partner of the firm, continued to train an articled clerk though his name was removed from the Register of Members of the Institute. Also, he had failed to send any reply to the Institute asking him to send his explanation as to how he was training as his articled clerk when he was not a member of the Institute.

In view of above, Mr. Rohan will be held guilty of professional misconduct under Clause (1) & Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.Whereas Mr. Arjun is guilty of professional misconduct under Clause (2) of Part III of the First Schedule of the Chartered Accountants Act, 1949.

(b) In the given case, it is a "Compliance Audit" performed by Office of Comptroller & Auditor General of India.

Compliance audit is an independent assessment of whether a given subject matter is in compliance with the applicable criteria.

This audit is carried out by assessing whether activities, financial transactions and information comply in all material respects with the regulatory and other rules which govern the audited entity. Compliance auditing is concerned with: -

(i) Regularity- adherence of the subject matter to the formal criteria emanating from relevant laws, regulations, and agreements applicable to the entity.

(ii) Propriety- observance of the general principles governing sound financial management and the ethical conduct of public officials.

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

Under Article 151, audit reports of the C&AG relating to the accounts of the Central/ State Government should be submitted to the President/Governor of the State who shall cause them to be laid before Parliament/State Legislative Assemblies.

In the given situation, the report relates to the State Department. Therefore, report was likely to have been submitted to Governor of state to be laid before State legislative assembly.

(c) The auditors, Evan & Co. 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.

5. (a) Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists: As per SA 720, "The Auditor's Responsibility in Relation to Other Information", descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other Items that may be included in the other information.

The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

Auditor's duties with regard to reporting in the given case are given hereunder:

As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

(i) Agrees to make the correction, the auditor shall determine that the correction has been made; or

(ii) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

Contention of the Engagement Partner of the firm that auditors are not concerned with such disclosures made by the management in its annual report, is not correct.

(b) In the given case of Rishabh Ltd., several developments during the year may give rise to risks affecting the preparation and reliability of financial statements. As part of the entity's risk assessment process, management identifies and evaluates such risks that may affect financial reporting.

The circumstances and their impact are as follows:

(i) **Changes in operating environment:** Changes in the regulatory or operating environment can result in changes in competitive pressures and significantly different risks.

(ii) **New personnel:** New personnel may have a different focus on or understanding of internal control.

(iii) **New or revamped information systems:** Significant and rapid changes in information systems can change the risk relating to internal control.

(iv) **Rapid growth:** Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.

(v) **New technology:** Incorporating new technologies into production processes or information systems may change the risk associated with internal control.

(vi) **New business models, products or activities**: Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with internal control.

(vii) **Corporate restructurings:** Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with internal control.

(viii) **Expanded foreign operations:** The expansion or acquisition of foreign operations carries new and often unique risks that may affect internal control, for example, additional or changed risks from foreign currency transactions.

(ix) **New accounting pronouncements:** Adoption of new accounting principles or changing accounting principles may affect risks in preparing financial statements.

(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. Venkat, stating that he is paying 0.5 % 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. Venkat is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.

6. **(a)** 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.

"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.

(b) (i) **Loan granted without proper appraisal and sanction:** In the given case, the cash credit facility granted to Bright Metals Pvt. Ltd. was based mainly on the recommendation of the branch credit officer and the credit file did not contain adequate evidence regarding appraisal of the borrower's creditworthiness or approval by the competent sanctioning authority. As per the control requirements relating to loans and advances in banks, advances should be granted only after the bank satisfies itself regarding the creditworthiness of the borrower and after obtaining sanction from the proper authorities. Hence, granting the advance without proper appraisal and sanction constitutes a lapse.

(ii) **Disbursement of loan before execution of necessary documents:** The auditor observed that in borrower account of Rajul Enterprises the loan amount was disbursed before execution of loan documents such as the demand promissory note and letter of hypothecation. However, all necessary documents such as agreements, demand promissory notes and letters of hypothecation should be executed before advances are made. Therefore, disbursement of funds before execution of documents represents a procedural lapse.

(iii) **Securities not registered in the name of the bank:** It was observed that certain pledged securities requiring registration were not registered in the name of the bank and supporting title documents were not available. As per prescribed procedures, all securities requiring registration should be registered in the name of the bank or otherwise accompanied by documents sufficient to establish the bank's title. Hence, failure to ensure proper registration of securities constitutes a lapse.

(iv) **Improper custody of securities:** The auditor noticed that certain pledged securities were kept in the custody of a single officer instead of being maintained under joint custody. As per control requirements, all securities should be received and returned by responsible officers and kept in the joint custody of two such officers. Therefore, keeping securities under the custody of a single officer indicates weakness in internal control over safeguarding of securities.

(v) **Failure to maintain prescribed margin against securities:** In certain cash credit accounts secured by inventory, the branch had not maintained the prescribed margin against securities in accordance with the directives of the Reserve Bank of India. Banks are required to keep sufficient margin against securities to cover any decline in their value and to comply with RBI directives. Hence, failure to maintain the required margin indicates non-compliance with lending norms.

(c) As per Clause (6) 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 solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Mr. Arpit is wrong in seeking clients through family and friends. Creating a website does not constitute a non-compliance provided it is in line with the Guidelines issued by the Institute in this regard. One such guideline specifies that the website should not be in push mode. Furthermore, mentioning the names of clients is also prohibited under these Guidelines.

In the given situation, Mr. Arpit shared the website address on all his social media posts and stories and tagged 30 traders of his local community with the caption "Easy Online Stock Certification Services" mentioning his current clients as well. This is in complete contravention of the Guidelines on the website issued by the ICAI.

Thus, CA Arpit would be held guilty of professional misconduct under clause 6 of Part I of First Schedule of the Chartered Accountants Act, 1949.

OR

(c) As per SA 810 "Engagements to Report on Summary Financial Statements", the auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

(i) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.

(ii) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:

(A) From whom or where the audited financial statements are available; or

(B) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.

(iii) Evaluate whether the summary financial statements adequately disclose the applied criteria.

(iv) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.

(v) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

(vi) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

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