Mock Test Paper - Series I: July, 2025

Date of Paper: 23rd July, 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. Worthy Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems wherein the attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing) and the use of unsecured Wi-Fi, which prompted employees to click on malicious links. The malware exploited outdated operating systems on the devices to extract sensitive corporate information. In the given case, cyber-attack encountered by the company is known as:

   (a) Fileless Malware

   (b) Mobile Malware

   (c) Ransomware

   (d) Trojan

2. CA. Rishi, statutory auditor of KMC Ltd., identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA. Rishi. Guide CA. Rishi on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?

(a) In accordance with SA 710, CA. Rishi should give unmodified opinion, but include Other Matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.

(b) In accordance with SA 710, CA. Rishi should seek legal opinion.

(c) In accordance with SA 710, CA. Rishi should qualify current period audit report with respect to corresponding figures only.

(d) In accordance with SA 710, CA. Rishi should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of Matter paragraph.

3. Rajul and Associates, Chartered Accountants, were appointed as the stock auditors by the Bank's audit committee for ten branches for year 2024-25. The Bank's management appointed and fixed the remuneration of Rajul and Associates, Chartered Accountants as the statutory auditors also for the year 2024-25, for the same ten branches for which they were given the assignment of stock audit. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting?

   (a) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.

   (b) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.

   (c) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.

   (d) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

Case Scenario I [MCQ 4-8]

Innovate Robotics Pvt. Ltd. (IRPL) engaged in the business of manufacturing advanced robotic machinery and developing proprietary automation software appointed M/s Gaur & Associates, Chartered Accountants, as the statutory auditor for the financial year 2024-25.

The financial highlights of IRPL for the year were as follows:

Particulars	Balance as at 31st March 2024)
Total Turnover (Previous Year: ₹85 crores)	₹ 120 crores
Borrowings from banks and financial institutions	₹ 35 crores
Paid-up Share Capital	₹ 20 crores
Profit Before Tax	₹ 15 crores

During the audit, Engagement Partner CA. Gaurav and his team observed the various issues which are given as under:

(i) While conducting substantive procedures, the audit team noticed a significant increase in sales during the last quarter of the financial year. A major portion of this increase, amounting to ₹ 8 crores, was attributed to sales made to a new customer, TechSynergy Solutions Pvt. Ltd., which was incorporated on 1st October, 2024. The audit team's inquiries revealed that the payment for these sales was received on 5th April, 2025, just before the audit commenced. Upon further investigation, Anjali, an audit assistant, discovered that one of the directors of TechSynergy Solutions was the husband of the daughter of IRPL's Chief Financial Officer (CFO), Mr. Alok. When CA. Gaurav brought this information to Mr. Alok's attention, the CFO dismissed it as a mere coincidence and insisted that the transaction was conducted at arm's length. He also argued that since the payment was fully received, there was no risk of a misstatement. Management also refused to disclose this relationship in the financial statements, contending that it was not a related party transaction as per the applicable financial reporting framework, and that doing so would unnecessarily complicate matters. It was also observed that approval by way of resolution was also not obtained by management before entering into the contract with TechSynergy for sale of goods.

(ii) During the physical verification of Property, Plant, and Equipment (PPE), the audit team & management could not locate a highly specialised robotic arm, which was recorded in the fixed asset register with a written down value of ₹ 2.5 crores. Later, management provided a verbal explanation that the asset had been sent to a facility in Germany for immediate calibration in February 2025 and was in transit. However, they failed to provide any supporting documentation such as gate pass, dispatch challan, or insurance documentation for this movement. This matter remained unresolved at the time of finalisation of the audit report.

(iii) IRPL holds 60% equity shares in a subsidiary, AutoBots Ltd. The statutory auditors of AutoBots Ltd., in their audit report for FY 2024–25, expressed a qualified opinion due to non-provision of doubtful debts amounting to ₹ 1.5 crores, which the auditor considered materially misstated.

During the final phase of the audit, on 15th April 2025, IRPL's CEO offered a position of 'Head of Software Development' to CA. Gaurav's wife, a highly qualified software engineer. CA. Gaurav subsequently discovered that his father purchased 1,00,000 equity shares of ₹ 10 each in AutoBots Ltd., a subsidiary of IRPL on 27th June, 2025 i.e., after issuance of audit report. The total paid-up capital of AutoBots Ltd. is ₹ 5 crores.

In the final meeting on 25th April 2025, IRPL's management strongly contended that the unresolved matters were minor in the context of their overall profitable operations. They urged CA. Gaurav to issue an unmodified audit opinion, warning that any modification could jeopardize a crucial funding deal for the company.

Based on the above facts, answer the following:

4. With reference to the ₹8 crore sales transaction with TechSynergy Solutions Pvt. Ltd., and management's refusal to disclose the relationship with the entity, how should CA. Gaurav assess this matter in accordance with SA 240?

   (a) CA. Gaurav should accept the CFO's explanation and conclude that the transaction does not pose a significant risk, as the payment was fully received subsequent to the year-end, which mitigates the risk of financial loss.

   (b) CA. Gaurav should treat the transaction as indicative of a significant risk of material misstatement and consider the implications for the audit, including the reliability of management's representations, regardless of the subsequent payment.

   (c) CA. Gaurav can rely on the management's assertion that the transaction was at arm's length and that the relationship does not meet the technical definition of a related party, thereby concluding that no further action is necessary.

   (d) CA. Gaurav should only request a written representation from management confirming the nature of the transaction and their assertion that no related party relationship exists and then proceed to issue an unmodified opinion.

5. What is the reporting responsibility of CA. Gaurav under para 3(i) of CARO 2020, regarding the undisposed robotic arm with a written down value of ₹ 2.5 crores that was not physically located?

   (a) Since the management has provided a verbal explanation that the asset is in transit for calibration, CA. Gaurav should accept it and is not required to report any discrepancy in the CARO report.

   (b) The discrepancy is not considered material as it represents only a small portion of the company's total turnover of ₹ 120 crores, and therefore, no reporting under CARO 2020 is necessary.

(c) CA. Gaurav should state in his CARO report that a material discrepancy of ₹ 2.5 crores was noticed during the physical verification of Property, Plant, and Equipment, and this has not been properly dealt with in the books of account.

(d) CA. Gaurav should qualify his main audit report for this matter but can choose not to mention this specific discrepancy in the CARO report to avoid redundancy.

6. Assuming that CA. Gaurav's father purchased the shares with a face value of ₹ 10 lakhs in AutoBots Ltd., the subsidiary company, on 1st April, 2025, what is the implication on the audit engagement of IRPL under the Companies Act, 2013 and the Chartered Accountants Act, 1949?

(a) There is no implication, as the shares are held in the subsidiary company (AutoBots Ltd.) and not in the holding company (IRPL).

(b) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, and continuing the engagement constitutes professional misconduct.

(c) Since CA. Gaurav was not aware of his father's investment at the time of accepting the audit, he is not in violation, provided he now obtains a declaration from his father confirming it is not a material investment.

(d) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, but the disqualification can be retrospectively corrected if his father sells the shares within 60 days of CA. Gaurav becoming aware of the holding, thereby avoiding any misconduct.

7. What is the most appropriate type of audit opinion that CA. Gaurav should express for IRPL's financial statements in accordance with SA 700 regarding multiple unresolved issues, specifically the ₹ 8 crore revenue transaction, the missing ₹ 2.5 crore asset and the impact of the subsidiary's qualified opinion?

(a) An adverse opinion, because the collective impact of the identified misstatements is so material and pervasive that the financial statements as a whole are misleading.

(b) A qualified opinion, as the issues identified are material but are confined to specific elements of the financial statements and are not pervasive.

(c) A disclaimer of opinion, because the inability to physically verify a key asset constitutes a significant limitation on the scope of the audit.

(d) An unmodified opinion with a Key Audit Matters (KAM) paragraph describing the revenue recognition and asset verification issues as high-risk areas.

8. If CA. Gaurav surrenders to the pressure from IRPL's management and issues an unmodified audit report for the year ended 31st March 2025, despite the unresolved issues regarding the revenue transaction with TechSynergy and the unverified robotic arm, he would be guilty of professional misconduct. Which of the following clauses of Part I of the Second Schedule to the Chartered Accountants Act, 1949, would be applicable?

   (a) Clause 5 and 9

   (b) Clause 6 and 4

   (c) Clause 5 and 8

   (d) Clause 5, 6 and 7

Case Scenario II [MCQ 9-12]

SCL is a prominent, listed Non-Banking Financial Company (NBFC) (non-deposit taking NBFCs with an asset size of ₹ 1,000 crore and above) primarily engaged in providing corporate loans and retail financing. Mehta & Shah Associates (MSA), a partnership firm with two partners, CA. Karan Mehta and CA. Arjun Shah, was appointed as the statutory auditor of SwiftFin Capital Ltd. (SCL) for the financial year ended 31st March, 2025.

During the audit, MSA team led by CA. Mehta, began reviewing SCL's compliance with RBI's Master Directions for NBFCs. They discovered that three large corporate loan accounts, with a total outstanding balance of ₹ 15 crores, had principal and/or interest payments overdue for a period ranging from 95 to 110 days as at the balance sheet date. However, these accounts were still classified as 'Standard Assets' in the company's records. The management of SCL argued that these were long-standing, "blue-chip" clients with whom they were in advanced restructuring negotiations. They contended that classifying these accounts as Non-Performing Assets (NPAs) would trigger cross-default clauses in other agreements of those clients and permanently damage valuable business relationships. They insisted that the non-classification was a temporary measure based on commercial judgment.

While reviewing the board minutes, the audit team came to know about a lawsuit filed against SCL in January 2025. A group of retail customers alleged that the company had provided loans by charging interest rates that were not transparently disclosed and were in violation of the RBI's Fair Practices Code. SCL's internal legal department had prepared a note for the board estimating a financial outcome of up to ₹ 5 crores if the judgment went against the company. However, the financial statements contained no provision or disclosure for this matter.

Management asserted that their legal advisors believed the probability of an unfavourable outcome was "remote".

In April 2025, impressed with the firm's diligence, the management of SCL also offered the tax audit engagement under Section 44AB of the Income-tax Act, 1961, to MSA for the Assessment Year 2025-26. CA. Mehta reviewed the firm's workload for the assessment year. As on that date, CA. Mehta had already signed 55 tax audit reports, and his partner, CA. Arjun, had signed 60 tax audit reports.

Based on the above facts, answer the following:

9. Considering the requirements of SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" and the specific context of an NBFC audit, what is the most appropriate course of action for CA. Mehta regarding the non-classification of loan accounts worth ₹ 15 crores as NPAs?

   (a) CA. Mehta should accept management's commercial judgment, as advanced restructuring negotiations are in progress, and disclose the matter in an "Emphasis of Matter" paragraph to ensure user awareness.

   (b) CA. Mehta should inform the management that this non-classification constitutes a material misstatement due to non-compliance with RBI's mandatory prudential norms. If management refuses to correct this by reclassifying the assets and making provisions, he must modify the audit opinion.

   (c) CA. Mehta's primary responsibility is to report this specific instance of non-compliance with IRAC norms to the Department of Supervision of the RBI, and he can issue an unmodified opinion on the financial statements.

   (d) CA. Mehta should obtain a specific written representation from management confirming the future recoverability of the loans and based on this representation, he can agree to the existing classification and issue a clean report.

10. With reference to the tax audit engagement offered by SCL and assuming that the CA. Arjun is finalised as the signing on behalf of the firm Mehta & Shah Associates (MSA), can the firm legally accept this new Tax Audit assignment for the Assessment Year 2025-26 as per the guidelines issued by the Council of ICAI?

   (a) No, the firm cannot accept the engagement because the total number of tax audits conducted by the partner CA. Arjun (60) is very close to the limit, and accepting one more would be a violation.

   (b) Yes, the firm can accept the engagement, but the audit report must be signed by CA. Mehta, as CA. Arjun has already reached his permissible limit of 60 audits.

(c) No, the firm cannot accept the engagement because the specified limit of 60 tax audits applies to the firm as a whole, and the partners' individual counts are irrelevant.

(d) Yes, the firm can accept the engagement because the specified limit of 60 tax audits applies to each partner individually, and the firm can still take five more Tax Audits before reaching its 120 Tax Audit limit.

11. CA. Mehta has identified the matter regarding NPA classification and the non-disclosure of the lawsuit as the two most significant issues of the entire audit. He wishes to highlight these matters prominently in his report as Key Audit Matters. Considering the nature of matters, which of the following is the only appropriate method for CA. Mehta to communicate these in his audit report?

 (a) Describe both issues in detail in the "Key Audit Matters" (KAM) section, as they represent the areas of highest risk and significant auditor judgment.

 (b) Describe both issues in an "Emphasis of Matter" (EOM) paragraph, as they are fundamental to understanding the company's financial position and risks.

 (c) Describe the issues giving rise to the misstatements in the "Basis for Modification" paragraph, which will support a qualified or adverse opinion.

 (d) Describe the issues in an "Other Matter" (OM) paragraph, as they are relevant to the users' understanding of the conduct of the audit and management's integrity.

12. Apart from making inquiries with management wherein the management's assessment of the lawsuit is "remote," which audit procedures should be designed and performed by CA. Mehta?

 (a) He should discuss the matter with audit committee, expressing concern that management's representation is unreliable and insists on making a provision of ₹5 crores required in the financial statements based on the available evidence and his independent assessment.

 (b) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared and sent by management, requesting the entity's external legal counsel to provide a necessary update on the litigation.

 (c) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.

 (d) After seeking direct communication with the entity's external legal, he should independently engage a forensic accountant at the firm's own cost to obtain the evidence against the lawsuit, which should be admissible in the court of law.

Case Scenario III [MCQ 13-15]

Verma & Associates, Chartered Accountants, a firm majorly engaged in statutory audits and tax audits, is in the process of exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:

(a) One of the clients of Verma & Associates, AstraTech Industries is planning to acquire a mid-sized manufacturing company, BlueWave Solutions to strengthen its supply chain and enter new markets. As part of the preliminary assessment, a due diligence exercise is to be undertaken to evaluate whether the proposed acquisition would create operational and strategic synergies. A comprehensive financial due diligence is planned and scheduled after agreement on the purchase price. The scope of this exercise includes an analysis of the target company's cash flow position, accounting policies, brief business history and promoter background, accounting information systems, and other relevant financial metrics.

(b) During the due diligence engagement, an articled assistant raised a query with the engagement partner regarding the extent of review required. The assistant specifically sought clarification on whether a 'letter of comfort' issued by BlueWave Solutions to a bank fall within the scope of the due diligence review.

(c) Additionally, Verma & Associates has received a written order from the Central Government directing it to conduct an investigation under Section 210 of the Companies Act, 2013, in relation to one of its audit clients, Rajul Ltd. In relation to this investigation, the firm is considering to take assistance of an expert to obtain professional input on certain specialised matters.

Based on the above facts, answer the following:

13. Whether letter of comfort given to banks by the BlueWave Solutions needs to be reviewed as part of the financial due diligence?

    (a) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.

    (b) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.

    (c) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.

    (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

14. Which among the following is not a matter included in the scope of a full-fledged financial due diligence?

    (a) Accounting Information System.

    (b) Cash flow.

    (c) Accounting Policies.

    (d) Brief history of the target and background of its promoters.

15. Whether Verma & Associates can take the assistance of experts while conducting the investigation? Select the most appropriate option.

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

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

    (c) 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.

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

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Kamlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report.

    In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation? **(5 Marks)**

(b) HAM Ltd. is engaged in the business of manufacturing electronic components, including sensors, microchips, and lithium-ion battery cells. The production process requires raw materials such as rare earth metals, semiconductor wafers, and chemical electrolytes. The company maintains a large stock of raw materials, the nature of which is technically complex and requires expert knowledge for physical verification. Therefore, management hired their experts to assist in the stock verification process. Simultaneously, auditors also hired their own expert to evaluate the inventory.

During the audit, auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes, and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

Though the auditor was aware that he has not obtained sufficient appropriate audit evidence and it would be right to express a modified opinion in the auditor's report. However, he was reluctant in doing so, thus, expressed an unmodified opinion and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to the relevant Standard on Auditing relating to the action of the auditor of issuing unmodified audit report.

(5 Marks)

(c) CA. Zora has recently accepted engagement of the statutory audit of Segment Ltd. for the financial year 2024–25. While reviewing the trial balance and financial records, Zora identifies that the Opening Balances as on 1st April 2024 are carried forward from the previous year and were audited by another auditor, CA. Rohan. Zora wants to be satisfied regarding the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements.

(i) Briefly mention the audit procedures Zora should perform to obtain sufficient and appropriate audit evidence regarding the Opening Balances, considering it is an initial audit engagement?

(ii) Also suggest the approach to be followed by Zora if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein. **(4 Marks)**

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

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

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

(5 Marks)

(b) Gupta, Sharma and Khandelwal are partners in a firm engaged in trading activities. They share profits and losses in the ratio of 2:2:1 respectively. As part of their expansion plan and expertise, the existing partners have mutually agreed to admit Mr. Jain as a new partner in the firm with effect from 1st April 2025. Mr. Jain is to be given a 1/4th share in the future profits of the firm. To safeguard his interest before investing capital and entering into the partnership, Mr. Ankit, a Chartered Accountant, has been appointed by Mr. Jain to conduct an independent investigation of the firm. What are the important steps involved in conducting the investigation by Mr. Ankit on behalf of Mr. Jain, the incoming partner? **(5 Marks)**

(c) Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services. Comment. **(4 Marks)**

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

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

He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

(b) Vishnu & Co. is in process to issue a prospectus containing projected financial statements to provide information about future expectations of the Company to potential investors. You are hired by Vishnu & Co. to examine the projected financial statements and give reports thereon. Briefly mention the factors you will consider before accepting the audit engagement. Also, under what circumstances the engagement should not be accepted or should be withdrawn? **(5 Marks)**

(c) KLM Industries Ltd**.**, a mid-sized company engaged in consumer electronics manufacturing, has recently undergone a major digital transformation by implementation of a fully automated production tracking system, cloud-based accounting software, and a blockchain-based vendor payment system. These changes were introduced during the financial year 2024-25. The management believes that these technologies will increase the efficiency and reduce the chances of errors, and hence, have revised the risk assessment accordingly. As an auditor, what steps should you take to evaluate the impact of such technology changes on the company's internal controls and financial reporting? **(4 Marks)**

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

(5 Marks)

(b) XYZ Ltd., a listed entity, is preparing its Annual Report for the financial year 2024-25. The company has operations in many countries and has implemented policies on ethics, diversity, and environmental sustainability. The management has taken steps to align its reporting with the National Guidelines on Responsible Business Conduct (NGRBC).

As part of its BRSR submission, the company provides information on its workforce strength, gender diversity, number of subsidiaries, and policies on human rights. It also discloses data on energy consumption, carbon emissions, and the number of employees trained in sustainability practices. However, it does not include life cycle assessments or details of its biodiversity conservation initiatives. Identify which sections of the BRSR reporting framework are covered by XYZ Ltd. based on the disclosures mentioned. Also, comment whether XYZ Ltd. has complied with the minimum mandatory disclosures required under BRSR. **(5 Marks)**

(c) All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation? **(4 Marks)**

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

In the given situation, how will CA. Garvit evaluate the internal control system in the area of credit card operations of the bank? **(5 Marks)**

(b) You are the auditor of SAFE Ltd., which is in the business of supplying food products to various airline companies operating in aircrafts in domestic circle only. As per terms of agreement with airlines, the company is required to maintain stock of various non-perishable food items sufficient for the coming one month (average holding of inventory to the tune of ₹ 120 Crores). The payment terms have been settled, and the company receives payment in 45 days after the supply of goods.

Business was running smoothly till 31st March 2025. However, in the first week of April 2025, a nationwide strike by airline employees led to the complete suspension of domestic flight operations across the country for an indefinite period. Consequently, the business of SAFE Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Further, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of SAFE Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31st March 2025 represent true and fair view? **(5 Marks)**

(c) CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. Being in the insurance business, the company gets majority of its clients through their agency contracts. CA. Rudra has the practice of releasing the commission payments on the condition that he gets 25% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**

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

(5 Marks)

(b) You have been appointed as an auditor of Megh & Sons for FY 2024-25, as entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The appointment was made in April 2025. The financial statements have been prepared by the management in accordance with the Accounting Standards. The management introduced the new computerized accounts receivable system in November 2024, which is still in the implementation phase. Consequently, the management is in the process of rectifying system deficiencies and correcting errors. Upon implementation of new system, the earlier system of accounting of receivables had been discontinued. The auditor was unable to obtain sufficient appropriate audit evidence about the entity's accounts receivable and inventories. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Draft the Opinion Paragraph and Basis for Opinion Paragraph to be included in the Independent Auditor's Report. **(5 Marks)**

(c) Compute the overall Audit Risk if looking at the nature of business there are chances that 30% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 60%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete the Audit gives him satisfaction level of detection of frauds & error to an extent of 75%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk. **(4 Marks)**

Or

(c) M/s. CDR & Associates is one of the three firms shortlisted by JDB Cooperative Bank for assignment of Statutory Audit for the F.Y 2024-25. The bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. CDR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**

Mock Test Paper - Series I: July, 2025

Date of Paper: 23rd July, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

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

Part II - DESCRIPTIVE QUESTION

1. (a) As per SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per SA 580, "Written Representations", if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

In the instant case, the auditor observed that there was an investigation conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for investigation report which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020, (a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; (b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

(i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;

(ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and

(iii) If the auditor withdraws:

(1) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and

(2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

(b) As per SA 620, "Using the work of an Auditor's Expert", if the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained sufficient appropriate audit evidence.

In addition, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. In such circumstances, the auditor may need the permission of the auditor's expert before making such a reference.

In the given case, the auditor cannot reduce his responsibility by referring the name of auditor's expert and thereby issuing a unmodified report. The auditor should have issued a modified report and could have given reference to the work of an auditor's expert in that report if such reference was relevant to understanding of a modification to the auditor's opinion but even in that case the auditor should have indicated in his report that such reference of an auditor's expert does not reduce his responsibility for that opinion.

(c) **(i)** **Audit Procedures to be followed in case of initial audit engagement:** As per SA 510, "Initial Audit Engagements – Opening Balances", the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

- Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
- Determining whether the opening balances reflect the application of appropriate accounting policies; and
- Performing one or more of the following:
  - Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements;
  - Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
- Performing specific audit procedures to obtain evidence regarding the opening balances.

(ii) Approach to be followed if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein: If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate. Further, If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion.

2. (a) As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," the firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:

(i) Communicate its independence requirements to its personnel and, where applicable, to others subject to them; and

(ii) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

Further, as per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement.

In doing so, the engagement partner shall:

(i) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;

(ii) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and

(iii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

(b) Important steps involved in conducting the investigation by Mr. Ankit on behalf of Mr. Jain, the incoming partner are the following:

(i) Ascertainment of the history of the inception and growth of the firm.

(ii) Study of the provisions of the deed of partnership, particularly for composition of partners, their capital contribution, drawing rights, retirement benefits, job allocation, financial management, goodwill, etc.

(iii) Scrutiny of the record of profitability of the firm's business over a suitable number of years, with usual adjustments that are necessary in ascertaining the true record of business profits. Particular attention should, however, be paid to the nature of partners' remuneration, which may be excessive or inadequate in relation to the nature and profitability of the business, qualification and expertise of the partners and such other factors as may be relevant.

(iv) Examination of the asset and liability position to determine the tangible asset backing for the partner's investment, appraisal of the value of intangibles like goodwill, know how, patents, etc. impending liabilities including contingent liabilities and those pending for tax assessment. In case of firms rendering services, the question of tangible asset backing usually is not important, provided the firm's profit record, business coverage and standing of the partners are of the acceptable order.

(v) Position of orders at hand and the range and quality of clientele should be thoroughly examined, which the firm is presently operating.

(vi) Position and terms of loan finance would call for careful scrutiny to assess its usefulness and implication for the overall financial position; reason for its absence or negative impact should be studied.

(vii) It would be interesting to study the composition and quality of key personnel employed by the firm and any likelihood of their leaving the organisation in the near future.

(viii) Various important contractual and legal obligations should be ascertained and their nature studied. It may be the case that the firm has standing agreement with the employees as regards salary and wages, bonus, gratuity and other incidental benefits. Full impact of such standing agreements would be gauged before a final decision is reached.

(ix) Reasons for the offer of admission to a new partner should be ascertained and it should be determined whether the same synchronises with the retirement of any senior partner whose association may have had considerable bearing on the firm's success.

(x) Appraisal of the record of capital employed and the rate of return. It is necessary to have a comparison with alternative business avenues for investments and evaluation of possible results on a changed capital and organisation structure, if any, envisaged along with the admission of the partner.

(xi) It would be useful to have a firsthand knowledge about the specialisation, if any, attained by the firm in any of its activities.

(xii) Manner of computation of goodwill on admission as also on retirement, if any, should be ascertained.

(xiii) Whether any special clause exists in the deed of partnership to allow admission in future of a new partner, who may be specified, on concessional terms.

(xiv) Whether the incomplete contracts which will be transferred to the reconstituted firm will be a liability or a loss.

(c) As per the recent decisions taken by the Ethical Standards Board of ICAI, a member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949.

In the given case, CA. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949.

Thus, it can be concluded that the senior partner of CA. Rohan is correct as CA. Rohan's action of agreeing to act as a Trademark Attorney before the Registrar of Trademarks would amount to professional misconduct under the Chartered Accountants Act, 1949.

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

Further, Chapter XVI for Logo of Council General Guidelines, 2008 prescribes the following guidelines for CA members:

- There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.
- Do not change the design and colours including the white background.
- Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.

In the given case, CA. Ramesh made changes in the CA India logo to make the cards attractive. He changed the background colour from white to grey to match the firm's theme, reduced the size of the logo to fit into a smaller space on the top-right corner of his cards, replaced the word "India" in the logo with his firm's initials, and added a gradient effect to the blue colour in the letters "CA".

Hence, CA. Ramesh will be held guilty of professional misconduct due to violation of the Council General Guidelines and Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

(b) **Projected Financial Statements:** As per SAE 3400, "The Examination of Prospective Financial Information", before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- the intended use of the information;
- whether the information will be for general or limited distribution;
- the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
- the elements to be included in the information; and
- the period covered by the information.

Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified. Like in other engagements, it is necessary that terms of engagements should be agreed with client by sending an engagement letter.

(c) **Steps that the auditor should take to evaluate the impact of technology-driven changes on the company's internal controls and financial reporting include the following:**

- Maintain sufficient professional skepticism when reviewing management's risk assessment for new systems.
- Understand the direct and indirect effects of new technology and determine how its use by the entity impacts the auditor's overall risk assessment.

- Understand how the technologies impact the flow of transactions, assess the completeness of the in-scope ICFR systems, and design a sufficient and appropriate audit response.
- Assess the appropriateness of management's processes to select, develop, operate, and maintain controls related to the organization's technology based on the extent the technology is used.

4. **(a)** Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.

The above clause is intended to safeguard the public against unqualified accountant practicing under the cover of qualified accountants. It ensures that the work of the accountant will be carried out by a Chartered Accountant who may be his partner, or his employee and would work under his control and supervision.

In the instant case, CA. Suraj allowed CA. Sudeep (who is a newly qualified CA. professional with COP) to sit in his office for 6 months and allowed him to provide tax consultancy independently to his firm's clients, filing of some IT and GST Returns. He also allowed him to appear before various tax authorities on behalf of his firm. CA. Sudeep was only reimbursed with his usual expenses and was not paid any salary or share of profit for the same. However, after the end of agreed period he was given a lump-sums of ₹ 4,00,000 for his association out of gratitude.

Thus, in the present case CA. Suraj will be held guilty of professional misconduct as per Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 as he allowed CA. Sudeep to practice in his name as Chartered accountant and CA. Sudeep is neither in partnership nor in employment with CA. Suraj.

(b) **Sections of BRSR covered by XYZ Ltd.:** In the given case, XYZ Ltd., a listed entity, has made disclosures that fall under the following sections of the BRSR framework:

(i) **Section A – General Disclosures:** This section contains the details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc.

(ii) **Section B – Management Process and disclosures:** It contains questions related to policy and management processes, governance, leadership, and oversight.

(iii) **Section C – Principle-wise performance disclosures:** Companies are required to report upon Key performance indicators (KPIs) in alignment with the nine principles of the NGRBC. The section classifies KPIs into two categories that companies are required to report upon:

- Essential indicators (Mandatory disclosures): This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.
- Leadership indicators (Optional disclosures): It would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumption, supply chain managements etc.

In the given situation, XYZ Ltd. has disclosed information related to its workforce strength, gender diversity, and number of subsidiaries, which aligns with Section A - General Disclosures about employee details and corporate structure. Further, disclosure of policies on ethics, diversity, human rights, and environmental sustainability initiatives indicates coverage of Governance and Policy are in compliance with Section B - Management Process and disclosures. Furthermore, XYZ Ltd. has disclosed data on energy consumption, carbon emissions, and sustainability-related training for employees, which are part of the Mandatory Essential Indicators under Section C - Principle-wise performance disclosures.

Compliance with Minimum Mandatory Disclosures: XYZ Ltd. has disclosed essential indicators such as environmental data (energy, emissions), employee training, and policy-related disclosures, which are the core components of mandatory requirements. However, XYZ Ltd., has not disclosed life cycle assessments, details of its biodiversity conservation initiative which are leadership indicators. Since, disclosure of Leadership indications is optional, therefore, their exclusion does not violate compliance with mandatory BRSR requirements.

Thus, it can be concluded that XYZ Ltd. appears to have complied with the minimum mandatory disclosures required under BRSR.

(c) **Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement:** As per SA 705, "Modification to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the prescribed limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(i) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(ii) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

1. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
2. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor withdraws as discussed above, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

In the given case, management imposed limitation on audit opinion. Thus, CA. Kabir should take above mentioned actions in response to such limitations.

5. (a) Evaluation of the Internal Control System in the area of credit card operations of the bank:

- There should be effective screening of applications with reasonably good credit assessments.
- There should be strict control over storage and issue of cards.

- There should be a system whereby a merchant confirms the status of unutilised limit of a credit-card holder from the bank before accepting the settlement, in case the amount to be settled exceeds a specified percentage of the total limit of the card holder.
- There should be a system of prompt reporting by the merchants of all settlements accepted by them through credit cards.
- Reimbursement to merchants should be made only after verification of the validity of merchant's acceptance of cards.
- All the reimbursement (gross of commission) should be immediately charged to the customer's account.
- There should be a system to ensure that statements are sent regularly and promptly to the customer.
- There should be a system to monitor and follow-up customers' payments.
- Payments overdue beyond a reasonable period should be identified and attended to carefully. For defaulting customers, credit should be stopped by informing the merchants through periodic bulletins, as early as possible, to avoid increased losses.
- There should be a system of periodic review of credit card holders' accounts. On this basis, the limits of customers may be revised, if necessary. The review should also include determination of doubtful amounts and the provisioning in respect thereof.

(b) As per SA 560, "Subsequent Events", the auditor shall perform audit procedures 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. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

The auditor shall perform the procedures required in the above paragraph so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto.

In the given case, the nationwide strike and suspension of domestic flight operations in April 2025, though occurring after the balance sheet date, constitutes a significant subsequent event that may impact the recoverability of receivables and valuation of inventory. Being the auditor of SAFE Ltd., to ensure that all subsequent events are considered so that financial statements for the year ending 31.03.2025 represent a true and fair view, the auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

(c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's latest subsequent interim financial statements, if any.

When, as a result of the procedures performed as required above, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

(c) According to Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a member is in employment, he must maintain high level of ethics and should not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service.

In the present case, CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. He releases the commission payments on the condition that he gets 25% of the commission amount from the agent as majority of the clients are through their agency only.

Therefore, CA. Rudra is guilty of professional misconduct by virtue of Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949.

6. **(a)** As per Standard on Internal Audit (SIA) 210, "Managing the Internal Audit Function", the Internal Audit Function performs a number of activities to achieve its objectives as outlined in its Charter (or Terms of Engagement). A few of the critical activities are as follows:

(i) Define the overall plan, scope and methodology of the Internal Audit Function on a periodic basis.

(ii) Oversee and monitor various audit assignments, their proper planning, execution, reporting of findings and subsequent closure of reported observations.

(iii) Plan, acquire, engage and review the performance, training and development of professional staff, talent and other resources to achieve its objectives.

(iv) Identify, source, engage and manage external experts and technical solutions, if required.

(v) Communicate and engage with all key stakeholders regarding progress and achievement of objectives.

(vi) Develop and maintain a quality evaluation and improvement program.

Therefore, planning, acquiring and review of performance, training and development of professional staff is one of the critical activities for achievement of internal audit objectives. Without performance of this critical activity, it would be difficult to achieve objectives of internal audit function as outlined in internal audit charter. Hence, it falls within purview of critical activities to be performed by Chief Internal auditor to achieve objectives as outlined in internal audit charter.

(b) **Opinion Paragraph:** In the given situation, the auditor of Megh and Sons was unable to obtain sufficient appropriate audit evidence regarding accounts receivable and inventories, of which impact can be material and pervasive to the financial statements as a whole. Thus, a disclaimer of opinion will be given for the same.

Disclaimer of Opinion

We were engaged to audit the financial statements of Megh & Sons ("the entity"), which comprise the balance sheet as at March 31, 2025, the statement of Profit and Loss, (the statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after March 31, 2025, and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 2024, and 2025, which are stated in the Balance Sheets at ₹ xxx and ₹ xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in November 2024 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of ₹ xxx as at March 31, 2025. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (and statement of cash flows).

(c) According to SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the Audit Risk is a risk that Auditor will issue an inappropriate opinion while Financial Statements are materially misstated.

Audit Risk has two components: Risk of material Misstatement and Detection Risk. The relationship can be defined as follows.

Audit Risk = Risk of Material Misstatement X Detection Risk

Risk of Material Misstatement: - Risk of Material Misstatement is anticipated risk that a material Misstatement may exist in Financial Statement before start of the Audit. It has two components Inherent risk and Control risk. The relationship can be defined as

Risk of Material Misstatement = Inherent risk X Control risk

Inherent risk: It is a susceptibility of an assertion about account balance; class of transaction, disclosure towards misstatements which may be either individually or collectively with other Misstatement becomes material before considering any related internal control which is 30% in the given case.

Control risk: It is a risk that there may be chances of material Misstatement even if there is a control applied by the management and it has prevented defalcation to 60%.

Hence, Control risk is 40% (100%-60%)

Risk of Material Misstatement: Inherent risk X Control risk i.e., 30% X 40 % = 12%

Chances of Material Misstatement are reduced to 12% by the internal control applied by management.

Detection risk: It is a risk that a material misstatement remained undetected even if all audit procedures applied, Detection Risk is 100% - 75% = 25%

In the given case, overall Audit Risk can be reduced up to 3% as follows:

Audit Risk: Risk of Material Misstatement X Detection Risk = 12% X 25% = 3%

OR

(c) As per Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be 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.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case, JDB Cooperative Bank circulated a list of branches to audit firms, specifying the maximum fee per branch. In response, CDR & Associates submitted their quotation. As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, and the Guidelines issued by the Council of ICAI, such a response is not permitted, since the assignment relates to audit services exclusively reserved for Chartered Accountants, and only a maximum fee (not minimum) was prescribed. Accordingly, the concerned responsible partner of CDR & Associates, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for responding to such a quotation.