Mock Test Paper - Series II: April, 2026

Date of Paper: 6th April, 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.

Case Scenario I [MCQ 1-5]

GIVE Ltd., an unlisted company in Indore, is engaged in the business of spices. Total paid up capital of the company is ₹ 9.5 Crore. Details of annual turnover and profit of the company for the last 3 years are given below:

Year ended	Turnover (₹ in crore)	Profit (loss) before tax (₹ in crore)
31-03-2023	485.20 (Audited)	76.25
31-03-2024	287.35 (Audited)	1.93
31-03-2025	106.25 (provisional)	(7.75)

The company is using conventional method for preparing spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Taste Ltd, had come in the market during the year 2023 and by the end of March, 2024, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of GIVE Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 85 lakh. The company approached AXI Bank Ltd for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2024, the bank had sanctioned the loan; and disbursed ₹ 40 lakh till 31st March, 2025.

GIVE Ltd. has appointed M/s G&G, Chartered Accountants, as auditors of the company at its AGM held on 15-08-2024 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2024-25 in February, 2025 and completed the work by the end of May, 2025. The audit team submitted following findings to the engagement partner:

- WE Ltd., one of the material suppliers, filed a case against the company on 10-08-2024 for a compensation of ₹ 2.35 crore.
- Company has made an estimate for allowance of debtors @7%.
- 68% of the value of inventory was only covered in physical verification during the year 2024 due to fire.
- Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.
- Three incidences of fraud noticed (Total ₹ 1.35 crore)- fraud committed by Accounts manager ₹ 15 Lakh, by a cashier ₹ 30 Lakh and by the Purchase manager ₹ 90 Lakh.

As an auditor of GIVE Ltd for the year 2024-25, answer the following questions based on the facts given in the above paragraph:

Based on above facts, answer the following MCQs

1. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would not be the audit procedure to be performed?

    (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.

    (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.

(c) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.

(d) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.

2. Company has made an estimate for allowance of debtors @7%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?

   (a) Estimates made for inventory obsolescence that are frequently made and updated.

   (b) Judgments about the outcome of pending litigation with WE Ltd against the company.

   (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in marketplace.

   (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors' review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.

3. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned, an amount of ₹ 40 lakh was earmarked for the purchase of the machinery- Spice Grinder; but the company has acquired an improved model of machinery, viz, Spice grinder and mixer instead. State which of the reporting option would be correct.

   (a) State the fact in CARO report that out of term loan taken for machinery-spice grinder, ₹ 40 Lakh was not utilized for acquiring the machinery for which it was sanctioned.

   (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.

   (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.

(d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive.

4. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether GIVE Ltd. is a going concern or not, which of the following audit procedures should not be performed?

   (a) Analyse and discuss the company's cash flow and profit of the previous years with the projected accounts.

   (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.

   (c) Evaluating management's future plan and strategy to increase market share of product.

   (d) Analyse and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.

5. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?

   (a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.

   (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.

   (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.

   (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

Case Scenario II [MCQ 6-9]

PO & Associates, a firm of Chartered Accountants, having CA. P and CA. O as partners, is based at Chennai. PO & Associates are appointed to conduct statutory audit of Ring Ltd. Ring Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. Tom as its internal auditor. PO & Associates asked CA. Tom to provide direct assistance to them regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA. P accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. P realised his mistake in accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. O provides management consultancy and other services to its clients. CA. O was also awarded 'Best Speaker of the year' in recognition of his contribution from the Institute. Later on, CA. O posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by PO & Associates Chartered accountants, they were approached by PQR Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

(i) To charge fees as percentage of Net Profits, or

(ii) To charge fees of ₹ 9,501/-.

Based on above facts, answer the following MCQs

6. Before signing the tax audit report, CA. P sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. P be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

   (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. P will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

(b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. P will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

(c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. P will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.

(d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. P will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

7. With respect to the fees to be charged for its new assignment, which option can be opted by PO & Associates.?

(i) To charge fees as percentage of Net Profits, or

(ii) To charge fees of ₹ 9,501/-.

(a) (i) Only.

(b) (ii) Only.

(c) Either (i) or (ii).

(d) Neither (i) nor (ii).

8. As per the Chartered Accountants Act, 1949, under which clause CA. O is liable for misconduct?

(a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

(b) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

(c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

(d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

9. PO & Associates sought direct assistance from CA. Tom, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.

(a) CA. Tom cannot assist PO & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, PO & Associates can ask

CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.

(b) PO & Associates can ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

(c) PO & Associates cannot ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.

(d) PO & Associates cannot ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. Tom may assist PO & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

Case Scenario III [MCQ 10-12]

TYU & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Money Bank Limited, a scheduled commercial bank.

(i) During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on "Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)", which provides the guidelines to be followed by banks for capital adequacy.

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide as table resource to absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purposes capital is split into two categories: Tier I and Tier II, representing different instruments quality as capital.

You have calculated Eligible total capital funds comprising -

1. Tier I capital of Share capital ₹ 200 Crore, and disclosed Reserves ₹ 20 Crore.
2. Tier II capital of Other Reserves ₹ 30 Crore, and subordinated debt ₹ 20 Crore.

The Risk weighted assets constitute ₹ 25 Crore, while Off-balance sheet items are ₹ 5 Crore.

(ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Money Bank.

DTL balance as on 30th September 2024 was ₹ 50,000 Crore which included the following-

		₹ Cr.
(i)	Paid up capital	27,000
(ii)	Reserves	1,650
(iii)	Credit balance in Profit & Loss account	1,210
(iv)	Loan taken from RBI	575
(v)	Refinance taken from EXIM bank and NHB	480
(vi)	Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii)	Net credit balance in branch adjustment accounts	105
(viii)	Interest accrued but not accounted for in books	90
(ix)	Margins held and kept in sundry deposits for funded facilities	80

(iii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act, 2013 and got itself registered as non-banking financial company (NBFC) with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity and perceived riskiness.

During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore, while its asset size is ₹ 990 Crore. It has also undertaken following activities -

(i) Standalone Primary Dealers (SPDs)

(ii) Infrastructure Debt Fund

(iii) Housing Finance

(iv) Infrastructure Finance

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit checklist.

(iv) TYU & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public Sector Undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

Based on the above facts, answer the following Questions

10. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September 2024.

    (a) ₹ 18,880 crore

    (b) ₹ 19,360 crore

    (c) ₹ 18,790 crore

    (d) ₹ 18,000 crore

11. Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -

    (a) Top Layer

    (b) Upper Layer

    (c) Base Layer

    (d) Middle Layer

12. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)

    (a) Evidence

    (b) Audit programme

    (c) Audit Questions

    (d) Data collection and Analysis Method

13. M/s PT & Co., a firm of Chartered Accountants, engages Mr. Rahul, who is not a Chartered Accountant, to assist in administrative coordination, client communication and liaison activities. The firm pays him a portion of its professional receipts, describing the payment as “legal consultancy and office support charges.” However, Mr. Rahul does not possess any recognised professional qualification prescribed by the Council.

In light of the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto, determine whether such payment to Mr. Rahul is permissible.

(a) Permissible as sharing of fees for legal consultancy services.

(b) Constitute professional misconduct under Clause (3) of Part I of the First Schedule to the Chartered Accountants Act, 1949

(c) Constitute professional misconduct under Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949

(d) Permissible if it is disclosed in the engagement letter

14. During the due diligence review of Alex Ltd for the financial year ended 31st March 2025, the reviewer Mr. Vardhman assessed the business feasibility to evaluate whether the current business would be more beneficial in future or not. The management of Alex Ltd., however, did not understand this perspective and contended that the reviewer has no powers to assess the business feasibility, as the company had been consistently profitable for many years.

In the above context, which of the following statement should be correct?

(a) The contention of the management was correct.

(b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.

(c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.

(d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.

15. Credit Corporation Ltd., an NBFC, has established email-based approval processes for urgent fund transfers. During the course of audit, it was observed that the Managing Director received a “Highly Confidential” email appearing to be from the Chairman, seeking immediate authorisation for an overseas wire transfer.

Upon further investigation, it was identified that the email was fraudulent. This is an example of:

(a) Spear phishing

(b) Vishing

(c) Whaling

(d) Smishing

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) You are appointed as Statutory Auditor of High Ltd. and are in the midst of conducting Audit for the financial year ending on 31st March, 2025. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.30 crores from a company incorporated on 24th March, 2025. Upon further inquiry, you discovered that purchases have been booked at the instructions of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation? **(5 Marks)**

(b) Flower Ltd. is a company engaged in the manufacturing of iron doors. ANI & Associates are the statutory auditors of Flower Ltd. for the Financial Year 2024-25. During the course of audit, CA Ram, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2025. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Ram express in case of Flower Ltd.? **(5 Marks)**

(c) M/s Sam Karan & Associates has been appointed as an auditor of Heaven Ltd. for the financial year 2024-25. CA Sam, one of the partners of M/s Sam Karan & Associates, completed entire routine audit work by 21st June, 2025. Unfortunately, on the very next morning, while roving towards office of Heaven Ltd. to sign final audit report, he met with a road accident and died. CA Karan, another partner of M/s Sam Karan & Co., therefore, signed the accounts of Heaven Ltd., without reviewing the audit work performed by CA Sam. State with reasons whether CA Karan is right in expressing an opinion on financial statements, the audit of which is performed by another auditor. **(4 Marks)**

2. (a) MNO Ltd., at its annual general meeting, appointed Mr. M, Mr. N, and Mr. O as joint auditors to conduct the audit for the financial year 2024-25. For the valuation of the newly constructed infrastructure project of the company, Mr. M, Mr. N, and Mr. O decided to consult their own known engineers. Due to differences of opinion, each joint auditor sought advice from their respective engineers. As a result, significant discrepancies were found in the valuation reports provided by the engineers. However, Mr. M agreed with the report provided by Mr. N's engineer, while Mr. O did not. Mr. M argues that report of Mr. N's engineer should be included in the audit report due to the majority of votes. Now, Mr. O is in a dilemma.

What would be the responsibility of the auditors if the report provided by Mr. N's engineer is later found to be faulty? **(5 Marks)**

(b) Mr. Kunal has been appointed as the statutory auditor of a listed company Kuber Ltd. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 1.75 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be made after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 27th, 2025, along with the remaining part of the Audit Fee.

Comment on the validity of this fee structure and the terms of payment with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the guidelines issued by ICAI. **(5 Marks)**

(c) Mr. Monu is a consultant tasked with helping a mid-sized manufacturing company modernize its operations by integrating Internet of Things (IoT) technology. The company wants to connect various devices such as manufacturing equipment, smart home security systems for their facility, and inventory management systems. They aim to leverage IoT to improve operational efficiency, predict equipment maintenance needs, and enhance overall security. However, they are concerned about the potential risks and the impact on their audit processes. Describe the key components of IoT, the risks associated with IoT implementation, and the implications for the company's audit processes. How should the company address these concerns to ensure a smooth transition? **(4 Marks)**

3. (a) During the audit of the financial statements of Good Limited for the year ended March 31, 2025, CA Aryan, the statutory auditor, requested external confirmation for certain trade receivables as part of audit procedures in accordance with SA 505:

(i) CA Aryan sent a confirmation request to a debtor ABC Ltd. for balance of ₹ 16,75,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated.

(ii) He also sent a confirmation request to another debtor PQR Ltd. with an outstanding balance of ₹ 14,50,000 requesting a response only if there was a disagreement with the stated amount.

CA Aryan received responses from the aforementioned debtors in following manner:

- ABC Ltd. confirmed that, as per their records, they owed ₹ 15,40,000 to Good Limited instead of ₹ 16,75,000 as per the company's books.
- PQR Ltd. did not respond to the confirmation request.

Identify and explain the type of confirmation request sent by CA Aryan to ABC Ltd. and PQR Ltd. Also, discuss the course of action CA Aryan should take for the discrepancy in the confirmation received from ABC Ltd. and non-receipt of confirmation from PQR Ltd. **(5 Marks)**

(b) INB Bank Ltd. is suffering from huge number of NPAs. During the month of April 2025, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	**NPA since F.Y.**	**Amount (₹ In Lakh)**
Cut Pvt. Ltd.	2021-22	38.55
Dairy Farm	2023-24	56.32
City Book	2020-21	27.50
Fashion Hub	2019-20	62.35
GRW and Associates	2022-23	19.75
Perry Cream	2023-24	11.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

(5 Marks)

(c) CA Priti is appointed as the statutory auditor of Moon Ltd. for the financial year 2024-25 to audit the complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Priti as a separate engagement for the financial year 2024-25. While drafting the audit report of complete set of financial statements, CA Priti decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.

Comment with reference to the relevant Standard on Auditing regarding the opinion to be given by CA Priti in audit report of separate engagement of audit of Property, Plant and Equipment. **(4 Marks)**

4. (a) You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.

In above context, dwell upon what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits. **(5 Marks)**

(b) CA. Suman, the auditor of KEY Pvt. Ltd. has delegated following works to his articles and staff:

i. Raising of bills and issuing acknowledgements for money receipts.

ii. Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

iii. Signing financial statements of the company.

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

(c) Home Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Home Pvt. Ltd.'s interim financial statements for the six-month period ending 30th September 2025, instead of a full audit. To comply with this request, the management appoints CA Vanya, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Vanya is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report. What kind of assurance is given in a review engagement? How is it different from an audit?

(4 Marks)

5. (a) CA Mohan was appointed as a Statutory Auditor of HTM Limited, a listed company, which has three subsidiaries namely H Ltd., T Ltd., M Ltd. and also 16 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA Mohan regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors? **(5 Marks)**

(b) While assessing the impact of uncorrected misstatements in the audit of Global Private Limited, Mr. Shivam encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of Global Pvt, Ltd. as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged.

The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, last month's actual sales represented only 30% of the estimated sales. Now, Mr. Shivam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using previously calculated materiality. Kindly Guide Mr. Shivam in the light of relevant Standards on Auditing. **(5 Marks)**

(c) CA Kapil is the auditor of INFRA Limited having a turnover of more than ₹ 250 crores. The audit fee for the year is fixed at ₹ 85 Lakhs. During the year, the company offers CA Kapil an assignment of representation before Income Tax Appellate Tribunal for certain matter for remuneration of ₹ 1.80 crores. CA Kapil accepted the assignment. Discuss action of CA Kapil with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(4 Marks)**

6. (a) CA Hanuman is carrying out an audit of restated financial statements of AOPM Limited for past 3 financial years i.e. 2024-25, 2023-24 and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Hanuman is planning to issue an Audit Report on 5th August, 2025 covering these restated financial statements. Before issuing the audit report, CA Hanuman requested Management Representation Letter from the management of the

Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2025 covering the period of financial year 2024-25 only as they were not in position to provide for the financial year 2023-24 and 2022-23 because they were not in place during that period.

How would CA Hanuman deal with the above situation as per relevant Standard on Auditing? **(5 Marks)**

(b) While conducting the statutory audit of Super Ltd. for the financial year 2024–25, the auditor, CA Chintan, identified several weaknesses in the internal control system in areas such as cash handling, inventory management, and authorization procedures. These deficiencies indicated potential risks of errors and fraud. Chintan decided to communicate these weaknesses to the company's management and those charged with governance through a Letter of Weakness. However, he wants to ensure that the communication reflects the scope and limitations of the audit properly. You are required to elucidate the important points CA Chintan should keep in mind while drafting the letter of weaknesses in internal control system. **(5 Marks)**

(c) Mr. Shubham, a Chartered Accountant was the auditor of 'Work Limited' for the year 2023-24 and 2024-25. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 15 lakh and was the same amount as in the last year 2023-24. Later it was found that the company's investments were only for ₹ 1,65,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

OR

(c) CA. Vijay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company.

The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?

(4 Marks)

Mock Test Paper - Series II: April, 2026

Date of Paper: 6th April, 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

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

PART – II: DESCRIPTIVE QUESTIONS

1. (a) SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," emphasize that fraud can be perpetrated by management override of controls, such as the creation of fictitious journal entries, particularly towards the end of an accounting period, to manipulate operating results or achieve specific objectives.

In the case of High Ltd., where purchases of ₹ 1.30 crore were recorded at year-end without supporting evidence, it became apparent during the investigation that the company had entered fictitious journal entries to manipulate the operating results.

Given this situation, the auditor would align their approach based on the impact of the misstatement resulting from such fictitious journal entries. If, due to fraud or suspected fraud, the auditor encounters exceptional circumstances that cast doubt on their ability to continue the audit, they must assess the professional and legal responsibilities applicable. This includes considering reporting obligations to those who appointed the auditor or, in some cases, to regulatory authorities. The appropriateness of withdrawal from the engagement is also a consideration, where legally permitted.

Furthermore, the auditor is mandated to report in accordance with Section 143(12) of the Companies Act, 2013. According to Section 143(12) read with Rule 13 of Companies (Audit & Auditor's) Rules, 2014, if the auditor, during the performance of their duties, has reason to believe that an offence of fraud involving an amount of ₹1 crore or more has been committed by the company's officers or employees, reporting to the Central Government is required in the prescribed manner.

Additionally, reporting obligations extend to Clause (xi) of Paragraph 3 of Companies (Auditor's Report) Order, 2020. The auditor is obligated to disclose whether any fraud by the company or against the company by its officers or employees has been observed or reported during the year. If affirmative, the nature and amount involved are to be indicated. This comprehensive reporting framework ensures transparency, adherence to legal requirements, and protection of stakeholders' interests in the face of potential fraudulent activities.

(b) In the present case based on the audit evidence obtained, CA Ram has concluded that a material uncertainty exists related to the outcome of the legal dispute, which is uncertain, but if it results in an unfavorable judgment, it could severely impact the Company's financial position and cash flows. In such circumstances, CA Ram should express an adverse opinion because the effects on the financial statements of such omission are material and pervasive.

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

Adverse Opinion

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

Basis for Adverse Opinion

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

(c) As per SA 220 "Quality Control for an Audit of Financial Statements", an engagement partner taking over an audit during the engagement may apply the review procedures such as the work has been performed in accordance with professional standards and regulatory and legal requirements; significant matters have been raised for further consideration; appropriate consultations have taken place and the resulting conclusions have been documented and implemented; there is a need to revise the nature, timing and extent of work performed; the work performed supports the conclusions reached and is appropriately documented; the evidence obtained is sufficient and appropriate to support the auditor's report; and the objectives of the engagement procedures have been achieved.

Further, as per the Code of Ethics it is the auditor's professional responsibilities and should be complied with that when the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied.

However, the auditor should carefully direct, supervise and review the work delegated. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose.

In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA Sam. However, the report could not be signed by him due to his unfortunate death. Later on, CA Karan signed the report relying on the work performed by CA Sam. Here, CA Karan is allowed to sign the audit report, though, will be responsible for expressing the opinion. He may rely on the work performed by CA Sam provided he further exercises adequate skill and due care and review the work performed by him.

2. **(a)** As per SA 620 "Using the Work of an Auditor's Expert", the expertise of an expert may be required in the valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired etc., however, the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence as per SA 500.

Further, in view of SA 620, if the expert's work involves use of significant assumptions and methods, then the relevance and reasonableness of those assumptions and methods must be ensured by the auditor and if the expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data in the circumstances must be verified by the auditor.

In the instant case, Mr. M, Mr. N and Mr. O, jointly appointed as auditors of MNO Ltd., referred their own known engineer for valuation of the newly constructed infrastructure project. Engineers are an auditor's expert as per SA 620. Mr. N's referred Engineer has provided the valuation report, which was later found faulty. Further, Mr. O is not in agreement with this report, therefore, he submitted a separate audit report specifically for such a valuation.

In such a situation, it was the duty of Mr. M, Mr. N and Mr. O, before using the valuation report provided by engineer, to ensure the relevance and reasonableness of assumptions and methods used. They were also required to examine the relevance, completeness and accuracy of source data used for such a report before expressing their opinion.

Mr. M and Mr. N will be held responsible for gross negligence and using such faulty report without examining the adequacy of expert engineer's work whereas Mr. O will not be held liable for the same due to separate opinion expressed by him.

(b) As per Chapter X of Council General Guidelines, 2008 a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 1,00,000/-.

Under section 141(3) of the Companies Act, 2013 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person shall be disqualified to be appointed as auditor if he or his relative or his partner is indebted in excess of rupees five lakh to the company or its subsidiary or its holding company or its associate company or a subsidiary of such holding company.

However, the Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of engagement of auditor by a client, the auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job, he cannot be said to be indebted to the company at any stage.

In the instant case, Mr. Kunal is appointed to conduct statutory audit of Kuber Ltd., a listed entity and it was decided in the terms of acceptance of audit, that the whole audit fee shall be payable in four installments of ₹ 1.75 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting every quarter. He has received the audit fees of ₹ 1.75 lakh in respect of two quarters, but for third and fourth quarter the payment of fees was received on 27th March, 2025, for the year ended 31st March, 2025 which is on progressive basis. Therefore, Mr. Kunal will not be held guilty of misconduct.

(c) **Internet of Things:** IoT is the concept of connecting any device (cell phones, coffee makers, washing machines, and so on) to the internet.

Key components of IoT are data collection, analytics, connectivity, and people and process. IoT not only changes the business model, but also affects the strategic objectives of the organisation. The risk profile of the entity changes with exposure to new laws and regulations.

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

Audit Implications

A shift to connected devices and systems may result in auditors not being able to rely only on manual controls. Instead, auditors may need to scope new systems into their audit. Audit firms may need to train and upskill auditors to evaluate the design and operating effectiveness of automated controls.

Consumer-facing tools that connect to business environments in new ways can impact the flow of transactions and introduce new risks for management and auditors to consider. Consider payment processing tools that allow users to pay via credit card at a retail location through a mobile device. This could create a new path for incoming payments that may rely, in part, on a new service provider supplying and routing information correctly. Auditors would need to consider the volume of those transactions, and the processes and controls related to it.

3. (a) Positive confirmation request: A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request or providing the requested information.

Exception – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party. The exception needs to be assessed to the entire population after analyzing the reason for difference.

In the given situation, the auditor has sent the positive confirmation request for the amount of ₹ 16,75,000 to a debtor ABC Ltd. which was outstanding for more than 6 months, however, due to difference between information requested to be confirmed, or contained in the entity's records (i.e. ₹ 16,75,000), and information provided by the confirming party ABC Ltd. (i.e. ₹ 15,40,000) is forming situation of exception confirmation.

The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether performing further audit procedures is necessary, as required by SA 330 in case a response is indicating an exception.

The company should be asked to investigate and reconcile the discrepancy indicated by the confirming party.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees. In the given case, the auditor has sent the negative confirmation request for ₹ 14,50,000 to another debtor PQR Ltd. Non- response by the PQR Ltd. implies that it agrees with the amount. Thus, CA Aryan is not required to take any action in this case.

(b) In case of Sale of NPA by Bank, the auditor should examine that:

- The policy laid down by the Board of Directors in this regard relating to procedures, valuation and delegation of powers including non-performing financial assets that may be sold, norms or such sale, valuation procedure and accounting policy.

- Only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.
- The assets have been sold "without recourse' only i.e., the entire credit risk associated with the non-performing asset should be transferred to the purchasing bank.
- Subsequent to the sale of the NPA, the bank does not assume any legal, operational or any other type of risk relating to the sold NPAs.
- The NPA has been sold at cash basis only. Under no circumstances, NPA can be sold to another bank at a contingent price. The entire sale consideration has to be received on upfront basis.
- The bank has not purchased an NPA which it had originally sold.
- On the sale of the NPA, the same has been removed from the books of the account of selling bank on transfer;
- If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
- If the sale is for a value higher than the NBV, the excess provision shall not be reversed but will be utilised to meet the shortfall/ loss on account of sale of other non-performing financial assets.

In the given situation, management of INB Bank Ltd. is considering to sell following NPAs, during the month of April, 2025:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Cut Pvt. Ltd.	2021-22	38.55
Dairy Farm	2023-24	56.32
City Book	2020-21	27.50
Fashion Hub	2019-20	62.35
GRW and Associates	2022-23	19.75
Perry Cream	2023-24	11.25

In view of above-mentioned conditions, the auditor is required to ensure that only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.

Considering the facts given in the question, all the NPAs except for Dairy Farm and Perry Cream are prior to April 2023 i.e., 2 years prior to April 2025. In view of the above provisions, management of INB Bank Ltd. can sell all the NPAs except for NPA of ₹ 56.32 lakh and ₹ 11.25 Lakh of Dairy Farm and Perry Cream since it remained NPA in the books of INB Bank Ltd. for less than 2-year duration.

(c) **Audit Report of Separate Engagement of Audit of PPE:** As per SA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", if the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

(i) The auditor is not prohibited by law or regulation from doing so;

(ii) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and

(iii) The element does not constitute a major portion of the entity's complete set of financial statements.

In the given situation, CA Priti is statutory auditor of Moon Ltd. for the financial year 2024-25 for the complete set of financial statements and has also assigned the audit of PPE as a separate engagement for the same financial year. Considering the same, it can be concluded that CA Priti can give separate opinions on separate engagement i.e. adverse opinion for statutory audit and unmodified opinion for separate engagement provided the above conditions are satisfied.

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

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

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

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

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

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

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

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

(ii) Asking for information or issue of questionnaire.

(iii) Letter forwarding draft observations/financial statements.

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

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

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

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

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

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

In the instant case, CA. Suman, the auditor of KEY Pvt. Ltd. has delegated certain task to her articles and staff such as raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit and signing financial statements of the company.

Therefore, CA. Suman is correct in allowing first two tasks i.e. raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit to her staff and articles.

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

In view of this, CA. Suman would be held guilty of professional misconduct for allowing the person to sign the financial statements on her behalf to her articles and staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

(c) A review engagement under SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", provides limited assurance, which is lower in scope than the reasonable assurance obtained in an audit. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all the evidence that would be required in an audit.

Overview of distinctive areas between Audit and Review

Audit	**Review**
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.

It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion. The language of assurance opinion is positively worded.	It provides an assurance conclusion. The language of assurance conclusion is negatively worded.

5. (a) CA Mohan should consider the requirement of SA 600, "Using the Work of Another Auditor", if he decides to use the work of another auditor in relation to the audit of consolidated financial statements and he should comply with the requirements of SA 600.

In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis.

However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

(i) The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.

(ii) The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.

(iii) The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.

(iv) The principal auditor also obtains certain confirmations from component auditors like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the principles of SA 600 need to be considered i.e. CA Mohan (the parent auditor) should comply with the requirements of SA 600, "Using the Work of Another Auditor".

(b) As per SA 450, "Evaluation of Misstatements Identified during the Audit", the auditor is required to reassess materiality, in accordance with SA 320 "Materiality in Planning and Performing an Audit", before evaluating the impact of uncorrected misstatements. This re-assessment is crucial to confirm the ongoing appropriateness of materiality in light of the entity's actual financial results.

The determination of materiality under SA 320 often relies on estimates of the entity's financial results, given that the actual results may not be known during the early stages of the audit. Therefore, before the auditor proceeds to assess the effect of uncorrected misstatements, it becomes necessary to adjust the materiality calculated under SA 320 based on the now available actual financial results.

SA 320 outlines that, as the audit progresses, materiality may be revised for the financial statements as a whole or for specific classes of transactions, account balances, or disclosures. This revision is prompted by the auditor's awareness of information that would have led to a different initial determination. Typically, significant revisions occur before the evaluation of uncorrected misstatements. However, if the reassessment of materiality under SA 320 results in a lower amount, the auditor must reconsider performance materiality and the appropriateness of the audit procedures' nature, timing, and extent. This is crucial for obtaining sufficient and appropriate audit evidence on which to base the audit opinion.

In the present case involving Global Private Limited, it has been identified that the materiality calculated at the beginning of the audit for revenue was based on estimates provided by the management. The management extrapolated sales for the full year using the actual amount of 11 months, but since the company experiences significant monthly variations in sales, the actual sales for the last month were only 30% of the estimated figure. This discrepancy arose due to an unexpected slowdown in project completions.

In this audit scenario, Mr. Shivam, the auditor, must review and re-assess the materiality initially determined under SA 320 to ensure its continued validity in light of the actual financial results. If the re-assessed materiality is lower than the previously calculated amount, Mr. Shivam must reconsider performance materiality and the appropriateness of the nature, timing, and extent of further audit procedures. This meticulous approach is essential to gather sufficient and appropriate audit evidence, enabling Mr. Shivam to form an independent and objective opinion on the financial statements of Global Private Limited.

(c) As per the Council General Guidelines 2008, under Chapter IX on appointment as statutory auditor a member of the Institute in practice shall not accepts the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 50 crores or more in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking. For this purpose, the other work/services include Management Consultancy and all other professional services permitted by Council excluding audit under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

In the given case, the company offers CA Kapil, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.80 Crores.

In view of the above provision, CA Kapil will not be held guilty of professional misconduct if he accepts the assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.80 crore.

6. (a) In the given situation, CA Hanuman is carrying out an audit of restated financial statements of AOPM Limited for past 3 financial years i.e., 2024-25, 2023-24 and 2022-23 so he requested Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2024-25 as they were not in place during that period.

As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

Further, as per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

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

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

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

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580 CA Hanuman should take written representation letter from management of AOPM Limited for the financial year 2023-24 and 2022-23 also.

In case the management of AOPM Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

(b) As per SA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", the auditor CA Chintan shall include in the written communication of significant deficiencies in internal control:

(i) A description of the deficiencies and an explanation of their potential effects; and

(ii) Sufficient information to enable those charged with governance and management to understand the context of the communication.

In other words, the auditor CA Chintan should communicate material weaknesses to the management or the audit committee, if any, on a timely basis. This communication should be, preferably, in writing through a letter of weakness or management letter. Important points with regard to such a letter are as follows:

(1) The letter lists down the area of weaknesses in the system and offers suggestions for improvement.

(2) It should clearly indicate that it discusses only weaknesses which have come to the attention of the auditor as a result of his audit and that his examination has not been designed to determine the adequacy of internal control for management.

(3) This letter serves as a valuable reference document for management for the purpose of revising the system and insisting on its strict implementation.

(4) The letter may also serve to minimize legal liability in the event of a major defalcation or other loss resulting from a weakness in internal control.

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

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

In the given situation, CA Shubham, the auditor of Work Limited for the financial years 2023–24 and 2024–25, reported investments of ₹15 lakh in both years whereas actual investments were only ₹1,65,000. This indicates the failure of CA. Shubham to verify the investments from any proper source and despite material misstatement continuing for two consecutive years, reflects gross negligence and lack of due diligence. Thus, CA. Shubham will be held liable for professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

OR

(c) In a forensic accounting engagement, professional undertakes a scrutiny and detailed examination of all transactions and balances relevant to the mandate so that evidence gathered is suitable in a Court of Law i.e. in compliance with legal requirements where it can be challenged through cross-examination by the defending party.

It is important that team is skilled in collecting evidence that can be used in a court case keeping a clear chain of custody till evidence is presented in court. If there are gaps in chain of custody, then the evidence may be challenged in court or even become inadmissible.

In the given case, team has failed to keep record of matters such as persons gathering relevant evidence, date and time of collection and storage of evidence. Therefore, team has failed to maintain the chain of custody.

It can, therefore, defeat the objective of forensic accounting engagement as evidence may be challenged in Court of law by defending parties and may become inadmissible.