Mock Test Paper - Series II: October, 2024

Date of Paper: 3rd October, 2024

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

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. PIHU Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Mohan Sohan & Associates have been appointed as statutory auditors of PIHU Ltd. for the FY 2023-24. During the course of audit, CA Mohan, the engagement partner asks the management about the e-mail addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send a confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of PIHU Ltd. also informed CA Mohan that confirmation with respect to two of its trade receivables, namely Moon Ltd. and Sun Ltd. won't be available as a dispute between PIHU Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Mohan with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA?

   (a) CA Mohan should not have relied on the explanation provided by the management with respect to the trade receivables, namely Moon Ltd. and Sun Ltd. and he should perform alternative procedures with respect to such trade receivables.

   (b) CA Mohan should have obtained direct response from all other trade receivables instead of sales supervisor receiving direct responses from trade receivables and providing them to the auditor.

   (c) Both (a) and (b).

   (d) CA Mohan should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.

2. CA Rajveer is conducting an audit of a manufacturing company. To streamline the audit process, he uses a sampling tool to select a representative sample of transactions from a large dataset of sales records. He also employs a BOT to cross-check the company's compliance with statutory payments like GST and TDS. While reviewing the financial statements, Rajveer relies on Excel to automate calculations such as variance analysis and trend reports, ensuring the audit is completed on time and meets regulatory requirements. Which type of audit is being described in the above?

   (a) Digital Auditing.

   (b) Auditing Digitally.

   (c) Manual Auditing with technological assistance.

   (d) Traditional Audit.

3. TK Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2023-24. It consists of two partners CA T & CA K. CA T is brother of the father of the finance director of the company BAC Ltd. CA K is an old friend of the finance director of the company BAC Ltd.

   What kind of ethical threat is associated with appointment of TK Associates as an auditor of BAC Ltd.?

   (a) Self Interest Threat.

   (b) Advocacy Threat.

   (c) Familiarity Threat.

   (d) Self-Review Threat.

Case Scenario I [MCQ 4-8]

GROSS Ltd., an unlisted company in Jamshedpur, is engaged in the business of spices. Total paid up capital of the company is ₹ 10 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)
31-03-2022	475.20 (Audited)	65.75
31-03-2023	278.35 (Audited)	01.32
31-03-2024	108.25 (provisional)	(06.25)

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, Spice Herbs Ltd., had come in the market during the year 2022 and by the end of March, 2023, 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 GROSS Ltd. has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 75 lakh. The company approached IDN Bank Ltd. for a term loan of ₹ 70 lakh which would be repaid in 5 years. On 28-12-2023, the bank had sanctioned the loan; and disbursed ₹ 35 lakh till 31st March, 2024.

GROSS Ltd. has appointed M/s Hook & Crook, Chartered Accountants, as auditors of the company at its AGM held on 15-08-2023 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2023-24 in February, 2024 and completed the work by the end of May, 2024. The audit team submitted following findings to the engagement partner:

- PX Ltd., one of the material suppliers, filed a case against the company on 10-08-2023 for a compensation of ₹ 2.5 crore.
- Company has made an estimate for allowance of debtors @8%.
- 65% of the value of inventory was only covered in physical verification during the year 2023 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 ₹ 1.25 crore)- fraud committed by the Purchase manager ₹ 90 Lakh, by Accounts manager ₹ 15 Lakh and by a cashier ₹ 20 Lakh.

Based on the above facts, answer the following MCQs:

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 GROSS Ltd. is a going concern or not, which of the following audit procedures should not be performed?

   (a) 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.

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

5. Company has made an estimate for allowance of debtors @8%. 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) Judgments about the outcome of pending litigation with PX Ltd. against the company.

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

(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.

6. 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.

7. 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) 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.

(d) 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.

8. 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 ₹ 35 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, ₹ 35 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.

Case Scenario II [MCQ 9-11]

The UNCO Bank Ltd. was having 145 branches all over India by the year ending 31st March 2023. Twelve branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2023-24.

(i) Udaipur branch which deals in treasury functions like investments and interbank borrowings but not in bill re-discounting.

(ii) Varanasi branch which started foreign exchange business from February 2024.

(iii) Chandigarh branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Globe and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for four branches for year 2022-23. The Bank's management appointed and fixed the remuneration of Globe and Associates, Chartered Accountants as the statutory auditors also for the year 2022-23, for the same five branches for which they were given the assignment of stock audit.

At the Kolkata branch of the bank there were high value cash deposits in one of the current accounts during April 2023. Your firm has been appointed as the concurrent auditors for the Kolkata branch for the year 2023-24. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2023 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.

Based on the above facts, answer the following MCQs:

9. Globe and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the four branches, so whether Globe and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following:

   (a) Globe and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.

   (b) Globe and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.

   (c) Globe and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.

   (d) Globe and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.

10. 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? Select correct option from the following:

    (a) 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.

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

    (c) Globe 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.

    (d) Globe 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.

11. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kolkata branch of the bank should be dealt by the concurrent auditor in his audit report? Select the correct option from the following:
    - (a) The auditor should report the matter as a major irregularity in his audit report to the management.
    - (b) The auditor should verify the details from e-mail sent to currency chest and close the matter.
    - (c) As it is a minor irregularity the auditor can ignore the same.
    - (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

Case Scenario III [MCQ 12-15]

M/s AIM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct a statutory audit of M/s DM Crackers Ltd. (a cracker manufacturing company). Since it was their first audit, the partners immediately accepted the work, without paying attention to the relevant procedures. They started their audit work from 25th May 2023 for the financial year (say previous year) ended on 31st March 2023.

During the course of the audit,

(I) The auditors requested for the financials of the preceding previous year, along with the details of transactions till 25th May of the current year. The management, however, argued that both the details are out of the scope of audit and hence told that they can't provide the details. However, after repeated request from the auditors, they finally provided in September 2023.

(II) It was suspected that the senior accountant could have indulged in a fraud amounting to ₹ 115 lakh. However, on further investigation by management it was found that there was a gross mistake on part of the accountant, who had wrongly debited and credited certain accounts by mistake, which amounted to ₹ 17 lakh. The company provided proper and correct evidence for the balance amount; hence the auditors were strongly convinced that no fraud had taken place. Due to the absence of an audit committee, the auditors suggested to the director (finance) to replace the existing accountant as he was poor in basic accounting skills.

Initially, the company thought of handing over the tax audit work to the previous auditor. However, since they had a bad experience last year, in form of an argument regarding the contents to be included in the tax audit report, especially with respect to the disclosure of key ratios, it was decided that the AIM & Co. shall also act as tax auditors.

After the conclusion of the audit, Mr. Shyam, one of the partners of the firm, was confused as to whether the firm could be held guilty of professional misconduct for a plausible violation of any of the provisions of the Chartered Accountants Act, 1949. He contacted Mr. Ghanshyam, his partner, to get clarified about the doubt.

M/s Hire (P) Ltd., a recruitment agency contacted Mr. Shyam regarding a vacancy in one of the leading manufacturing company. Eventually Mr. Shyam resigned as the partner of AIM & Co. and joined the company. The agency raised an invoice for the service rendered by them, which amounted to 0.2% of the CTC offered. Mr. Shyam agreed to pay the amount. However, since his friend was a manager at the agency, he received full discount on the invoice.

Angered by the act of resignation, Mr. Ghanshyam filed a complaint with the Institute of Chartered Accountants of India (ICAI) stating that Mr. Shyam had violated the provisions of the Chartered Accountants Act and is guilty of professional misconduct. Having come to know that Mr. Ghanshyam was the one who had filed a complaint against him, Mr. Shyam decided to take revenge. While thinking for a suitable reason to file a complaint, he recalled the fact that Mr. Ghanshyam was engaged as a Registration Authority for obtaining digital signatures for his clients. Quoting the same, he filed a complaint against Mr. Ghanshyam stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act.

Based on the above facts, answer the following MCQs:

12. What can you infer from the situation given in Point I?

    (a) Management was right. Both the details asked by the auditors were out of the scope of audit.

    (b) The auditors have the right to ask only the details of preceding previous year and not the details of transactions till 15th May of current year.

    (c) Both the auditors and the management have the right to ask both the details and the right to not provide both the details.

    (d) The auditors have the right to ask both the details. The management's contention that it is out of the scope of audit is wrong.

13. Is M/s AIM & Co. guilty of professional misconduct for violating any of the provisions of the Chartered Accountants Act, 1949? If so, as per which clause?

    (a) Yes, as per Clause 1 of Part I of Second Schedule.

    (b) Yes, as per Clause 8 of Part I of First Schedule.

    (c) Yes, as per Clause 2 of Part II of Second Schedule.

    (d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.

14. Is Mr. Shyam guilty of professional misconduct, if so, as per which clause?

    (a) Yes, as per Clause 1 of Part I of First Schedule.

    (b) Yes, as per Clause 2 of Part II of Second Schedule.

    (c) No. Mr. Shyam is not guilty of professional misconduct.

    (d) Yes, as per Clause 1 of Part II of First Schedule.

15. Is Mr. Ghanshyam guilty of professional misconduct, if so, under which clause?

    (a) No. Mr. Ghanshyam is not guilty of professional misconduct.

    (b) Yes, as per Clause 11 of Part I of First Schedule.

(c) Yes, as per Part III of Second Schedule.

(d) Yes, as per Clause 1 of Part II of Second Schedule.

PART II – Descriptive Question (70 Marks)

*Question No.**1** is compulsory.*

*Attempt any **four** questions from the rest.*

1. (a) Neptune Ltd. is a company that holds significant investments in a portfolio of equity securities. Due to a decline in market values, the company's investments have suffered a notable diminution in value. For the financial year ended 31st March 2023, the audit report of Neptune Ltd. included a qualification regarding the non-provision of ₹ 70 lakh for the diminution in the value of these investments. As the auditor for the financial year 2023-24, how would you report in the following situations:

(i) If the company does not make a provision for the diminution in the value of investments in the year 2023-24?

(ii) If the company makes an adequate provision for the diminution in the year 2023-24? **(5 Marks)**

(b) Pratibha Ltd. is a company engaged in the manufacturing of iron doors. JLN & Associates are the statutory auditors of Pratibha Ltd. for the Financial Year 2023-24. During the course of audit, CA Shiv, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2024. 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 Shiv express in case of Pratibha Ltd.? **(5 Marks)**

(c) During the course of audit of PEC Limited, CA Guru has reason to believe that a fraud involving Rs.75 lakhs has been committed in the company by its employees. Is CA Guru under statutory obligation to report the above matter to Central government by filing prescribed form on MCA Portal? How should he proceed to report above said matter? **(4 Marks)**

2. (a) Mr. Arjun was appointed as the engagement partner for conducting the audit of Kurukshetra Tech Ltd. for financial year 2023-24, on behalf of NEMI & Associates. Mr. Krishna was appointed as the engagement quality control reviewer (EQCR) by the firm for the said audit.

During financial year 2023-24, Kurukshetra Tech Ltd. implemented an ERP system in phases, leading to the automation of certain business processes. This implementation had a substantial impact on the auditor's overall audit strategy. Mr. Arjun discussed the implementation of such a system with Mr. Krishna and also told him that such matter may be a key audit matter to be reported in the audit report.

Mr. Krishna considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements and so there was no need to disclose such matter as a key audit matter.

Whether the contention of Mr. Krishna is appropriate with respect to the matters to be communicated as a key audit matter? **(5 Marks)**

(b) CA. Kapila, in practice, is desirous of filling Multi-purpose Empanelment Form (MEF) for inclusion of her name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2023-24. The form requires applicants to upload XML files of their personal income tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA. Kapila has transacted in futures and options derivatives (equity) and has reflected income from such transactions in her return of income as “Business Income”. Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA. Kapila had earned income from transacting in currency derivatives and commodity derivatives?

(5 Marks)

(c) Remote audit is an audit where the auditor uses the online or electronic means to conduct the same. It could be partially or completely virtual, auditor engages using technology to obtain the audit evidence or to perform documentation review with the participation of the auditee. For example, an auditor might use video conferencing and cloud-based file sharing to review financial records remotely. What are the advantages and disadvantages of remote auditing? **(4 Marks)**

3. (a) Studio Ltd. appointed AB & Associates and CD & Co. as joint auditors for conducting the audit for the year ending on 31st March 2024.

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

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

(b) Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/-(one crore seventy five lakhs) and was not having registration certificate from RBI and applied for it on 29th March 2024. The company appointed Mr. Yuvan as its statutory auditors for the year 2023-24. Advise the auditor with reference to auditor procedures to be taken and reporting requirements on the same in view of CARO 2020? **(5 Marks)**

(c) DIGI & Associates. conducted Stock Audit of PQR Ltd. as per instructions issued by ASG Bank. However instead of visiting the site where the stock was lying, the firm relied on the Management Information Systems report along with inspections reports and photographs of Stock taken by the employees of PQR Ltd. The photographs were also carrying the date and time printed on them.

Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereon. **(4 Marks)**

4 (a) Girdhar Ltd. owns 61% voting power in Meera Ltd. It however, holds and discloses all the shares as "Stock-in-trade" in its accounts. The shares are held exclusively with a view to their subsequent disposal in the near future. Girdhar Ltd. represents that while preparing Consolidated Financial Statements, Meera Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal? **(5 Marks)**

(b) Abhinandan Ltd., a company wholly owned by Delhi government was disinvested during the previous year, resulting in 38% of the shares being held by public. The shares were also listed on the NSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the NSE etc.

Paras, the Finance Manager of the company is of the opinion that now the company is subject to stringent control by NSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act, 2013 would be applicable to the company and the C&AG will not have any role to play. Comment. **(5 Marks)**

(c) CA Ram, a practicing chartered accountant, is well known for his expertise in handling Goods and Services Tax (GST) cases at the GST Tribunal and he does not provide any assurance services. Given his long-standing reputation in the field, CA Ram is approached by DEF Limited to file an appeal in the Tribunal against a GST demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals), and to represent DEF Limited in the matter. CA Ram offers to accept a fee of ₹ 3,50,000 for filing the appeal and pleading at the GST Tribunal.

Comment on the act of CA Ram in terms of the Chartered Accountant Act, 1949 and Schedules thereon. **(4 Marks)**

5. (a) Quality Ltd. is engaged in the business of manufacturing and distribution of various Ready to cook products like vegetables, Noodles etc. The government made certain changes in rules and regulations relating to this sector, consequently management decided to go for expansion. Management was looking for some financial investor who can fund some part of the proposed expansion. Mr. Aman is interested in the venture and

appoints you to act as an advisor to the proposed investment in the business of Quality Ltd. You have to investigate the audited financial statements and ensure that the valuation of shares of the company on the basis of audited financial statements is appropriate. What process will be used for checking and can reliance be placed on the already audited statement of accounts? **(5 Marks)**

(b) While assessing the impact of uncorrected misstatements in the audit of MINI Builders Private Limited, Mr. Gautam 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 MINI Builders 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, the last month's actual sales represented only 30% of the estimated sales. Now, Mr. Gautam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using the previously calculated materiality. Kindly Guide Mr. Gautam in the light of relevant Standards on Auditing. **(5 Marks)**

(c) Consistent Enterprises Ltd., a listed company, has been voluntarily preparing and disclosing its sustainability report based on the internationally accepted “Integrated Reporting” framework for some years, even before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key focus of Integrated Reporting is how the company creates value over the short, medium, and long term.

Following further information is provided in respect of the above company:

(i) It has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production.

(ii) It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Discussing the above information, identify which of the capitals of “Integrated Reporting” are being referred to at [i] and [ii] respectively?

(4 Marks)

6. (a) Mr. Atharv, while conducting the audit of Black Mountain Mining Ltd., which is involved in phosphate mining, decided to engage an auditor’s expert to assess environmental liabilities and site clean-up costs. Black

Mountain Mining Ltd. re-appointed Mr. Aman as an independent expert for this task. For the past five years, the management has consistently re-appointed Mr. Aman. He calculated the environmental liabilities for both completed mining sites and sites scheduled for closure in the near future, including provisions for clean-up costs. Management accepted his assessment.

Mr. Atharv, after performing the inquiries with management, was of the opinion that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. Hence, there is no need to raise a question on the objectivity of Mr. Aman or on his work performed for the company. However, the audit partner was of the opinion that the audit team needs to evaluate the objectivity of an expert engaged by the entity, irrespective of the fact that he was appointed as an independent expert.

Guide the audit partner and Mr. Atharv with respect to requirements pertaining to evaluating the objectivity of the management expert.

(5 Marks)

(b) Mr. Jay is a practicing Chartered Accountant working as proprietor of M/s Adhya & Co. He went abroad for 4 months. He delegated the authority to Mr. Vijay a Chartered Accountant his employee for taking care of routine matters of his office. During his absence, Mr. Vijay has conducted the under mentioned jobs in the name of M/s Adhya & Co.

(i) Asking for information or issue of questionnaire.

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

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

Comment on eligibility of Mr. Vijay for conducting such jobs in name of M/s Adhya & Co. and liability of Mr. Jay under the Chartered Accountants Act, 1949. **(5 Marks)**

(c) The practitioner shall not accept the compilation engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. In view of the above, mention the responsibilities of the management to be agreed on for the compilation engagement in accordance with SRS 4410. **(4 Marks)**

OR

A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern. Enumerate the steps to be taken by the practitioner for the same. **(4 Marks)**

Mock Test Paper - Series II: October, 2024

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FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

1. (c)

2. (b)

3. (c)

4. (d)

5. (a)

6. (d)

7. (c)

8. (c)

9. (d)

10. (a)

11. (d)

12. (d)

13. (b)

14. (d)

15. (a)

Part II - DESCRIPTIVE QUESTION

1. (a) As per SA 710, "Comparative Information – Corresponding Figures and Comparative Financial Statements", when the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

SA 710 further states that if the auditor's report on the prior period, as previously issued, included a qualified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

(i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

(ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

In the instant case, if Neptune Ltd. does not make provision for diminution in the value of investment to the extent of ₹ 70 lakh, the auditor will have to modify his report for both the current and previous year's figures as mentioned above. If, however, the provision is made, the auditor need not refer to the earlier year's modification.

(b) In the present case based on the audit evidence obtained, CA Shiv 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 Shiv 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, 2024, 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 Pratibha Ltd. has expired, and the amount outstanding was payable on March 31, 2024. 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 section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as prescribed.

In the given case, CA Guru has reason to believe that a fraud involving ₹ 75 lakhs has been committed in the company by its employees. Therefore, he is under no statutory obligation to report this matter to Central Government by filing prescribed Form (ADT-4) on MCA portal.

In case of a fraud involving lesser than the specified amount [i.e. less than ₹ 1 crore], the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed. Besides, auditor has obligation to report matters pertaining to fraud under clause (xi) of paragraph 3 of CARO, 2020.

2. **(a)** As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.

(ii) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

(iii) The effect on the audit of significant events or transactions that occurred during the period.

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

These aforesaid considerations focus on the nature of matters communicated with those charged with governance. Such matters are often linked to matters disclosed in the financial statements and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users.

The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit.

In addition to matters that relate to the specific required considerations, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

In the given case, there was implementation of ERP system in the company due to which some of its business processes got automated and which had a significant effect on the auditor's overall audit strategy during the period.

As per Mr. Arjun, Engagement Partner, above mentioned matter can be considered as a key audit matter and should be reported in the audit report since it requires significant attention that had affected his overall audit strategy. Mr. Krishna, EQCR, considered the significance of said matter, however, he was of the opinion that ERP implementation did not appear to link with the matters disclosed in the financial statements, therefore, no need to disclose such matter as a key audit matter.

In view of the above, the contention of Mr. Krishna is not appropriate as matters that do not link with the matters disclosed in the financial statements can also be considered as a key audit matter, if it requires significant attention.

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

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

Ethical Standards Board of ICAI has announced that it is permissible for a member in practice to engage in derivative transactions in his personal capacity but not in professional capacity i.e. for clients. Such engagements in derivatives are not violative of provisions of Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949. Further, members are allowed to transact in equity and currency derivatives. There is no requirement to take permission of Council in this matter.

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

(c) Advantages and Disadvantages of Remote Audit:

ADVANTAGES	DISADVANTAGES
Cost and time effective: No travel time and travel costs involved.	Due to network issues, interviews and meetings can be interrupted.
Comfort and flexibility to the audit team as they would be working from home environment,	Limited or no ability to visualize facility culture of the organization, and the body language of the auditees. Time zone issues could also affect the efficiency of remote audit session.
Time required to gather evidence can spread over several weeks, instead of concentrated into a small period that takes personnel from their daily activities.	The opportunity to present doctored documents and to omit relevant information is increased. This may call for additional planning, some additional/different audit procedures, Security and confidentiality violation.
Auditor can get first-hand evidence directly from the IT system as direct access may be provided.	Remote access to sensitive IT systems may not be allowed. Security aspects related to remote access and privacy needs to be assessed
Widens the selection of auditors from global network of experts.	Cultural challenges for the auditor. Lack of knowledge for local laws and regulations could impact audit. Audit procedures like physical verification of assets and stock taking cannot be performed.

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

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

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

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

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

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

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

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

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

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

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

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

(b) As per Clause (xvi) of Paragraph 3 of CARO 2020, the auditor is required to report that "whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained."

The auditor is required to examine whether the company is engaged in the business which attracts the requirement of the registration. The registration is required where the financing activity is a principal business of the company. The RBI restrict companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration.

Audit Procedures and Reporting:

(i) The auditor should examine the transactions of the company with relation to the activities covered under the RBI Act and directions related to the Non-Banking Financial Companies.

(ii) The financial statements should be examined to ascertain whether company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.

(iii) Whether the company has net owned funds as required for the registration as NBFC.

(iv) Whether the company has obtained the registration as NBFC, if not, the reasons should be sought from the management and documented.

(v) The auditor should report incorporating the following:-

   (1) Whether the registration is required under section 45-IA of the RBI Act, 1934.

   (2) If so, whether it has obtained the registration.

   (3) If the registration not obtained, reasons thereof.

In the given case, Manu Finance Ltd. is a Non-Banking Finance Company and was in the business of accepting public deposits and giving loans since 2019. The company was having net owned funds of ₹ 1,75,00,000/-(one crore seventy five lakhs) which is less in comparison to the prescribed limit i.e. 2 crore rupees and was also not having registration certificate from RBI (though applied for it on 29th March 2024). The auditor is required to report on the same as per Clause (xvi) of Paragraph 3 of CARO 2020.

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

It is a vital clause which usually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

In the instant case, DIGI & Associate did not exercise due diligence and is grossly negligent in the conduct of his professional duties since it did not visit the site where the stock was lying and instead the firm relied on the MIS report along with inspection reports and photographs of stock taken by the employees of PQR Ltd, which is incorrect.

To conduct stock audit, ascertainment of existence and physical condition of stocks, cross tallying the stock with Stock statement submitted by bank borrower, correct classification of stocks for valuation purpose etc. is essential. Further submitting stock audit report without physically verifying the stock amounts to gross negligence.

From the above, it can be concluded that DIGI & Associate is guilty of professional misconduct under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

4. (a) **Consolidation of Financial Statement:** As per Ind AS 110, there is no such exemption for 'temporary control', or "for operation under severe long-term funds transfer restrictions" and consolidation is mandatory for Ind AS compliant financial statement in this case. Paragraph 20 of Ind AS 110 states that "Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee".

However, as per Section 129(3) of the Companies Act, 2013 read with rule 6 of the Companies (Accounts) Rules, 2014, where a company having subsidiary, which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with the provisions on consolidated financial statements provided in Schedule III to the Act.

In the given case, Girdhar Ltd.'s intention is disposal of the shares in the near future as shares are being held as stock in trade and it is quite clear that the control is temporary, Therefore, Girdhar Ltd. is required to prepare Consolidated Financial Statements in accordance with Ind AS 110 as exemption for 'temporary control' is not available in the same.

(b) Section 2(45) of the Companies Act, 2013, defines a "Government Company" as a company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

The auditors of these government companies are firms of Chartered Accountants, appointed by the Comptroller & Auditor General, who gives the auditor directions on the manner in which the audit should be conducted by them.

In the given situation, Abhinandan Ltd. is a company wholly owned by Delhi Government was disinvested during the previous year, resulting in 38% of the shares being held by public. The shares were also listed on the NSE. The listing of company's shares on a stock exchange is irrelevant for this purpose and hence, opinion of finance manager Paras is not correct.

(c) Under Section 2(2)(iv) of the Chartered Accountants Act, 1949, a member of the Institute shall be deemed "to be in practice" when individually or in partnership with Chartered Accountants in practice, he, in consideration of remuneration received or to be received renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

Pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949, read with Regulation 191 of Chartered Accountants Regulations, 1988 a member shall be deemed to be in practice if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee, acts as representative for taxation matters.

In the given situation, CA Ram, a practicing Chartered Accountant, provides non-assurance services. He is approached by DEF Limited, a non-audit client, to file an appeal in GST Tribunal against GST Demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals) and to plead on behalf of DEF Limited in the matter. CA Ram offers to accept the case and agrees to charge fees of ₹ 3,50,000.

Therefore, CA Ram is not guilty of professional misconduct.

5. (a) In the instant case, Quality Ltd. is engaged in the business of manufacturing and distribution of various ready-to-cook products like vegetables, noodles etc. Further, management was looking for some financial investor to fund some part of the proposed expansion. Aman is interested in funding; therefore, he initiated investigation of audited financial statements to ensure the appropriateness of the valuation of the shares. For initiating the same it may be considered that if the investigation has been launched because of some doubt in the audited statement of account, no question of reliance on the audited statement of account arises. However, if the investigator has been requested to establish value of a business or a share or the amount of goodwill payable by an incoming partner, ordinarily the investigator would be entitled to put reliance on audited materials made available to him unless, in the course of his test verification, he finds the audit to have been carried on very casually or unless his terms of appointment clearly require to test everything afresh.

- If the statements of account produced before the investigator were not audited by a qualified accountant, then of course there arises a natural duty to get the figures in the accounts properly checked and verified.
- However, when the accounts produced to the investigator have been specially prepared by a professional accountant, who knows or ought to have known that these were prepared for purposes of the investigation, he could accept them as correct relying on the principle of liability to third parties.
- It would be prudent to see first that such accounts were prepared with objectivity and that no bias has crept in to give advantage to the person on whose behalf these were prepared.

(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 reassessment 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 MINI Builders 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. Gautam, 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. Gautam 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. Gautam to form an independent and objective opinion on the financial statements of MINI Builders Private Limited.

(c) The information given in situation [i] states that company has secured a loan to expand its operations and invests the funds in purchasing raw materials and machinery. The loan, along with revenue generated from existing sales, contributes to the pool of resources available for production. Therefore, it involves pool of funds that is available to the organization for use in the production of goods or provision of services. Further, it is obtained through financing, such as debt, equity, or grants, or generated through operations or investments. The capital referred to at [i] is “**Finance Capital**”.

Further, situation [ii] describes increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is "**Social and Relationship Capital**."

6. (a) As per SA 500 "Audit Evidence", when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, have regard to the significance of that expert's work for the auditor's purposes evaluate the competence, capabilities and objectivity of that expert.

A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats and may be created either by external structures (for example, the management's expert's profession, legislation or regulation), or by the management's expert's work environment (for example, quality control policies and procedures). Although safeguards cannot eliminate all threats to a management expert's objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and that expert any interests and relationships that may create threats to the expert's objectivity and any applicable safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

In the current case, Black Mountain Mining Ltd. re-appointed Mr. Aman for this engagement as an independent expert. The audit team was of the view that the objectivity of the independent expert cannot be questioned just because he was appointed by management as their expert. However, the audit partner had a contrary view.

Hence, the audit team should evaluate the objectivity of an expert engaged by the entity as the threat to objectivity, created by being an employee of the entity, will always be present. An expert appointed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity. As a result, audit partner Atharva is correct in his view.

(b) **Delegation of Authority to the Employee:** 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".

In this case CA Jay proprietor of M/s Adhya & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Vijay, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India.

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 and such delegation will not attract provisions of this clause.

In the given case, Mr. Vijay, a Chartered Accountant being employee of M/s Adhya & Co. has asked for information or issued questionnaire. He has also proceeded for initiating and stamping of vouchers and of schedules prepared for the purpose of audit. Apart from the same, he acknowledged and carried out routine correspondence with clients. Here Vijay is right in doing the same, since the same falls under routine work which can be delegated by the auditor. Therefore, there is no misconduct in this case as per Clause (12) of Part I of First Schedule to the Act.

(c) The practitioner shall not accept the compilation engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different. In accordance with SRS 4410, "Compilation Engagement", the responsibilities of the management to be agreed on for the compilation engagement are that:

(i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users

(ii) Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

(iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and

(iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement

OR

(c) As per SRE 2400, "Engagements to Review Historical Financial Statements", a review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

(i) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes that the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern.

(ii) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to: -

(1) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern or

(2) Conclude whether the financial statements are materially misstated or are otherwise misleading regarding the entity's ability to continue as a going concern.

(iii) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.