Mock Test Paper - Series II: April, 2025

Date of Paper: 07th April, 2025

Time of Paper: 2 PM 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. Shrenik Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion, but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31st March, 2024, the company acquired two companies in India and France in September, 2023 and January, 2024 respectively. The company controls both of these companies as per the criteria's laid down in the Companies Act, 2013 as well as the applicable accounting standards.

   The management started discussions with the auditors regarding the audits wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements, if they want. Management needs your advice on the same.

   (a) Management must prepare the consolidated financial statements as per the requirements of the Companies Act, 2013.

   (b) Management has a choice not to prepare consolidated financial statements but should go for that, considering that its true performance and financial position can then be demonstrated.

   (c) Management could have prepared consolidated financial statements if the acquired companies would have completed at least one year post acquisition.

   (d) Management must prepare consolidated financial statements, but it should include only the company acquired in India.

2. The firm from which you are pursuing your articleship training is the internal auditor of Sukh Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:

   (a) Accept the explanation and the bills.

   (b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.

   (c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.

   (d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.

3. JIN Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire OM Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition JIN Ltd. wants to get a due diligence review to be done of OM Leathers. JIN Ltd. appointed S & S Associates for conducting overall due diligence of OM Leathers. During review, the accountant asked OM Leathers to provide financial projections of the company for the next five years, but OM leathers refused to provide the same and claimed that financial projections are not part of due diligence review.

   Whether the objection raised by the management of OM Leathers is correct? Give reason.

   (a) The objection raised by OM Leathers is correct, as due diligence doesn't include review of financial projections.

   (b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.

   (c) The objection raised by OM Leathers is correct, as reviewer cannot comment on financial projections in his report.

   (d) The objection raised by OM Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.

Case Scenario I [MCQ 4-7]

Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar & Co. respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2023-24 of Anitya Ltd.

They were having difference of opinion with regards to the following points:-

S No.	Reasons for Differences in Opinion
1	Manohar & Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.
2	Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods & Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements.
3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods & Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.
4	Manohar & Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar & Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.

The differences in opinion in the case of Tink & Co. and Llyods & Co. were resolved but there remained disagreement with the one of the opinions of Manohar & Co. due to which Manohar & Co. expressed its opinion in a separate audit report.

Further, Manohar & Co. resigned and filed the required statement with respect to its resignation with Anitya Ltd. as well as the Registrar, respectively.

The Board of Directors of Anitya Ltd. appointed Namo & Co. as a joint auditor in place of Manohar & Co. which was later approved by members in the general meeting of the company.

Namo & Co. before getting appointed, as aforesaid, had :-

(i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks “Office Found Locked”.

(ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

Based on the above facts, answer the following:

4. Whether the opinion of Manohar & Co. for referring the work of the auditor’s expert, Mr. Tanmay in the audit report, can be considered as valid?

   (a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.

   (b) Yes, such a reference in the auditor’s opinion was relevant to the understanding of the users of the financial statement.

   (c) No, as such reference was not required by any law or regulation.

   (d) Yes, if such reference was relevant to any ‘key audit matter’ as per SA 701 even though it was not required by any law or regulation.

5. Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?

   (a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.

   (b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.

   (c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.

   (d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.

6. Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?

   (a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701

   (b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.

   (c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.

   (d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.

7. Whether Namo & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?

   (a) No, as the communication through registered post acknowledgment due could not be done, Namo & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.

   (b) Yes, as it would be deemed that such post was delivered.

   (c) No, because in such a case Namo & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.

   (d) No, however, Namo & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.

Case Scenario II [MCQ 8-11]

CA Kamlesh was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3rd consecutive year of Pramat Limited, an unlisted public company, with a turnover of ₹ 35 crore during F.Y. 2022-23.

From F.Y. 2023-24 onwards, Pramat Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in the financial statements with respect to this change.

While auditing the entity, CA Kamlesh came across a business policy of Pramat Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramat Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramat Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramat Limited relying on the controls presents in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls.

The engagement quality reviewer, CA Tushar, recommended CA Kamlesh to obtain a Type 2 report from the management of RSPL to which CA Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL.

Further while conducting the audit, CA Kamlesh observed that investments in certain securities were sold at a price less than at which they were acquired and he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same.

While finalising the audit report, CA Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN.

Based on the above facts, answer the following:

8. While finalising the audit report CA Kamlesh decided to present the early adoption of IND AS under the "Other Matter Paragraph" as in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Kindly guide CA Kamlesh with respect to correct reporting in the Audit Report as per SA 706:

   (a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013.

   (b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

(c) The Audit team should report the change in the "Other Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

(d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.

9. CA Kamlesh 's risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA Kamlesh with respect to the requirement of SA 402.

   (a) CA Kamlesh 's contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there.

   (b) When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.

   (c) It depends upon the auditor's judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA Kamlesh's decision will be considered correct and appropriate.

   (d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.

10. Whether it is justifiable that CA Kamlesh didn't report on the matter with respect to sale of investments even without inquiring for the same?

   (a) No, as at least CA Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bonafide.

   (b) Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.

   (c) No, he should have at least consulted CA Tushar before doing so.

   (d) Yes, as the relevant clause for the reporting is not applicable in case of Pramat Limited.

11. CA Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA Kamlesh with respect to UDIN requirements for this letter.

(a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance.

(b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.

(c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise.

(d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.

Integrated Case Scenario-III [MCQ 12-15]

CA Mridul, a practicing Chartered Accountant, has been appointed as the statutory auditor of PQT Limited, a reputed listed company engaged in manufacturing electronic products, as per the provisions of the Companies Act, 2013. In addition to his audit responsibilities, he is actively involved in advising the government on proposed legislation aimed at attracting investments and advanced technology in the electronic products sector. He has publicly advocated the proposed policy in TV debates, articles in business newspapers, and advisory submissions to the government. In all such public appearances, he has disclosed his role as the auditor of PQT Limited.

Meanwhile, CA Mridul is also the statutory auditor of Fincorp Limited, non-banking financial company, for the financial year 2023-24. While reviewing the financial statements, he observes that the company has made the following provisioning in compliance with the Reserve Bank of India (RBI) Prudential Norms for Asset Classification as of 31st March 2024:

Asset Category	Balance Outstanding (₹ crores)	Provision for FY 2023-24 (₹ crores)
Standard Assets	200	NIL
Sub-standard Assets (Fully secured)	15	1.00
Doubtful Assets (1-3 years) (Fully secured)	8	2.00
Loss Assets	2	2.00
Total Provision for NPA		**5.00 crores**

Upon review, CA Mridul is of the opinion that the company has not done the provisioning correctly and expresses concerns regarding non-compliance with RBI guidelines.

Based on the above facts, answer the following:

12. Which of the following statements is likely to be correct in regard to PQT Limited?

    (a) The described situation can involve self-interest threats to the independence of the auditor.

    (b) The described situation can involve familiarity threats to the independence of the auditor.

    (c) The described situation can involve advocacy threats to the independence of the auditor.

    (d) The described situation can involve self-review threats to the independence of the auditor.

13. Is the provision for Loss Assets of ₹ 2 crores correct as per RBI norms?

    (a) Yes, because the provision should be 100% of the outstanding amount.

    (b) No, the provision should be only 50% as it is secured.

    (c) No, the provision should be NIL if the asset is secured.

    (d) Yes, but only if the RBI has classified it as a fraud-related asset.

14. Fincorp Limited has classified ₹15 crores of loans as sub-standard assets. As per RBI norms, what should be the minimum provision required for this category?

    (a) ₹ 1.50 crores

    (b) ₹ 3.00 crores

    (c) ₹ 0.75 crores

    (d) ₹ 1.00 crores

15. Fincorp Limited has ₹ 8 crores in doubtful assets (one to three years) and has provided ₹ 2.00 crores. What is the shortfall in provisioning as per RBI norms?

    (a) ₹ 0.40 crores

    (b) ₹ 1.00 crores

    (c) ₹ 0.80 crores

    (d) No shortfall

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Ashish is carrying out an audit of restated financial statements of Krop Limited for past 3 financial years i.e. 2023-24, 2022-23 and 2021-22 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Ashish is planning to issue an Audit Report on 2nd August, 2024 covering these restated financial statements. Before issuing the audit report, CA Ashish requested a Management Representation Letter from the management of the company for this assignment. The management of the company provided Management Representation Letter dated 1st April, 2024 covering the period of financial year 2023-24 only as they were not in position to provide for the financial year 2022-23 and 2021-22 because they were not in place during that period. How would CA Ashish deal with the above situation as per relevant Standard on Auditing? **(5 Marks)**

(b) CA Ram is the Statutory Auditor of RJ Ltd. for the financial year 2023-24. The company is engaged in the production of electronic products. During the audit, CA Ram obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the financial statements. Discuss how CA Ram should deal with the situation in the auditor's report and the different options which can be considered? **(5 Marks)**

(c) Surya Pvt. Ltd., engaged in the business of real estate, appointed CA Amit as the auditor for F.Y. 2023-24. During the audit, CA Amit requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc.) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

(4 Marks)

2. (a) Focus Ltd. is a manufacturing company that is planning to implement a new digital system to streamline its production processes and improve efficiency. The company appointed Mr. Raman as IT manager. However, he is aware that merging technologies can bring significant benefits but also pose various risks to the

organisation. In this context, he needs to identify examples of technological risks associated with the implementation of the new digital system and the control considerations necessary to mitigate these risks effectively. **(5 Marks)**

(b) The Comptroller and Auditor General of India has appointed a Chartered Accountant firm to conduct the comprehensive audit of Saras Company Limited, a listed government company, handling major Railway project of the metropolitan city for the period ending 31-03-2024. The work to be conducted under Project A handled by the Saras Company Limited was of laying down railway line of 130 kilometers.

During the audit, the firm reviewed the internal audit report and observed the shortcoming reported about the performance of Project A regarding the understatement of the Current liabilities and Capital work in progress by ₹ 75.32 crore.

What key aspects should the chartered accountant firm focus on while conducting the comprehensive audit of Saras Company Limited? **(5 Marks)**

(c) DND and Associates are the statutory auditor of XYZ Ltd. Audit of the company is pending for F.Y. 2022-23 and 2023-24 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2022-23. The company removed the auditor on 06.05.2024 in shareholders meeting complying with all legal formalities. DND and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. XYZ Ltd. complained to ICAI against DND and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

3. (a) L & K Investments Ltd. is a company having paid up share capital of ₹ 1 Crore, it has a subsidiary, Wealth Fund Management Ltd. The primary business of L & K Investments Ltd. is to pool funds from investors on a collective basis and invest this money in various financial instruments. The company pooled ₹ 12 Crore from a number of clients, which represent the company's shareholders.

During the audit of L & K Investments Ltd., CA Shiv observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to various shareholders of the company.

CA Shiv raised an issue while auditing financial statements of L & K Investments Ltd. whether the consolidated financial statements are required as per

Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion. **(5 Marks)**

(b) KSN and Co., Chartered Accountants, have been appointed by Nature Ltd. to assist management in the preparation and presentation of financial information in accordance with an applicable financial reporting framework and issuing a report. CA L has been appointed as the engagement partner for the assignment.

What are the responsibilities of CA L and which documentation requirements related to Engagement Level Quality Control should CA L ensure compliance with in such an engagement? **(5 Marks)**

(c) CA Yug, a practicing chartered accountant, is a promoter director of CDS Pvt. Ltd. and is also a sleeping partner in his family's garments manufacturing business. Is CA Yug liable for professional misconduct as per the Chartered Accountant Act, 1949? **(4 Marks)**

4. (a) The Cashier of a company committed a fraud and absconded with the proceeds thereof. The Chief Accountant of the company also did not know when the fraud had occurred. During the audit, auditor failed to discover the fraud. However, fraud was discovered by the Chief Accountant after the audit was completed. Investigation made at that time indicates that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(5 Marks)**

(b) Miger Ltd. is a multinational corporation that prides itself on sustainable business practices and holistic value creation. During a recent board meeting, the CEO emphasised the importance of disclosing not just financial performance but also non-financial aspects that contribute to long-term success. The company's sustainability team highlighted their investments in cutting-edge research, employee skill development, strong supplier relationships, and eco-friendly infrastructure.

To ensure a well-rounded and transparent report, the company's Chief Financial Officer (CFO) suggests adopting Integrated Reporting. The board members, however, are unfamiliar with the concept and ask for a clear breakdown of its key elements.

As a consultant, how would you explain the essential components of Integrated Reporting to the board? **(5 Marks)**

(c) Ananya & Co., Chartered Accountants, during the audit of Krishna Ltd. found that certain machinery had been imported for the production of a new product. Although the auditors have applied the concept of materiality to the financial statements as a whole, they now want to re-evaluate the materiality concept for the said transaction involving foreign exchange. Give your views in this regard?

(4 Marks)

5. (a) You have been appointed as Concurrent auditor of a branch of Silver Bank Ltd., which primarily deals in foreign exchange transactions. During the audit, you noticed discrepancies in certain inward and outward remittances, as well as unusual fluctuations in Nostro account balances. What audit procedures would you implement to verify the accuracy and compliance of foreign exchange transactions of this branch. **(5 Marks)**

(b) During the audit of Goldy Ltd., a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ₹ 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation. **(5 Marks)**

(c) CA Meet, a practicing Chartered Accountant was on foreign tour between 12-08-24 and 27-08-24. On 20-08-24, a message was received from one of his clients requesting a stock certificate to be produced to the bank on or before 22-08-24. Due to urgency, CA Meet directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf. **(4 Marks)**

6. (a) Sun & Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the company shared the appointment letter with Sun & Associates, seeking acknowledgement and acceptance letter. CA S is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA S noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left Sun & Associates

and is planning to provide some accounting services to one of the associate companies. Sun & Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector.

Elaborate the matters to be considered by Sun & Associates with respect to acceptance & continuance of client relationships considering the above issues.

(5 Marks)

(b) The Engagement Partner of the audit team of High Inventory Limited assessed that the inventory is material with respect to the audit of the financial statement for the current period. Upon inquiring with the management, the Engagement Partner identified that the management will be performing an annual physical inventory count at all the warehouses where the entity stores and maintains its inventory. Moreover, management confirmed in its written representation that they will be performing a 100% physical count of inventory for the current period.

As a result, the Engagement Partner decided not to perform any physical count of inventory as it will be a duplication of the work. Moreover, he decided that the written representation from management stating "the inventory exists and is in appropriate physical condition" will be sufficient and appropriate with respect to audit evidence to conclude that the inventory balance in the financial statement is free from any material misstatement.

In the light of SA 501, evaluate whether the decision taken by the Engagement Partner is appropriate or not. **(5 Marks)**

(c) Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients. Due to change in laws and regulations, every company engaged in manufacturing in active pharmaceutical ingredients would now require production capacity license which will restrict the production of companies. Management of the company assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statement.

Audit Team of the company evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statement the audit team decided to disclose the same in Other Matter Paragraph.

You as an Engagement Partner are required to guide the Audit Team with respect to reporting of the said matter in Audit Report. **(4 Marks)**

Or

(c) Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirt which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, a facilitation centre was opened in the industrial cluster. The proprietor managed, both the office and the facilitation centre, by himself. No intimation was made to the Institute of Chartered Accountants of India. Examine whether there is any professional misconduct in this respect. **(4 Marks)**

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FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

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

Part II - DESCRIPTIVE QUESTION

1. (a) According to SA 580, "Written Representations", 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 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 was not present during all the 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.

In the given situation, CA Ashish is carrying out an audit of restated financial statements of Krop Limited for the past 3 financial years i.e., 2023-24, 2022-23 and 2021-22 so he requested a 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 2023-24 as they were not in place during that period.

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 Ashish should take written representation letter from management of Krop Limited for the financial year 2022-23 and 2021-22 also.

In case the management of Krop 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) **Auditor's duties in case of inconsistency in Audit evidence:** SA 705, "Modifications to the Opinion in the Independent Auditor's Report", deals with auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

The decision regarding which type of modified opinion is appropriate depends upon:

(i) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

(ii) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Further, the auditor shall modify the opinion in the auditor's report when the auditor concludes that based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement.

In the present case, during the audit, CA Ram obtained certain audit evidence which was not consistent with the affirmation made in financial statements. Therefore, CA Ram should modify his report in accordance with SA 705.

Since CA Ram has obtained audit evidence which is inconsistent with the affirmations made in the financial statements. CA Ram should modify his opinion as per the circumstances of the case.

- CA Ram shall express Qualified opinion when, having obtained sufficient appropriate audit evidence, he concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
- CA Ram shall express an Adverse opinion, where the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually, or in the aggregate, are both material and pervasive to the financial statements.

(c) As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.
- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time.

In the given case, the management is not correct in refusing the relevant information to the auditor.

2. (a) Some examples of technology risks where Mr. Raman should test the appropriate controls for relying on the digital systems:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database).
- The possibility of information technology personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby leading to insufficient segregation of duties.
- Unauthorized or erroneous changes to data in master files.

- Unauthorized changes to systems or programs.
- Failure to make necessary or appropriate changes to systems or programs.
- Inappropriate manual intervention.
- Potential loss of data or inability to access data as required.
- Risks introduced when using third-party service providers.
- Cybersecurity risks.

Mr. Raman should focus on the following control considerations to mitigate risks effectively:

1. Auditors should gain a holistic understanding of changes in the industry and the information technology environment to effectively evaluate management's process for initiating, processing, and recording transactions and then design appropriate auditing procedures.
2. Auditors, as appropriate, should consider risks resulting from the implementation of new technologies and how those risks may differ from those that arise from more traditional, legacy systems.
3. Auditors should consider whether digital upskilling or specialists are necessary to determine the impact of new technologies and to assist in the risk assessment and understanding of the design, implementation, and operating effectiveness of controls. E.g., cybersecurity control experts, IT specialists in the team etc.

(b) Matters to be undertaken by the CA Firm while conducting the comprehensive audit of Saras Company Limited are:

(i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?

(ii) Have the accepted production or operational output been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?

(iii) Has the planned rate of return been achieved?

(iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?

(v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?

(vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?

(vii) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?

(viii) If the enterprise has an adequate system of repairs and maintenance?

(ix) Are procedures effective and economical?

(x) Is there any poor or insufficient or inefficient project planning?

(c) Clause (1) of Part I of the Second 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 discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment.

In the given situation, DND & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. DND & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same.

Thus, DND & Associates will be held guilty of professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3. **(a)** According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.

As per sub-section 6 of section 129 of the Companies Act, 2013, the Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made thereunder.

An investment entity is an entity that:

(i) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(ii) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(iii) measures and evaluates the performance of substantially all of its investments on a fair value basis.

An investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity.

However, as per paragraph 33 of Ind AS 110, parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

Applying the above to the given case of L & K Investment Ltd., which fulfils all the conditions stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that L & K Investment Ltd. is not required to consolidate as per Section 129 (3) of the Companies Act, 2013.

(b) The engagement partner shall take responsibility for: -

(i) The overall quality of each compilation engagement to which that partner is assigned and

(ii) The engagement being performed in accordance with the firm's quality control policies and procedures.

The practitioner shall include in the engagement documentation: -

(i) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner.

(ii) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management and

(iii) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report.

The practitioner may consider also including in the engagement documentation a copy of the entity's trial balance, summary of significant accounting records or other information that the practitioner used to perform the compilation.

(c) Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 debars a chartered accountant in practice from engaging in any business or occupation other than the profession of chartered accountancy unless permitted by the Council of the Institute so to engage.

There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. There is also no bar for such a promoter / signatory to be a Director Simplicitor of that company irrespective of whether the object of the company includes areas which fall within the scope of the profession of Chartered Accountants. Therefore, members are not required to obtain specific permission from the Council in such cases.

Further, members of the Institute in practice may engage after obtaining the specific and prior approval of the Council in case of interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.

In the given case, CA Yug is a promoter director of CDS Pvt. Ltd. and also, he is a sleeping partner in his family business of garments manufacturing firm. Applying the above to the given case, it can be concluded that, CA Yug:

- **As Promoter Director**- Not guilty of professional misconduct under the Chartered Accountants Act, 1949.
- **As Sleeping Partner**- Guilty of professional misconduct under the Chartered Accountants Act, 1949 as he did not obtain prior approval of the Council.

4. (a) According to Clause (7) of Part I of Second Schedule of 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".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud that has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

In the given case, the auditor failed to discover the fraud during the audit. It is clearly given that the investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

From the facts given in the case and by applying Clause (7) and SA 240, it can be concluded that the auditor is guilty of professional misconduct and the directors can file disciplinary proceedings against the auditor.

(b) There are 6 Cs of Integrated Reporting – also known as 6 capitals:

(i) Financial Capital:

- Pool of funds that is available to the organization for use in the production of goods or provision of services.
- Obtained through financing, such as debt, equity, or grants, or generated through operations or investments.

(ii) Manufactured Capital:

- Seen as human-created, production-oriented equipment and tools.
- Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants).

(iii) Natural Capital:

- Is an input to the production of goods or the provision of services.
- An organization's activities also impact, positively or negatively, on natural capital.
- Includes water, land, minerals and forests, biodiversity, and ecosystem health.

(iv) Human Capital:

People's skills and experience, their capacity, and motivations to innovate, including their:

- Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.
- Ability to understand and implement an organization's strategy.
- Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate.

(v) Social Capital:

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

(vi) Intellectual Capital:

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

Asia Pacific region continues to dominate in presenting sustainability data in annual reports. Approximately 60% of Companies reporting in 2022. Integrated reporting is strong in the Middle East.

(c) As per SA 320, "Materiality in Planning and Performing an Audit", when establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

If the auditor concludes a lower materiality for the same, he shall determine whether it is necessary to revise performance materiality and whether the nature, timing and extent of the further audit procedures remain appropriate.

In the given case, Ananya & Co., as an auditor has applied the concept of materiality for the financial statements as a whole. But they want to re-evaluate the materiality concept on the basis of additional information of import of machinery for production of new product which draws attention to a particular aspect of the company's business.

Thus, Ananya & Co. can re-evaluate the materiality concepts after considering the necessity of such revision.

5. (a) Suggested audit procedure to be covered by the Concurrent Auditor to check the foreign exchange transactions of a branch of Silver Bank Ltd. is given hereunder:

- Check foreign bills negotiated under letters of credit.
- Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.
- Check whether inward/outward remittance have been properly accounted for.
- Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorized and necessary charges have been recovered.
- Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank.
- Ensure that the overbought/oversold position maintained in different currencies is reasonable, considering the foreign exchange operations.
- Ensure adherence to the guidelines issued by RBI/HO of the bank about dealing room operations.

- Ensure verification/reconciliation of Nostro and Vostro account transactions/ balances.

(b) As per SA 505, "External Confirmations", negative confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.

Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request.

Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.

In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Goldy Limited. One of the old outstanding of ₹ 20 lakh has not sent the confirmation on the credit balance. In case of non-response, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further non-response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

(c) As per Clause (12) of Part I of the First Schedule to 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 Meet allowed his assistant who is not a partner but a member of the Institute of Chartered Accountants of India to sign stock certificate on his behalf and thereby commits misconduct.

Thus, CA Meet is guilty of professional misconduct under Clause (12) of Part I of First Schedule to the Chartered Accountants Act, 1949.

6. (a) **Acceptance and Continuance of Client Relationships:** As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," a firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about: -

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

The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

Further, as per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence.

In view of the above, Sun & Associates should:

- ✓ follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating the integrity of the client, assessing potential risks associated with the engagement, and ensuring the firm has the necessary resources and expertise to perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions.
- ✓ communicate clearly with the client regarding the scope of the engagement, the responsibilities of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client.
- ✓ independence and objectivity throughout the engagement. Any potential threats to independence, such as relationships with the client's affiliates or

involvement in political activities by related parties, should be evaluated and mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements.

- ✓ continually monitor the client relationship for any changes or developments that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.
- ✓ ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left Sun & Associates , the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.

(b) As per SA 501, "Audit Evidence - Specific Considerations for Selected Items", when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

i. Attendance at physical inventory counting, unless impracticable, to

   1. Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting.
   2. Observe the performance of management's count procedures.
   3. Inspect the inventory; and.
   4. Perform test counts; and

ii. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Attendance at physical inventory counting involves:

i. Inspecting the inventory to ascertain its existence and evaluate its condition and perform test counts.

ii. Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and

iii. Obtaining audit evidence as to the reliability of management's count procedures.

Hence in the given case, the approach of Engagement Partner is not appropriate as when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. This should be done by performing various audit procedures which also includes attending physical count, observing the count, inspecting the inventory and reperforming physical counts.

(c) As per SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

(i) The auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter; and

(ii) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

In the instant case, since Act Pharma Limited is engaged in manufacturing of active pharmaceutical ingredients, would now require production capacity license which will restrict the production of companies, due to change in laws and regulations. Management of the Act Pharma Limited assessed the impact of the change in law over the financial position of company and appropriately disclosed the same in the financial statements.

Audit team of the Act Pharma Limited evaluated management's disclosure and found it appropriate and sufficient. However, considering the said matter as most important and fundamental to users understanding regarding financial statements the audit team decided to disclose the same.

The said matter is already disclosed and presented appropriately in financial statements and is of such importance that is fundamental to the users understanding of the financial statements and hence, it required to be disclosed under Emphasis of Matter paragraph.

Therefore, decision of audit team to disclose the same in Other Matter Paragraph is not in order, it should be disclosed in Emphasis of Matter Paragraph.

OR

(c) As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 kilometers from the municipal limits of a city, in which the first office is located.

Further a member having two offices of the type referred to above, shall have to declare which of the two offices is his main office, which would constitute his professional address.

In the given case, Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients.

Therefore, a facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre. Though distance between his office and facilitation centre i.e. sort of second office is within prescribed range i.e. 50 kilometers but Dheer & Co., will be liable for misconduct as prescribed intimation about facilitation centre and main office should be sent to the Institute of Chartered Accountants of India.