

**Mock Test Paper - Series II: April, 2026**

**Date of Paper: 6<sup>th</sup> April, 2026**

**Time of Paper: 2 PM to 5 PM**

**FINAL COURSE: GROUP I**

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND  
PROFESSIONAL ETHICS**

**ANSWERS**

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

**PART – II: DESCRIPTIVE QUESTIONS**

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

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

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

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

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

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

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

**Adverse Opinion**

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements

do not present fairly, the financial position of the entity as at March 31, 2025, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

#### **Basis for Adverse Opinion**

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

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

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

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

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

work performed by CA Sam provided he further exercises adequate skill and due care and review the work performed by him.

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

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

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

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

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

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

- (b) As per Chapter X of Council General Guidelines, 2008 a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment

as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 1,00,000/-.

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

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

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

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

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

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

#### **Audit Implications**

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

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

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

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

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

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

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

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

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

- The policy laid down by the Board of Directors in this regard relating to procedures, valuation and delegation of powers including non-performing

financial assets that may be sold, norms or such sale, valuation procedure and accounting policy.

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

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

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

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

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

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

- (i) The auditor is not prohibited by law or regulation from doing so;
- (ii) That opinion is expressed in an auditor’s report that is not published together with the auditor’s report containing the adverse opinion or disclaimer of opinion; and
- (iii) The element does not constitute a major portion of the entity’s complete set of financial statements.

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

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

Sustainability reporting refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way. It is

a comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

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

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

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

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

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

- (i) Issue of audit queries during the course of audit.
- (ii) Asking for information or issue of questionnaire.
- (iii) Letter forwarding draft observations/financial statements.
- (iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
- (v) Acknowledging and carrying on routine correspondence with clients.
- (vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
- (vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.

- (ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.
- (x) Any other matter incidental to the office administration and routine work involved in practice of accountancy.

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

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

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

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

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

Overview of distinctive areas between Audit and Review

<b>Audit</b>	<b>Review</b>
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.

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

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

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

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

- (i) The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- (ii) The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.
- (iii) The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.
- (iv) The principal auditor also obtains certain confirmations from component auditors like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

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

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

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

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

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

In this audit scenario, Mr. Shivam, the auditor, must review and re-assess the materiality initially determined under SA 320 to ensure its continued validity in light of the actual financial results. If the re-assessed materiality is lower than the previously calculated amount, Mr. Shivam must reconsider performance

materiality and the appropriateness of the nature, timing, and extent of further audit procedures. This meticulous approach is essential to gather sufficient and appropriate audit evidence, enabling Mr. Shivam to form an independent and objective opinion on the financial statements of Global Private Limited.

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

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

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

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

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

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

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

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

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

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

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

- (b)** As per SA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", the auditor CA Chintan shall include in the written communication of significant deficiencies in internal control:
- (i) A description of the deficiencies and an explanation of their potential effects; and
  - (ii) Sufficient information to enable those charged with governance and management to understand the context of the communication.

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

- (1) The letter lists down the area of weaknesses in the system and offers suggestions for improvement.
- (2) It should clearly indicate that it discusses only weaknesses which have come to the attention of the auditor as a result of his audit and that his examination has not been designed to determine the adequacy of internal control for management.
- (3) This letter serves as a valuable reference document for management for the purpose of revising the system and insisting on its strict implementation.
- (4) The letter may also serve to minimize legal liability in the event of a major defalcation or other loss resulting from a weakness in internal control.

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

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

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

**OR**

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

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

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

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