

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 Prammat Limited, an unlisted public company, with a turnover of ₹ 35 crore during F.Y. 2022-23.

From F.Y. 2023-24 onwards, Prammat 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 outskirts 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)**