

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. Mr. Suraj reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Alpha Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the statutory auditor is required with reference to the position of the Company as at 31st March and not based on each month's position. Kindly guide Mr. Suraj with respect to the requirement under Master Direction.
 - (a) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.
 - (b) Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as at 31st March.
 - (c) Only NBFC-MFI shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.
 - (d) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a

certificate should be with reference to the position of the company as at the end of each month.

2. Navya & Associates are the statutory auditors of MNO Ltd. for the financial year 2024-25. While conducting the audit, CA Nemi, the engagement partner noticed the following:
- ❖ Investigations by regulatory organisations and government departments or payment of fines or penalties.
 - ❖ Payments for unspecified services or loans to consultants, related parties, employees or government employees.
 - ❖ Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
 - ❖ Unusual payments towards legal and retainership fees.
 - ❖ Unusual transactions with companies registered in tax havens.
 - ❖ Payments without proper exchange control documentation.

CA Nemi should consider the above as indicative of:

- (a) Doubt on the accounting system of MNO Ltd.
 - (b) Doubt on Internal Controls of MNO Ltd.
 - (c) Doubt on the going concern assumption of MNO Ltd.
 - (d) Doubt of non-compliance to laws by MNO Ltd.
3. DPT bank had an NPA account of M/s Sahil and Sons showing recoverable amount of ₹ 40 lakh in the books. It sold the NPA for ₹ 45 lakh. Please select as to which of the following options is the correct accounting:
- (a) Let the amount remain in M/s Sahil and Sons account.
 - (b) Credit the excess of ₹ 5 lakh to profit on sale of assets.
 - (c) Credit the excess of ₹ 5 lakh to provision for loss on sale of NPAs.
 - (d) Return ₹ 5 lakh to the party purchasing the NPA.

Case Scenario I [MCQ 4-7]

Supriya is a practicing Chartered Accountant and a partner in SPR Associates, a CA firm engaged in various assignments across audit, advisory, compliance, and management consultancy for clients in the banking, education, co-operative, and public sectors. Recently, the firm received the following engagement request:

- Supriya, who is the statutory auditor of one of her major clients, Cosy Textiles Ltd., has been requested by the management to assist in compilation of financial information into a proper format for presentation to prospective investors in accordance with SRS 4410.
- She was approached by a hospitality chain for conducting a mystery audit at their 17 branches to evaluate service quality and compliance with SOPs for fee of ₹ 85,000.
- Supriya holds the position of Director Simplicitor in Fair Private Limited. The Company is now requesting her to digitally sign ROC forms due to her professional qualification.
- Additionally, to expand her practice, she is planning to use a messaging application to inform business groups about her firm's services and highlight the specialised areas and expertise.

Based on the above facts, answer the following:

4. Which of the following is correct with regards to CA Supriya approached by a hospitality client for conducting mystery audit?
 - (a) She cannot accept the assignment, as it falls outside the scope of audit services.
 - (b) She can accept the assignment since mystery audit is a permitted service.
 - (c) She can accept the assignment only if the client is not an existing audit client.
 - (d) She can accept the assignment only if approved by ICAI in writing.
5. What should CA Supriya do in case of Cosy Textiles Ltd.?
 - (a) Accept the assignment, as compilation is not an assurance service.
 - (b) Decline the assignment, as auditors cannot perform compilation engagements for audit clients under SRS 4410.
 - (c) Accept the engagement after disclosing it in the audit report.
 - (d) Accept the engagement if permitted by the audit committee.
6. Can CA Supriya digitally sign the ROC Forms for Fair Private Limited?
 - (a) Yes, she may sign since she is a qualified Chartered Accountant.
 - (b) Yes, she may sign if she does not receive any remuneration.
 - (c) Yes, she may sign if she is not the auditor of the company.
 - (d) No, she cannot sign, as it creates a conflict with the auditor's role.
7. Does CA Supriya is correct in using a messaging application?
 - (a) Yes, it is permitted as long as the recipients are known contacts.

- (b) Yes, it is permissible with a disclaimer.
- (c) No, it is not permissible as it amounts to solicitation.
- (d) Yes, it is permissible if only educational content is shared.

Case Scenario II [MCQ 8-12]

While auditing consolidated financial statements of Kissan Industries Limited for the year 2024-25, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of the Companies Act, 2013, CA Kartik notices that:

- (A) The notes to accounts in respect of consolidated financial statements disclose additional information pertaining to the holding company and its subsidiaries. It provides disclosure regarding percentages of consolidated net assets; consolidated profit and loss; and total comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries.
- (B) The financial statements of one foreign subsidiary included in consolidated financial statements are drawn up to 31st December, 2024 in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2025.
- (C) During the year 2024-25, goodwill of ₹ 60 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries.
- (D) It is noticed by him that one subsidiary was acquired on 21.06.24. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements.

Besides, he is also in the process of finalising audit report including matters to be reported under CARO, 2020 in respect of consolidated financial statements. However, he is in a fix in respect of manner of reporting under CARO, 2020 relating to consolidated financial statements.

Based on the above facts, answer the following:

- 8. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?
 - (a) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

- (b) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.
 - (c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.
 - (d) The said disclosure is proper.
9. What should be auditor's proper course of action pursuant to situation highlighted in para (B) relating to financial statements of a foreign subsidiary?
- (a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31st March, 2025. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705.
 - (b) The auditor can accept management's version.
 - (c) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.
 - (d) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2025 and 31st March, 2025.
10. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario?
- (a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.
 - (b) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.
 - (c) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.
 - (d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current-period consolidation adjustments.

11. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 21.06.24?
- (a) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.
 - (b) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.
 - (c) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.
 - (d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.
12. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law?
- (a) A separate report providing Clause by Clause reporting under CARO, 2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India.
 - (b) It would be sufficient if report under CARO, 2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India.
 - (c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO, 2020 in respect of standalone financial statements.
 - (d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

Case Scenario III [MCQ 13-15]

ADM & Associates, a medium-sized audit firm, has recently been appointed as the statutory auditor of Muonic Ltd., a listed pharmaceutical company involved in complex global operations and intensive R&D activities.

The audit is being led by CA Rajul, an engagement partner. The company was previously audited by a Big 4 firm, which withdrew citing limitations in audit scope. During planning, CA Rajul observes that while her team has good experience with standard manufacturing audits, they lack exposure to pharmaceutical sector audits, especially in relation to R&D accounting and global regulatory requirements.

Despite this concern, the Managing Partner insists that the team follow their standard procedures to ensure the audit is completed on time, especially due to the company's obligations under listing regulations. CA Rajul is concerned about whether the firm possesses the capability and competence to deliver a high-quality audit in line with professional standards.

Based on the above facts, answer the following:

13. As per SQC 1, what is the most appropriate action for CA Rajul to take after assessing that her audit team lacks experience in pharma R&D?
 - (a) Proceed with the audit using standard checklists and procedures.
 - (b) Raise a concern internally and consider involving external experts or specialists.
 - (c) Ignore the concern as the client expects timely reporting.
 - (d) Delegate responsibility to junior staff familiar with manufacturing audits.
14. The fact that the previous Big 4 auditor resigned due to scope limitations should prompt which of the following actions by ADM & Associates?
 - (a) Assume the limitations are resolved as the client appointed a new auditor.
 - (b) Proceed after understanding the nature of scope limitations and documenting the evaluation.
 - (c) Consider it irrelevant since resignation is a common occurrence.
 - (d) Use the previous auditor's work to complete current year audit.
15. Under SA 220, what is CA Rajul's responsibility as the engagement partner regarding audit quality?
 - (a) To ensure only documentation is maintained
 - (b) To ensure appropriate direction, supervision, and review of the audit work.
 - (c) To delegate all key decisions to the audit manager.
 - (d) To report only to the audit committee.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Pawan has been appointed as the statutory auditor of Vij Pvt. Ltd. for the financial year 2024–25. During the course of the audit, he obtained sufficient and appropriate audit evidence for items shown in the Statement of Profit and Loss. However, while auditing the Balance Sheet items, he left obtaining appropriate audit evidence, say, external confirmations, for outstanding accounts receivable amounting to ₹ 135 lakhs.

He continued as it is from last year, on the affirmation of management that there are no receipts and further credits during the year. CA Pawan, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor.

What measures need to be taken by the auditor CA Pawan? Also, suggest the correct audit procedure in this regard. **(5 Marks)**

- (b) CA Prashant is appointed as statutory auditor of Sober Pvt. Ltd. under the Companies Act 2013 for the first time. The company is preparing its accounts, considering the applicable requirements of Division I of Schedule III of the Companies Act, 2013. On scrutinising, the company's financial statements for an audit, it was noticed that notes to accounts show the ageing of trade payables as per amended requirements of the Schedule III of the Companies Act, 2013.

The ageing schedule forming part of the notes is as under: -

Outstanding for following periods from the due date of payment (In ₹ crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2	4	3	1	10
Disputed dues-MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues-others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the key financial ratios are in red.

There is no other relevant information concerning above in notes to accounts.

Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in month of March 2025. On inquiry, he came to know that the company's stock audit was conducted in January, 2025 and stock auditors have commented vide their report dated 25.2.2025 that the company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in the cash credit account since March 2025.

Further, upon inquiry with the management, it was identified that management did not have any major future contracts to boost their revenue and financial position.

There is no information in this respect in financial statements and notes to accounts.

Discuss how CA Prashant should deal with above for reporting in his audit report under the Companies Act, 2013. **(5 Marks)**

- (c) Mohan Ltd. having a net worth of ₹ 1,750 crore, is mandatorily required to comply with Ind AS. The company had various complex derivative contracts – options such as forward contracts, interest rate swaps etc. which were required to be fair valued as per IND AS 109 and for which company got the fair valuation done through an external third party. Considering the complex nature of these valuations, the statutory auditor CA Paras decided to involve an auditor's expert to assess the appropriateness and accuracy of the valuation methodology and results.

CA Paras engaged expert Mr. Sohan as an auditor's expert for valuation of derivatives. CA Paras and Mr. Sohan were new to each other i.e., they were working for the first time together but developed a good bonding during the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(4 Marks)**

2. (a) CA Chirag is the statutory auditor of Electric Corporation Limited, a Government Company for the year ended on 31st March 2025. The turnover of the Company for the period was ₹ 10,000 crores from sales of electricity. During the audit, Chirag found that the Company had procured spares for Transmitters for ₹ 700 crores from abroad through a Corporation by name PCDC India Limited which is also owned and controlled by Government of India. The Financial

Statements of the Electric Corporation Limited, prepared in compliance with Ind AS for the year ended on 31st March, 2025 did not contain any additional disclosure regarding the procurement of spares as referred to above. Chirag had query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises.

Analyse this issue faced during finalising the Audit Report. **(5 Marks)**

- (b) While planning the audit of a company that heavily relies on automated processes, the auditor notices that several key financial reports used for decision-making are system-generated, and data is transferred across multiple IT applications through automated interfaces. Given this scenario, how do such IT dependencies arising from system-generated reports and interfaces develop within an entity's operations? Why is it important for the auditor to identify and understand these IT dependencies in order to design an effective and efficient audit approach? **(5 Marks)**
- (c) TP and Associates were statutory auditors of Deepa Ltd. The audit for the financial years 2023-24 and 2024-25 is still pending due to a dispute between the auditor and the company regarding certain remarks proposed to be included in the audit report for the financial year 2023-24. Subsequently, in a shareholders' meeting held on 06.05.2024, the company removed TP and Associates as auditors after complying with all applicable legal formalities. TP 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. Deepa Ltd. complained to ICAI against TP and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**
3. (a) The Comptroller & Auditor General (C&AG) appointed Rajni & Associates, a chartered accountant firm, to conduct Performance audit of LBC Ltd., a public sector undertaking under the Government of India. The firm carried out the audit to examine whether the expenses incurred by the unit were in conformity with the public interest and publicly accepted customs. However, the audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG. **(5 Marks)**
- (b) CA Vardhman is the statutory auditor of a listed company and is also required to carry out a quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with the business of the company and has a deep understanding of the company. Discuss any of the five procedures by which he can update his understanding of the company for carrying out quarterly review. **(5 Marks)**

- (c) CA Ajay is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaign promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period. Comment on the action of CA Ajay with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**
4. (a) Mr. Dharam has been appointed as the statutory auditor of Great Ltd., a listed company. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 1.5 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be done after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 21st, 2025, along with the remaining part of the Audit Fee.
- Comment on the validity of this fee structure and the terms of payment with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the guidelines issued by ICAI. **(5 Marks)**
- (b) CA Purva is working as Credit manager in branch of ADC Bank Limited. A company has approached the branch for a request to sanction credit facilities worth ₹12 crore for meeting usual business requirements. As part of the appraisal process, CA Purva undertakes a comprehensive review which includes:
- Examining the past history of the company and background check of its promoters and directors.
 - Review of the shareholding structure and understanding the nature of company's business.
 - Analysis of the company's past financial statements along with its future financial projections.
 - SWOT analysis to evaluate the company's internal and external position.
 - Assessing the net worth of the directors, reviewing their CIBIL scores, and verifying if their names appear in the RBI's defaulter list.
 - Discreet inquiries from existing clients of the branch engaged in a similar line of business to assess the creditworthiness of the company its promoters and directors.
- (i) What is the nature of the activity being performed by CA Purva? Discuss its nature.

- (ii) Would your answer be different if the same activity was performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.
- (iii) Name any three other areas where identified activity can be undertaken.

(5 Marks)

- (c) CA Subhadra, an engagement partner in SRT & Associates, is conducting the statutory audit of MBI Ltd., an unlisted manufacturing company with 96 production and sales units spread across the country. These units are audited by different branch auditors. In respect of one major unit audited by a branch auditor, there were significant inventory valuation errors and misstatements in cost allocations, which were not reported by the branch auditor. The branch auditor submitted a NIL report without suggesting any modifications.

During overall review of financial statements of Company by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection reports etc. of above branch as part of overall review procedures. However, these reports did not point towards any concern or irregularities in the inventory or costing practices. Would the statutory auditor of the Company be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?

(4 Marks)

- 5. (a) Clim Limited is enjoying cash credit facility sanctioned from Ludhiana branch of DDL Bank for ₹ 300 crore. However, for practical considerations, various sub-limits have been fixed for the borrower company for operation at Amritsar, Patiala and Rajpura branches of the same bank.

The manager of the Amritsar branch notices that there are no credit transactions in sub-limit account being operated at the Amritsar branch for more than 90 days as on 31st March, 2025.

Discuss the approach of CA Krish, statutory branch auditor of Ludhiana branch of DDL Bank, in the matter of asset classification of the above borrower account. Also discuss considerations for classifying said account at the Amritsar branch.

(5 Marks)

- (b) Gamma Ltd is engaged in the Construction business since year 2014. The auditor understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of

accounting estimates included in the prior period financial statements and their subsequent re-estimation for the purpose of current period. The management refused to provide the information to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current financial year. With reference to the relevant SA, comment on whether the contention of management is correct or not. **(5 Marks)**

- (c) Echo Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires Echo Limited to make disclosures on their performance against the various principles of the "National Guidelines on Responsible Business Conduct". One of the principles emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle. **(4 Marks)**

6. (a) CA Shreyansh is carrying out an audit of restated financial statements of MBC Limited for past 3 financial years i.e. 2024-25, 2023-24, and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Shreyansh is planning to issue an Audit Report on 5th August, 2025 covering these restated financial statements. Before issuing the audit report, CA Shreyansh requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2025 covering the period of financial year 2024-25 only as they were not in position to provide for the financial year 2023-24 and 2022-23 because they were not in place during that period.

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

- (b) CA Deepali is a practicing Chartered Accountant having office in Surat. She is owner of creative.net. In order to generate additional revenue CA Deepali sold this domain name to GRIP Limited for earning royalty of ₹ 3,50,000. One of the directors of GRIP Limited contended that CA Deepali has violated the Code of Conduct. CA Deepali responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. Comment on the action of CA Deepali with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

(5 Marks)

(c) ROPE Ltd. is a manufacturing and trading Company of leather goods since last 12 years. You are the internal auditor of the company for the year 2024-25. In order to review internal controls of the company, you visited the departments and noticed:

- (i) The store manager, Mr. Abhishek, who is responsible for maintaining the inventory, also keeps the inventory records.
- (ii) The company's staff has been working in the same roles for over seven years without any rotation. The finance manager, Mr. Krishna, in particular, has never had his duties rotated since joining the company.
- (iii) The head of procurement, Mr. Sumit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.

Do you think that general conditions pertaining to the internal check system are violated in the given situation? Comment. **(4 Marks)**

Or

(c) CA Ajeet is appointed as a statutory auditor of Shravasti Ltd. Shravasti Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Sambhav as its internal auditor. The external auditor CA Ajeet asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. Discuss whether CA Ajeet, statutory auditor, can ask direct assistance from Mr. Sambhav, internal auditor as stated above in view of auditing standards. **(4 Marks)**