

Mock Test Paper - Series I: March, 2025

Date of Paper: 15th March 2025

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

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

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

Part II - DESCRIPTIVE QUESTION

1. (a) In the given scenario, CA Z, as the statutory auditor of Joseph Retail Pvt. Ltd., is concerned about the effectiveness of controls at the service organisation, specifically the system managed by TrendTech Solutions. To address this concern, TrendTech Solutions should provide a Type 2 assurance report from a practicing-chartered accountant as per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation". This report will offer an opinion on the description of the system in use at Joseph Retail Pvt. Ltd., as well as evaluate the effectiveness of the controls implemented by TrendTech Solutions.

Using a Type 2 report as audit evidence that controls at the service organisation are operating effectively: If, the user auditor plans to use a Type 2 report as audit evidence that controls at the service organisation are operating effectively, the user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by:

- (i) Evaluating whether the description, design, and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;
 - (ii) Determining whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness;
 - (iii) Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and
 - (iv) Evaluating whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment.
- (b) SA 570, "Going Concern", deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and in the Basis

for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

In the present case, the following circumstances indicate the inability of Fun Fiesta Ltd. to continue as a going concern:

- Losing popularity over the past few years.
- Animal Rights activists continuously targeting the circus.
- Audience abandoning the circus due to their expanding entertainment options.
- High Cost of moving the show from city to city making the business model untenable.
- Key Managerial Personnel leaving the Company.
- Banks decided not to extend further finance and not to fund the working capital requirements of the Company.
- Non availability of sound action plan to mitigate such circumstances.

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company.

As such, the statutory auditor of Fun Fiesta Ltd. should:

- (1) Express an adverse opinion in accordance with SA 705 (Revised) and
- (2) In the Basis of Adverse Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

The auditor is also required to report as per clause (xix) of CARO 2020 that on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

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

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

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

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

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

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

2. (a) **There are 3 Stage of cyber risk :**

Stage 1 - Assessing the cyber risk: No organisation is completely immune to a cyber risk. Different clients will have different levels of risks, even with the same industry. Every organisation should consider at least the common threats-

- Ransomware disabling their organisation (including their plants and manufacturing facilities).
- Common criminals using email phishing and hacks for fraud and theft.
- Insiders committing malicious activities or accidental activities resulting in unintended disclosure of information theft and frauds.

Stage 2 - Impact of cyber risk: Cyber-attack can impact one, two or more types of risks. The impact of the attack would vary from organisation to organisation and most importantly from attack to attack. Some of the indicative areas can be –

- Regulatory costs.
- Business interruptions causing an operational challenge for an organisation.
- Data loss, reputational loss and litigation.
- Ransomware - more common these days where entire systems are encrypted.
- Intellectual property theft which may not only take the competitive advantage, but we may also result in any impairment/impediment charge because of the loss of IP.
- Incident response cost which could be for investigations & remediations.
- Breach of Privacy, if personal data of a consumer is hacked it could have a significant impact on the organisation.
- Fines and penalties.

Stage 3 - Managing cyber risk: A strategic approach to cyber risk management can help an organisation to:

- Gain a holistic understanding of the cyber risks, threats facing their organisation and other financial institutions.
- Assess existing IT and cybersecurity program and capabilities against the relevant regulatory requirements.
- Align cybersecurity and IT transformation initiatives with strategic objectives and critical risks.
- Understand accepted risks & documented compensating controls.

- (b) **Preconditions for Accepting a Review Engagement:** Prior to accepting a review engagement, the practitioner shall: -
- (1) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and
 - (2) Obtain the agreement of management that it acknowledges and understands its responsibilities:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the practitioner with: -
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - b. Additional information that the practitioner may request from management for the purpose of the review; and
 - c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.
- (c) Areas of analysis in order to ensure that the assets are not stated at overvalued amounts Over-Valued Assets are:
- Uncollected/uncollectable receivables.
 - Obsolete, slow non-moving inventories or inventories valued above NRV, huge inventories of packing materials etc. with name of company.
 - Underused or obsolete Plant and Machinery and their spares; asset values which have been impaired due to sudden fall in market value etc.
 - Assets carried at much more than current market value due to capitalization of expenditure/foreign exchange fluctuation, or capitalization of expenditure mainly in the nature of revenue.

- Litigated assets and property.
- Investments carried at cost though realizable value is much lower.
- Investments carrying a very low rate of income / return.
- Infructuous project expenditure/deferred revenue expenditure etc.
- Group Company balances under reconciliation etc.
- Intangible assets of no value.

3. (a) In the given situation, Veda Ltd., a listed company, has installed pollution control equipment to process industrial waste and ensure compliance with environmental regulations. However, despite these measures, the company continues to violate pollution control laws regarding the disposal of industrial waste. To obtain an environmental clearance certificate, the company resorted to unethical means, unlawfully incurring ₹ 43.85 lakhs, which was misrepresented in the financial records as an environmental compliance expense.

CA Rohan, Director Finance, came to know about these matters on review of the same during the period.

NOCLAR, under Code of Ethics, is applicable on professional accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than Audit.

It is applicable to Senior Professional Accountants in service, being employees of listed entities. Senior professional accountants in service ("senior professional accountants") includes directors.

NOCLAR takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

As per NOCLAR, in exceptional circumstances, the professional accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted.

CA Rohan, Director-Finance is expected of taking the following action/responses:

- Obtaining an understanding of the Matter.
- Addressing the matter.
- Seeking advice.
- Determining whether further action is needed.
- Determining whether to disclose the matter to an Appropriate Authority.
- Imminent breach.
- Documentation.

By following these steps, CA Rohan can ensure ethical compliance while upholding professional integrity under the NOCLAR framework.

(b) Verification of Accounts Receivable: As per SA 510, "Initial Audit Engagements – Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-

- (i) Opening balances contain misstatements that materially affect the current period's financial statements; and
- (ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

In addition, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of Ordinary (P) Ltd. has restrained CA. Jin, its auditor, from obtaining appropriate audit evidence for balances of Accounts Receivable outstanding as it is from the preceding year. CA. Jin, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA. Jin should have requested the management to provide written representation for their views and expressions; and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme. Consequently, CA. Jin shall also be held guilty for professional misconduct for not exercising due diligence, or grossly negligence in the conduct of his professional duties as per the Code of Ethics.

- (c) As per SA 610, "Using the Work of Internal Auditors", prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
- (i) Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
 - (ii) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. The external auditor shall not use

an internal auditor to provide direct assistance if: (a) There are significant threats to the objectivity of the internal auditor; or (b) The internal auditor lacks sufficient competence to perform the proposed work.

In the current scenario, Rajveer & Associates are the statutory auditors of Ish and Vish Ltd., a listed company. CA. Vishav, the engagement partner, designed certain substantive procedures on some selected assertions in response to the assessed risks of material misstatements for the year, which were not previously examined. Mr. Yug, head of the internal audit department, reports to the audit committee. A senior audit team member decides to involve Mr. Yug in performing these substantive procedures.

As a result, the Rajveer & Associates is required to obtain written agreements from both the entity and the internal auditors regarding their cooperation and confidentiality. Further, using an internal auditor to provide direct assistance could prove to be counter-productive and defeat the very purpose of designing such substantive procedures. Hence, the decision of senior engagement team member to use Mr. Yug to provide direct assistance on above said matters is not in order as it is not in accordance with SA 610.

4. (a) To determine whether Qura Capital Ltd. meets the capital adequacy requirement, we need to compute its **Tier 1 Capital, Tier 2 Capital** and compare the total capital ratio against the required 15% of Risk-Weighted Assets (RWA).

Step 1: Computation of Tier 1 Capital

Tier 1 Capital = Owned Fund – Investments in Group Entities + Eligible Perpetual Debt Instruments.

Tier 1 Capital = 1,000 - 150 + 120 = ₹ 970 crore

Note: The perpetual debt instruments are limited to **15% of the previous year's Tier 1 capital**. Assuming ₹120 crore qualifies, we include it in Tier 1 capital.

Step 2: Computation of Tier 2 Capital

Tier 2 Capital = Sum of:

- **Preference Shares** = ₹ 80 crore
- **Revaluation reserves at discounted rate of 55 percent** = ₹ 90 crore
(₹200 crore × 55% = ₹ 110 crore i.e ₹ 200- ₹110= ₹ 90)
- **General Provisions (Limited to 1.25% of RWA)** = 1.25% of ₹ 8,000 crore = ₹ 100 crore (Since actual general provisions are ₹ 50 crore, we take ₹ 50 crore)

- **Hybrid Debt Capital Instruments** = ₹ 90 crore
- **Subordinated Debt** = ₹ 140 crore
- **Perpetual Debt Instruments exceeding Tier 1 Limit** = ₹ 0 crore
(As ₹ 120 crore is already within Tier 1 limit)

Tier 2 Capital = 80 + 90 + 50 + 90 + 140 + 0 = ₹ 450 crore.

Note: Tier 2 Capital cannot exceed Tier 1 Capital. Since ₹ 450 crore is within the ₹ 970 crore Tier 1 limit, it is fully eligible.

Step 3: Compute Capital Adequacy Ratio (CAR)

Total Capital = Tier 1 Capital + Tier 2 Capital.

Total Capital = 970 + 450 = ₹ 1,420

Capital Adequacy Ratio (CAR) = (Total Capital/Risk-Weighted Assets) × 100
= 1420/8000 × 100 = 17.75%

Step 4: Conclusion

- Minimum required capital ratio = 15%
- Actual Capital Adequacy Ratio (CAR) = 17.75%

Since Qura Capital Ltd.'s CAR (17.75%) is higher than the minimum requirement of 15%, it meets the regulatory capital adequacy norms.

- (b) Pink Ltd. shall adhere to Principle 9 of BRSR which focuses on Providing Value to the Consumers in a Responsible Manner.

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

- Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.
- When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.
- The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

- iv) When handling customer data, the right to privacy of the customer needs to be maintained.
 - v) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.
 - vi) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.
 - vii) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.
 - viii) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.
- (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 Dhanush, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of ` 2.85 Crores which exceeds the fees payable for audit.

Conclusion: In view of the above provision, it would not be misconduct on Dhanush's part if he accepts the assignment of representation before Income Tax Appellate Tribunal for remuneration of ` 2.85 crore since it is covered under exception.

5. (a) As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," the firm should establish policies and procedures designed to

provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:

- (i) Communicate its independence requirements to its personnel and, where applicable, to others subject to them; and
- (ii) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

Further, as per SA 220, “Quality Control for an Audit of Financial Statements”, the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement.

In doing so, the engagement partner shall:

- (i) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
- (ii) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- (iii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

- (b) **Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists:** As per SA 720, “The Auditor’s Responsibility in Relation to Other Information”, descriptions of trends in market prices of key commodities or raw materials is an example of amounts or other items that may be included in the other information.

The auditor’s discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management’s statements in the other information. Based on management’s further information or explanations, the auditor may be satisfied that the other information is not

materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

Auditor's duties with regard to reporting in the given case are given hereunder:

As per SA 720, "The Auditor's Responsibility in Relation to Other Information", if the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (1) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (2) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

In the given case, while reviewing the draft annual report, the audit in-charge noticed that the company reported a decline in market prices of key raw materials compared to the previous year. However, the company's reported profit margins in the financial statements showed an increasing trend.

The Audit Manager discussed this issue with a partner of the firm who replied that auditors are not covered with such disclosures made by the management in their annual report, it being the responsibility of the management.

Therefore, it can be concluded that the partner's approach is not appropriate.

- (c) **Disclosure of Information:** As per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty if a Chartered Accountant, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

In the given case, Hitesh, a Chartered Accountant while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. Details of engagement in business need to be disclosed while applying for the certificate of practice as was the information called for in the application, by the Institute.

Thus, Hitesh will be held guilty of professional misconduct under Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.

6. (a) **Disrepute to the Profession:** As per Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he, in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work. Here the Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case, Mr. Chetan allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings, to gain an undue advantage. This brings disrepute to the profession of a Chartered Accountant.

Therefore, CA Chetan will be held guilty of other misconduct under Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949.

- (b) In accordance with SA 706, Emphasis of Matter Paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

As per SA 706, the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to: -

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Further, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter.

In the given situation, auditor has relied upon management representation letter only. He has not performed any other audit procedures like verifying contracts with customers, status of arbitration proceedings etc. Since management representations by themselves do not constitute sufficient appropriate evidence, performing necessary audit procedures may lead auditor to conclude that

modification in opinion is necessary. In such circumstances, matter cannot be included in Emphasis of matter Paragraph.

Therefore, CA Arohan should form his opinion by performing necessary audit procedures and obtaining sufficient appropriate evidence. It is only when he concludes that modification of opinion is not required as a result of said matter in terms of SA 705, the said matter may be included in Emphasis of Matter paragraph.

(c) **Control System over Selling and Collection of Tickets:** In order to achieve proper internal control over the sale of tickets and its collection by the Joy World Pvt. Ltd., following system should be adopted -

- (i) **Printing of tickets:** Serially numbered pre-printed tickets should be used and designed in such a way that any type of ticket used cannot be duplicated by others in order to avoid forgery. Serial numbers should not be repeated during a reasonable period, say a month or year depending on the turnover. The separate series of the serial should be used for such denomination.
- (ii) **Ticket sales:** The sale of tickets should take place from the Central ticket office at each of the 5 centres, preferably through machines. There should be proper control over the keys of the machines.
- (iii) **Daily cash reconciliation:** Cash collection at each office and machine should be reconciled with the number of tickets sold. Serial number of tickets for each entertainment activity/denomination will facilitate the reconciliation.
- (iv) **Daily banking:** Each day's collection should be deposited in the bank on the next working day of the bank. Till that time, the cash should be in the custody of properly authorized person preferably in joint custody for which the daily cash in hand report should be signed by the authorized persons.
- (v) **Entrance ticket:** Entrance tickets should be cancelled at the entrance gate when the public enters the centre.
- (vi) **Advance booking:** If advance booking of facility is made available, the system should ensure that all advance booked tickets are paid for.
- (vii) **Discounts and free pass:** The discount policy of the Joy World Pvt. Ltd. should be such that the concessional rates, say, for group booking should be properly authorized and signed forms for such authorization should be preserved.

- (viii) **Surprise checks:** Internal audit system should carry out periodic surprise checks for cash counts, daily banking, reconciliation and stock of unsold tickets etc.

OR

- (c) The said matters are dealt with by Committee on Public Undertakings (COPU). The functions of the Committee are -
 - (i) to examine the reports and accounts of public undertakings.
 - (ii) to examine the reports of the C&AG on public undertakings.
 - (iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
 - (iv) to exercise such other functions vested in the PAC and the Estimates Committee as are not covered above and as may be allotted by the Speaker from time to time.

The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking.