

Mock Test Paper - Series II: December, 2025

Date of Paper: 8th December, 2025

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

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

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

PART – II: DESCRIPTIVE QUESTIONS

1. (a) (i) As per SA 720 (Revised), "The Auditor's Responsibilities Relating to Other Information", the auditor is required to report on "Other Information" in the auditor's report for listed entities. "Other Information" refers to financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

In the "Other Information" section of the auditor's report, the following should be included:

- A statement that management is responsible for the other information included in the annual report.
 - Identification of other information obtained:
 - The Director's Report and MD&A have been obtained prior to the date of the auditor's report.
 - Mention of other information expected to be obtained later (e.g., Chairman's Message and Future Projections)
 - A statement that the auditor's opinion does not cover the other information, and the auditor does not express any form of assurance conclusion on it.
 - A description of the auditor's responsibilities relating to reading, considering, and reporting on the other information as per SA 720.
 - A statement on the results of the auditor's review of the other information:
 - If no misstatement is identified, a statement to that effect.
 - If a material misstatement is identified, a description of the uncorrected misstatement (as applicable).
- (ii) As per SA 720 (Revised), if the auditor identifies a material misstatement in the other information and management refuses to correct it, M/s AXT & Co. shall report the uncorrected misstatement in the "Other Information" section as:
- We have identified a material misstatement in the MD&A regarding the company's claim of a 22% reduction in production costs. However, based on our audit evidence, the reduction was only 15%.
- (b) As per SA 220, "Quality Control for an Audit of Financial Statement", the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. For audits of financial statements of listed entities, the engagement partner shall:
- Determine that an engagement quality control reviewer has been appointed;
 - Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and

- Not date the auditor's report until the completion of the engagement quality control review.

Further, SA 700, "Forming an Opinion and Reporting on Financial Statements", requires the auditor's report to be dated not earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.

In this case, the audit of VC Ltd. for the year ending on 31st March 2025 was conducted by Alex & Associates and was completed on 5th May, 2025. Subsequently, the engagement partner reviewed the audit by 16th May, 2025. The audit report issued by Alex and Associates was dated 19th May, 2025. However, the engagement quality control review was finalized on 22nd May, 2025, which is later than the date of the audit report. In view of above, the date of auditors' report before the completion of the engagement quality control review, is not correct.

- (c) As per SA 570, when events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, the auditor must obtain sufficient appropriate audit evidence to determine whether a material uncertainty exists. Accordingly, CA M should perform following audit procedures:

- Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

- (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- Considering whether any additional facts or information have become available since the date on which management made its assessment.
- Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- Draw attention to the note in the financial statements
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

In the given situation, CA M should express an unmodified opinion in view of above.

2. (a) A liability is a present obligation of the entity to transfer an economic resource as a result of past events. Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example: -
- (i) settle the obligation by negotiating a release from the obligation;
 - (ii) transfer the obligation to a third party; or
 - (iii) replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

In the above situations, an entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation.

In the given situation, the company has written back liabilities due to creditors unilaterally. The company has not settled the obligation by negotiating a release from the obligation from respective creditors. Such an accounting treatment by management is questionable and against the conceptual framework for financial reporting under Ind AS.

CA. Sonal wanted to send external confirmations in accordance with SA 505, "External Confirmations" but management informed her that sending such

requests may be used by creditors as proof of existence of liability. In fact, she should display professional skepticism and be alert to the possibility of misstatements in financial statements, if restrained by management from obtaining external confirmations. The reasons advanced by management do not appear to be valid and reasonable. In accordance with SA 505, she should reassess risks and perform alternative audit procedures to mitigate such risks. Besides, she should consider implications of same for her audit opinion.

Further, SA 705, "Modifications to the Opinion in the Independent Auditor's Report" requires that the auditor shall modify the opinion in the auditor's report when:

- (i) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (ii) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

SA 705 also states that misstatements in financial statements arise when selected accounting policies are not in accordance with an applicable financial reporting framework. It also states that examples of an inability to obtain sufficient appropriate audit evidence arise from a limitation on the scope of audit imposed by management when management prevents the auditor from requesting external confirmation of specific account balances. Therefore, she needs to issue a modified opinion.

Keeping in view above, her contemplation of including above matters under "Key Audit Matters" is not proper and is not in accordance with SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report". It states that the auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 as a result of the matter. Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.

(b) The audit procedure to detect and address possible inflation of cash payments and fraud in cash disbursements in the above circumstances are as follows:

- All evidence as regards cash payments made, including acknowledgement by parties for payments shown to have been made to them, should be carefully scrutinised.

- In the case where a figure appears to have been erased or altered on the receipts issued by the party, on making reference to the party concerned, the actual amount paid to him should be confirmed. The same procedure should be applied in respect of amounts acknowledged on blank papers.
- All payments by bearer cheques should be examined.
- The system of recording of wages should be reviewed, specially as regards possible over-totalling of wage sheets, and the inclusion of dummy workmen.
- The system of ordering and receiving goods should be reviewed so as to confirm that no payment has been made in respect of supplies which have not been received.
- Confirmations should be obtained from partners or Directors in respect of amounts shown to have been paid to them.
- The Petty Cash Book should be vouched and totalled.
- Special attention should be paid to payments made on account of salaries and wages; confirmation should be obtained from the management that all payments of such salaries and wages were made to persons who were actually in the service of the company.
- All the withdrawals from the bank should be checked with reference to entries in the bank's pass book.
- All the bills receivable or payable should be checked with reference to the Bills Books.

(c) Audit Implications arising from the use of IoT:

- A shift to connected devices and systems may result in auditors being unable to rely only on manual controls. Instead, auditors may need to scope new systems into their audit.
- Audit firms may need to train and upskill auditors to evaluate the design and operating effectiveness of automated controls.
- Consumer-facing tools that connect to business environments in new ways can impact the flow of transactions and introduce new risks for management and auditors to consider. Consider payment processing tools that allow users to pay via credit card at a retail location through a mobile

device. This could create a new path for incoming payments that may rely, in part, on a new service provider supplying and routing information correctly. Auditors would need to consider the volume of those transactions and the processes and controls related to it.

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

3. (a) **Responsibility and Co-ordination among Joint Auditors:** As per SA 299, “Joint Audit of Financial Statements”, where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of the work would usually be in terms of audit identifiable units or specified area. In some cases, due to the nature of the business entity under audit, such a division of the work may not be possible. In such situations, the division of the work may be with reference to items of assets or liabilities or income or expenditure or with reference to period of time. The division of the work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.

In respect of the audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate audit of the work performed by him. On the other hand all the joint auditors are jointly and severally responsible –

- (i) The audit work which is not divided among the joint auditors and is carried out by all joint auditors;
- (ii) Decisions taken by all the joint auditors under audit planning phase concerning the nature, timing and extent of the audit procedure to be performed by each of the auditor;
- (iii) Matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) Examining that the financial statements of the entity comply with the requirements of the relevant statute;
- (v) Presentation and disclosure of financial statements as required by the applicable financial reporting framework;
- (vi) Ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI;

The joint auditors shall also discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to those charged with governance. After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and the same shall be communicated to those charged with governance of the entity.

Hence, in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

In the instant case, Tree Ltd. appointed two CA Firms GH & Associates and IJ & Co. as joint auditors for conducting audit. As observed during the course of audit that there is a significant understatement in the value of trade receivable and valuation of trade receivable work was looked after by GH & Associates.

In view of SA 299, GH & Associates will be held responsible for the same as trade receivable valuation work was looked after by GH & Associates only. Further, there is violation of SA 299 as the division of work has not been documented.

(b) In order to demonstrate that the audit trail feature was functional, operative and was not disabled, a company would have to design and implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls that may be required to be implemented and operated is given below:

- ◆ Controls to ensure that the audit trail feature has not been disabled or deactivated.
- ◆ Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- ◆ Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- ◆ Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- ◆ Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under the provisions of the Act.

- (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

In the given case, CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 74% of the paid-up share capital of the company and CA Sunny has given a conditional acceptance of the appointment and commenced the audit. In view of the above, it can be concluded that CA Sunny is not liable for misconduct and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

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

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

- (i) Issue of audit queries during the course of audit.

- (ii) Asking for information or issue of questionnaire.
- (iii) Letter forwarding draft observations/financial statements.
- (iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
- (v) Acknowledging and carrying on routine correspondence with clients.
- (vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
- (vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.
- (ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.
- (x) Any other matter incidental to the office administration and routine work involved in practice of accountancy.

In the instant case, Mr. Tony, the auditor of NDT Pvt. Ltd. has delegated certain task to his articles and staff such as issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced and signing financial statements of the company.

Therefore, Mr. Tony is correct in allowing first four tasks i.e. issue of audit queries during the course of audit, issue of memorandum of cash verification and other physical verification, letter forwarding draft observations/financial statements, issuing acknowledgements for records produced to his staff and articles.

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

Conclusion: In view of this, Tony would be guilty of professional misconduct for allowing the person signing the financial statements on his behalf to his articles and staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

- (b) **Environment Pillar:** The ESG pillar highlighted here is the “Environment” pillar which stands for corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. It includes the natural resources

that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on. Thus, one is dependent on the environment for carrying out its operations.

The Environment pillar includes the following elements as under:

- **Climate Change:**
 - Carbon Emissions
 - Product Carbon FootPrints
 - Financing Environmental Impact
 - Climate Change Vulnerability
- **Natural Resources:**
 - Water Stress
 - Bio-diversity & land use
 - Raw Material sourcing
- **Pollution & Waste:**
 - Toxic emission and waste
 - Packing Material and waste
 - E- Waste
- **Environment Opportunity:**
 - Clean Tech
 - Green Building
 - Renewable Energy

- (c) As per SAE 3400 “The Examination of Prospective Financial Information”, Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five- year projection.

“Forecast” means prospective financial information prepared on the basis of:

- Assumptions as to future events which management expects to take place and

- The actions management expects to take as of the date the information is prepared (best-estimate assumptions- an assumption that reflects anticipated experience with no provision for risk of adverse deviation).

Example - In present market conditions, supply availability, historical buying patterns and seasonal trends, the CFO of X Ltd. expects sales to increase by 5% over the next quarter. Therefore, a 5% sales increase is his financial forecast for the period.

“Projection” means prospective financial information prepared on the basis of:

- Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- A mixture of best-estimate and hypothetical assumptions (imagined or suggested)

Example- X Ltd. may project a course of action to take when one or more hypothetical situations arise, such as creating a new product to meet the demand of expected market growth. As a result of assuming the possibility of different events occurring, financial projections typically serve as an outline for evaluating the desired outcomes X Ltd. expects to see, including its financial, cash flow and operational outcomes.

Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future- oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. Therefore, an opinion as to whether the results shown in the prospective financial information will be achieved cannot be expressed.

5. (a) **Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole:** As per SA 320, determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);

- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark.

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

- (i) In case if Rise Limited is engaged in manufacture and sale of air conditioner, and is having regular profits: CA Vir, the auditor may consider profit before tax /Earnings.
- (ii) In case Rise Limited is engaged in the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic: CA Vir, the auditor may consider Revenue or Gross Profit as benchmarking.

Alternatively, CA Vir, the auditor may consider the criteria relevant for audit of the entities doing public utility programs/ projects, Total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for that particular program/project activity. Where an entity has custody of the assets, assets may be an appropriate benchmark.

- (b) As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

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

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

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

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. The refusal of management to provide written representation is not correct as per SA 580.

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

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

In the instant case, such non-verification happened for two years. It also appears that auditors failed to confirm the value of investments from any proper source. In case the auditor has simply relied on the management's representation, the auditor has failed to perform his duty.

Conclusion: Accordingly, CA. Nilesh, will be held liable for the professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

6. (a) As per SA 620 "Using the work of an Auditor's Expert", the nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert.

In certain situations, the need for a detailed agreement in writing is required like -

- The auditor's expert will have access to sensitive or confidential entity information.
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

In the given case, considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him.

- (b) The auditors, STS Associates wanted to ensure and obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by obtaining an understanding of the methods used by management in determining segment information. SA 501 guides in this regard. As per SA 501- "Audit Evidence—Specific Considerations for Selected Items", example of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

- (i) Sales, transfers and charges between segments, and elimination of inter-segment amounts.

- (ii) Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
 - (iii) The allocation of assets and costs among segments.
 - (iv) Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.
- (c) Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily and non-renewal of limits on the due date. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months. The outstanding in the account based on drawing power calculated from stock statements older than 3 months are considered as irregular.

Although the account reflects irregularity due to reliance on outdated stock statements, the deficiencies identified are temporary and do not independently justify NPA classification. The bank must obtain an updated stock statement promptly and continue monitoring the account, but NPA recognition is not warranted at this stage.

OR

- (c) **Sharing Fees with an Articled Clerk:** As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Rai, stating that he is paying 1.5% profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak is not tenable.

Hence, Mr. Rai is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.