Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 5: Auditing and Ethics

Mock Test 1 – Full Paper with Model Answers

ICAI new-scheme pattern: 100 marks · 3 hours · Part I 15 MCQs × 2 marks · Part II Q1 compulsory + any 4 of Q2–Q6 (14 marks each) · Original Skillshort questions

Time: 3 hours | Max marks: 100 | No negative marking | Model answers in ICAI style | Answers follow the paper

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part I – Multiple Choice Questions (30 marks)

Instructions: Each MCQ carries 2 marks. Choose the most appropriate option.

CASE LAW Case Scenario I – Kesar Textiles Ltd. (MCQs 1–5)

Kesar Textiles Ltd., a listed company, has appointed MK & Co. as statutory auditors for 2025-26 (year ending 31 March 2026). CA Meera is the engagement partner. Facts noted:

(1) The company counted its inventory on **10 April 2026** instead of 31 March 2026. (2) The audit team plans to send **negative confirmations** to 2,500 dealers with small balances. (3) Management **refused** to allow a confirmation request to its largest customer, Zenith Exports, saying the relationship is "sensitive". (4) The company has **net current liabilities**, its bankers have refused to renew a term loan, and management plans to sell a factory. Management has disclosed these facts and its plans fully in Note 34. (5) The managing director offered CA Meera a **free family holiday** worth ₹3 lakh to celebrate the company's 50th year.

1. With regard to the inventory count on 10 April 2026, the auditor should mainly

(a) Refuse to rely on the count and qualify the report
(b) Perform procedures to obtain evidence that changes in inventory between 31 March and 10 April are properly recorded
(c) Accept the count since the difference is only 10 days
(d) Ask management to recount on 31 March next year and give an unmodified opinion now

2. Which of the following is **not** a condition for using negative confirmations as the sole substantive procedure?

(a) RMM assessed as low and relevant controls tested
(b) Population of a large number of small, homogeneous balances
(c) A very low exception rate is expected
(d) The balances must be with related parties

3. On management's refusal to allow confirmation from Zenith Exports, the **first** thing CA Meera should do is

(a) Issue a disclaimer of opinion
(b) Inquire into management's reasons and seek audit evidence about their validity and reasonableness
(c) Send the confirmation anyway
(d) Withdraw from the engagement

4. Given fact (4), if the going concern basis is appropriate and the material uncertainty is adequately disclosed, the auditor's report will contain

(a) A qualified opinion
(b) An adverse opinion
(c) An unmodified opinion with a separate section "Material Uncertainty Related to Going Concern"
(d) An unmodified opinion with an Other Matter paragraph

5. The holiday offer creates

(a) An advocacy threat
(b) A self-interest and familiarity threat – the offer should be declined unless trivial and inconsequential
(c) A self-review threat
(d) No threat as it is a festive gesture

CASE LAW Case Scenario II – Shubh Bank Ltd., Indore branch (MCQs 6–10)

CA Arvind is the branch auditor for the year ended 31 March 2026. He notes: (i) a term loan whose instalment due on **15 November 2025** remains unpaid; (ii) a cash credit account whose outstanding balance has been **continuously above the drawing power since 1 December 2025**; (iii) a loan of **₹50 lakh**, doubtful for 2 years (D2), secured by property with realisable value **₹30 lakh**; (iv) a loan of **₹80 lakh** with realisable security of only **₹7 lakh**, classified by the branch as doubtful (D1); (v) a borrower whose instalment is overdue for **45 days**.

6. Account (i) at 31 March 2026 is

(a) Standard
(b) SMA-2
(c) NPA – sub-standard (overdue 136 days > 90 days)
(d) Doubtful

7. Account (ii) at 31 March 2026 is

(a) Standard, as interest is being serviced
(b) NPA – out of order for more than 90 days
(c) SMA-1
(d) Loss asset

8. The provision required on account (iii) is

(a) ₹12 lakh
(b) ₹20 lakh
(c) ₹32 lakh
(d) ₹50 lakh

9. Account (iv) should be classified as

(a) D1 with 25% provision on the secured portion
(b) Sub-standard
(c) Loss asset with 100% provision
(d) D3

10. Borrower (v) is classified as

(a) SMA-0
(b) SMA-1
(c) SMA-2
(d) NPA

11. If the auditor **reduces** the tolerable misstatement for a test of details, the required sample size will

(a) Increase
(b) Decrease
(c) Remain unchanged
(d) Become zero

12. Under SQC 1, the assembly of the final audit file should normally be completed within

(a) 30 days
(b) 45 days
(c) 60 days
(d) 90 days of the date of the auditor's report

13. Which matter is most suitable for an **Emphasis of Matter** paragraph?

(a) Inventory not physically verified and no alternative evidence
(b) A major fire at the main plant after year-end, fully disclosed in the notes
(c) Non-provision of a material doubtful debt
(d) Restriction on distribution of the auditor's report

14. Ravi Pvt. Ltd. (not a holding or subsidiary of a public company) has paid-up capital and reserves of ₹80 lakh, maximum bank borrowings during the year of ₹90 lakh and total revenue of ₹12 crore. CARO 2020

(a) Does not apply, as two of three limits are within thresholds
(b) Applies, as revenue exceeds ₹10 crore
(c) Does not apply to any private company
(d) Applies only to clause 3(xxi)

15. CA Neel's brother holds shares of face value ₹80,000 in Alfa Ltd. CA Neel is

(a) Disqualified u/s 141(3)(d)(i)
(b) Not disqualified, as a relative may hold securities up to face value ₹1 lakh
(c) Disqualified unless the shares are sold within 30 days
(d) Not disqualified, as brothers are not relatives

Part I – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	SA 501 – where the count is on a date other than the date of the FS, the auditor performs procedures (roll-back using receipts, issues, sales and production records) to obtain evidence that **changes between the count date and the year-end are properly recorded**.
2	(d)	SA 505 lists the other three conditions plus "no circumstances suggesting recipients will disregard requests". Related-party status is not a condition.
3	(b)	SA 505 para 8: inquire into the reasons and seek evidence of their validity; evaluate the implications for risk assessment; perform alternative procedures. Only if the refusal is unreasonable or alternatives fail does the auditor communicate with TCWG and consider SA 705.
4	(c)	SA 570 para 22 – unmodified opinion with a separate section headed "Material Uncertainty Related to Going Concern", drawing attention to the note.
5	(b)	Gifts and hospitality of significant value create **self-interest and familiarity threats**. ₹3 lakh is not trivial, so CA Meera should decline it.
6	(c)	Overdue from 15-11-2025 to 31-3-2026 = 136 days, which is **more than 90 days**. It is an NPA for less than 12 months, so it is **sub-standard**.
7	(b)	A CC account with the outstanding balance **continuously above the drawing power for 90 days** is "out of order" and hence an **NPA** (120 days here).
8	(c)	Unsecured portion 20 lakh × 100% = 20 lakh + secured portion 30 lakh × 40% (D2) = 12 lakh → **₹32 lakh**.
9	(c)	Realisable security (₹7 lakh) is **less than 10% of the outstanding** (8.75%), so the account is classified straight as a **loss asset** – provision ₹80 lakh.
10	(b)	SMA-1 = principal or interest overdue for **31–60 days**.
11	(a)	SA 530 Appendix: a lower tolerable misstatement means the auditor needs more precision, so the sample size **increases**.
12	(c)	**60 days** after the date of the auditor's report. Documentation is retained for 7 years.
13	(b)	EOM refers to a matter **appropriately disclosed** that is fundamental to users' understanding – a major catastrophe after year-end. (a) needs a qualification, (c) a qualified/adverse opinion, (d) an Other Matter paragraph.
14	(b)	The three exemption conditions are **cumulative**. Revenue above ₹10 crore breaks the exemption, so **CARO applies**.
15	(b)	Under the proviso to s. 141(3)(d)(i), a **relative** may hold securities of face value up to **₹1,00,000** without disqualifying the auditor.

Part II – Descriptive Questions (70 marks)

Question 1 is compulsory. Answer any four of the remaining five questions.

Q1 (a) (5 marks). Neha Pvt. Ltd. had a turnover of ₹45 crore in its latest audited financial statements. Its bank borrowings were ₹18 crore at year-end but reached ₹28 crore in October. The management says the auditor need not report on internal financial controls because turnover is below ₹50 crore, and that CARO 2020 does not apply because it is a private company. Comment.

Q1 (b) (5 marks). While discussing the engagement letter, the directors of Saffron Ltd. refused to accept responsibility for designing and maintaining internal control, saying "that is the auditor's job". State the preconditions for an audit and advise the auditor.

Q1 (c) (4 marks). During the audit of Orbit Ltd. for 2025-26, the auditor found that the accounting software's **edit log** was disabled for three months. What are the auditor's reporting responsibilities?

Q2 (a) (5 marks). Pinnacle Steels Ltd. has incurred substantial operating losses for three years, negative operating cash flows, and its principal supplier has moved it to cash-on-delivery terms. As auditor, list the audit procedures you would perform when such events are identified.

Q2 (b) (5 marks). The audit report of Vista Ltd. was signed on 20 May 2026. On 28 May 2026, before the financial statements were issued, the auditor learnt that a major customer owing ₹4 crore (material) had been declared insolvent on 5 May 2026. Explain the auditor's responsibility.

Q2 (c) (4 marks). The new CFO of Dhruv Ltd. refuses to sign a representation that management has provided all relevant information and access, saying he joined only in February. Advise the auditor.

Q3 (a) (5 marks). The auditor of Sagar Retail Ltd. has to test 60,000 sales invoices of widely differing values. Advise on (i) statistical vs non-statistical sampling, (ii) a suitable method of selection, (iii) factors affecting sample size.

Q3 (b) (5 marks). Describe the audit procedures for verification of trade receivables.

Q3 (c) (4 marks). When can an auditor rely on negative confirmations? How should non-responses to positive confirmations be handled?

Q4 (a) (5 marks). Compute the provision required on the following advances of a bank branch at 31 March 2026: (i) sub-standard secured advance ₹2 crore; (ii) advance of ₹1 crore doubtful for 2½ years, realisable security ₹60 lakh; (iii) advance of ₹50 lakh with realisable security ₹4 lakh; (iv) unsecured sub-standard advance ₹20 lakh.

Q4 (b) (5 marks). State the special audit procedures for revenue of a hotel.

Q4 (c) (4 marks). What is propriety audit? State its principles.

Q5 (a) (5 marks). The audit trainee of a listed company thinks key audit matters are another name for qualifications. Explain how KAMs are determined and what communicating KAMs is not.

Q5 (b) (5 marks). State the type of opinion with reasons: (i) inventory of ₹6 crore (material, not pervasive) could not be verified and no alternative procedures were possible; (ii) the company has not provided for a loss on a guarantee that wipes out its net worth; (iii) the accounting records of the year were destroyed in a fire, and the auditor cannot obtain evidence for most items.

Q5 (c) (4 marks). Explain the responsibilities of joint auditors under SA 299.

Q6 (a) (5 marks). Classify the threats to independence with reasons: (i) the audit firm prepares the company's financial statements; (ii) the engagement partner's wife is the company's CFO; (iii) the client threatens to replace the auditor unless a provision is reversed; (iv) the firm's fee from one client is 40% of its total fees; (v) a partner represents the client before the GST tribunal.

Q6 (b) (5 marks). Explain the ownership, custody and retention of audit documentation. Is the auditor obliged to give working papers to the client?

Q6 (c) (4 marks). State the procedure for removal of an auditor before the expiry of the term under the Companies Act, 2013.

OR

Q6 (c) (4 marks). State the auditor's duties in the audit of an LLP.

Model Answers – Part II

SOLUTION Q1 (a) IFC and CARO for Neha Pvt. Ltd.

Provision – IFC: s. 143(3)(i) requires the auditor to report on the adequacy and operating effectiveness of internal financial controls with reference to financial statements. By MCA notification (2017), this does not apply to a private company that has turnover **less than ₹50 crore** as per the latest audited FS **and** aggregate borrowings from banks, financial institutions or any body corporate **less than ₹25 crore at any point of time during the year** (and is not in default in filing u/s 137/92).

Facts: turnover ₹45 crore is below ₹50 crore, but borrowings reached **₹28 crore** at one point during the year. The year-end balance of ₹18 crore is irrelevant.

CARO: a private company is exempt only if **all three** conditions are met: paid-up capital + reserves ≤ ₹1 crore, borrowings ≤ ₹1 crore at any time, and revenue ≤ ₹10 crore. Revenue is ₹45 crore and borrowings ₹28 crore, so CARO **applies**.

Conclusion: management's view is incorrect on both counts. The auditor must report on IFC u/s 143(3)(i) and include the CARO 2020 report.

SOLUTION Q1 (b) Preconditions for an audit – SA 210

Provision: SA 210 requires the auditor to establish whether the **preconditions** are present: (i) the financial reporting framework is **acceptable**; (ii) management **acknowledges and understands its responsibility** (a) for preparing the FS in accordance with the framework, (b) for such **internal control** as it determines necessary to enable FS free from material misstatement, and (c) to provide the auditor with access to all relevant information, additional information requested and unrestricted access to persons.

Facts: the directors refuse to accept responsibility for internal control – one precondition is absent.

Conclusion: the auditor should discuss the matter with management. If management still refuses, the auditor **shall not accept** the engagement unless required by law. Internal control is management's responsibility; the auditor only evaluates it.

SOLUTION Q1 (c) Audit trail – Rule 11(g)

Provision: Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 requires the auditor to report whether the company has used accounting software with an **audit trail (edit log)** feature that **operated throughout the year** for all transactions, was **not tampered with**, and has been **preserved** as per statutory requirements (proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014).

Facts: the edit log was disabled for three months, so it did not operate throughout the year.

Conclusion: the auditor should report in the "Report on Other Legal and Regulatory Requirements" that the audit trail feature was **not enabled for the period** concerned. The auditor should also consider the effect on IFC reporting (s. 143(3)(i)) and on the risk assessment, and communicate it to TCWG.

SOLUTION Q2 (a) Going concern – procedures (SA 570)

Facts: substantial operating losses, negative operating cash flows and a supplier's change to cash-on-delivery are events that may cast significant doubt on going concern.

Procedures (SA 570 para 16): (1) if management has not yet assessed going concern, **request management to make its assessment**; (2) evaluate **management's plans** for future actions (disposal of assets, borrowing, restructuring, reducing expenditure, raising capital) and whether the outcome is likely to improve the situation and is feasible; (3) where a **cash-flow forecast** is relevant, evaluate the reliability of the underlying data and whether there is adequate support for the assumptions; (4) consider whether any additional facts have become available since management's assessment; (5) request **written representations** about management's plans and their feasibility. Also analyse interim FS, loan agreements and covenants, minutes, and confirm arrangements for financial support.

SOLUTION Q2 (b) Subsequent fact before FS issued – SA 560

Provision: after the date of the auditor's report, the auditor has **no obligation to perform procedures**. However, if a fact becomes known that, had it been known at the report date, might have caused the auditor to amend the report, the auditor shall (i) **discuss** it with management and TCWG, (ii) determine whether the FS need **amendment**, and (iii) if so, inquire how management intends to address it.

Facts: the insolvency on 5 May existed before the report date (20 May), and it is an **adjusting event** (AS 4) requiring a provision.

Conclusion: if management amends the FS, the auditor extends audit procedures to subsequent events up to the new report date and issues a **new auditor's report**, dated not earlier than the approval of the amended FS. If management does not amend and the report has not been provided, the auditor **modifies the opinion** (qualified). If the report has already been provided, the auditor notifies management and TCWG **not to issue** the FS to third parties before the necessary amendments. If they are issued anyway, the auditor takes appropriate action to **prevent reliance** on the report.

SOLUTION Q2 (c) Refusal of written representations – SA 580

Provision: SA 580 requires written representations from management with appropriate responsibilities that it has fulfilled its responsibility for preparing the FS, and has **provided all relevant information and access**. Representations cover all periods in the report, even if the current management was not in office throughout. If management **does not provide** these representations, the auditor shall **disclaim an opinion** (SA 705).

Conclusion: the auditor should explain that the representations are needed for the **entire period**. The CFO may make the representation based on inquiries and records, and the CEO can also sign. If he still refuses, the auditor should discuss with TCWG, re-evaluate management's integrity and **disclaim** an opinion.

SOLUTION Q3 (a) Sampling 60,000 invoices – SA 530

(i) **Statistical sampling** is preferable for a large population. It uses random selection and probability theory, so it is free from personal bias, measures sampling risk, and allows results to be **projected** to the population. Non-statistical sampling relies on judgement.

(ii) **Stratification** by value (e.g. all invoices above a set amount tested 100%), and then **random** or **monetary unit sampling** for the remaining strata. **Systematic selection** may be used if the population is not patterned. Block or haphazard selection is not suitable for statistical sampling.

(iii) **Factors increasing sample size:** higher assessed RMM, lower tolerable misstatement, higher expected misstatement, higher desired assurance. **Factors reducing it:** stratification, reliance on other substantive procedures and effective controls. Population size has little effect for large populations.

SOLUTION Q3 (b) Trade receivables – audit procedures

(1) Obtain the **ageing schedule**, agree it with the ledger and general ledger, and test the ageing. (2) Send **external confirmations** (SA 505) to selected debtors – positive for large balances – and follow up non-responses with **subsequent receipts**, despatch documents and invoices. (3) Test **cut-off** – despatches and invoices near year-end, credit notes after year-end. (4) Assess **recoverability**: subsequent realisation, disputes, credit-impaired balances, adequacy of the provision for doubtful debts (ECL under Ind AS). (5) Verify credit balances in debtors and reclassify them. (6) Examine **related-party** receivables and loans to directors (s. 185). (7) Check that the presentation meets **Schedule III** – ageing by period, undisputed/disputed, considered good/significant increase in credit risk/credit impaired, and dues from directors and officers.

SOLUTION Q3 (c) Negative confirmations and non-responses

Negative confirmations (SA 505 para 15) may be the sole substantive procedure only when **all** of these apply: RMM is assessed as **low** and controls have been tested; the population is a **large number of small, homogeneous** balances or transactions; a **very low exception rate** is expected; and the auditor is not aware of circumstances that would cause recipients to disregard the requests.

Non-response to a positive request: perform **alternative audit procedures** – for receivables, examine subsequent cash receipts, shipping documents and sales near year-end; for payables, examine subsequent payments and correspondence. If the response is **essential** to the assessed risk, alternative procedures will not do, and the auditor determines the implications under SA 705.

SOLUTION Q4 (a) Provisioning on advances

Advance	Classification	Working	Provision (₹ lakh)
(i) ₹2 crore, secured	Sub-standard	15% × 200	30.00
(ii) ₹1 crore, doubtful 2½ years	Doubtful D2 (1–3 years)	Unsecured 40 × 100% + secured 60 × 40%	64.00
(iii) ₹50 lakh, security ₹4 lakh	**Loss** – security < 10% of outstanding (8%)	100% × 50	50.00
(iv) ₹20 lakh, unsecured sub-standard	Sub-standard unsecured	25% × 20	5.00
Total			**149.00**

SOLUTION Q4 (b) Hotel revenue – procedures

(1) **Room sales:** compare the guest register, room-occupancy reports and housekeeping reports with billing; check the tariff applied with the approved rate card and the authorisation of discounts and complimentary rooms; verify advance receipts and hall/banquet bookings with booking registers and contracts. (2) **Food and beverages:** match **kitchen order tickets** (KOTs) and bar order tickets with bills; analyse gross margins and stock consumption; check cancelled bills. (3) **Other services** (laundry, spa, telephone, transport) – trace vouchers to guest folios. (4) **Collections:** credit-card settlement reports, cash collections, and **city ledger** (credit customers) confirmations. (5) **Cut-off** for guests staying across year-end. (6) Analytical review – average room rate, occupancy and revenue per available room against the prior year.

SOLUTION Q4 (c) Propriety audit

Meaning: the C&AG's audit that looks beyond formal compliance to check whether expenditure is incurred with **wisdom, faithfulness and economy** – i.e. it serves the public interest and is not wasteful, even if within the rules.

Principles (canons of financial propriety): (i) expenditure should not be prima facie **more than the occasion demands** – every official should spend with the vigilance a person of ordinary prudence would use for his own money; (ii) no authority should use its power of sanction to pass an order that **directly or indirectly benefits itself**; (iii) public money should not be used for the benefit of a **particular person or section** of the community unless the claim can be enforced in a court or the expenditure follows a recognised policy or custom; (iv) allowances should not be a source of profit.

SOLUTION Q5 (a) Key audit matters – SA 701

Determination: from the matters **communicated with TCWG**, the auditor selects those that required **significant auditor attention**, considering (i) areas of **higher assessed RMM** or significant risks; (ii) significant auditor judgements relating to areas involving significant **management judgement**, including estimates with high estimation uncertainty; (iii) the effect on the audit of **significant events or transactions**. From these, the matters of **most significance** are KAMs.

Communicating KAMs is not: (a) a substitute for **disclosures** in the FS required by the framework; (b) a substitute for a **modified opinion** where required by SA 705; (c) a substitute for reporting under SA 570 on a **material uncertainty** related to going concern; (d) a **separate opinion** on individual matters.

Conclusion: the trainee is wrong. KAMs are reported with an **unmodified or modified** opinion to improve the communicative value of the report. They are not qualifications.

SOLUTION Q5 (b) Type of opinion – SA 705

(i) Inability to obtain evidence, possible effect **material but not pervasive** → **Qualified opinion** ("except for the possible effects..."), with a Basis for Qualified Opinion paragraph.

(ii) Material misstatement that wipes out net worth is **material and pervasive** → **Adverse opinion**.

(iii) Records destroyed and evidence unavailable for most items – possible effects **material and pervasive** → **Disclaimer of opinion**.

SOLUTION Q5 (c) Joint auditors – SA 299

(1) **Division of work:** joint auditors agree and document the division of audit areas and communicate it to the entity, and each is responsible for the work **allocated to him**, including the proper execution of procedures. (2) **Joint and several responsibility** for: audit work not divided and carried out jointly; decisions on the nature, timing and extent of procedures agreed by all joint auditors; matters brought to the notice of the joint auditors by any one of them and agreed upon; examining that the FS comply with the requirements of the relevant statute; ensuring that the audit report complies with the requirements of the relevant statute. (3) Each joint auditor may rely on the others' work and is not required to review it. (4) If there is **disagreement**, each may express his own opinion in a separate report.

SOLUTION Q6 (a) Threats to independence

Situation	Threat	Reason
(i) Firm prepares the FS it audits	**Self-review**	The firm evaluates its own work; also prohibited by s. 144
(ii) Partner's wife is CFO	**Familiarity** (also self-interest)	Close family member in a position of significant influence over the FS
(iii) Threat of replacement	**Intimidation**	Actual or perceived pressure deters objectivity
(iv) 40% fees from one client	**Self-interest**	Undue dependence on fees; concern about losing the client
(v) Representing the client before a tribunal	**Advocacy**	Promoting the client's position to the point that objectivity is compromised

Safeguards: decline the service or remove the person from the team, EQCR, discussion with TCWG, and resignation where no safeguard is adequate.

SOLUTION Q6 (b) Ownership, custody and retention – SA 230/SQC 1

Ownership: audit documentation is the **property of the auditor**. **Custody:** the firm maintains confidentiality, safe custody, integrity, accessibility and retrievability of documentation. **Assembly** is completed within **60 days** of the report, and documents are not deleted afterwards. **Retention:** at least **7 years** from the date of the auditor's report (or the later group auditor's report).

Obligation to the client: the auditor is **not obliged** to make working papers available to the client. At his discretion, he may make portions or extracts available, provided this does not undermine the validity of the work or, in assurance engagements, the independence of the auditor or his personnel.

SOLUTION Q6 (c) Removal of auditor – s. 140(1)

(1) The Board passes a resolution to propose removal and applies to the **Central Government** for prior approval (Form ADT-2) **within 30 days** of the Board resolution VERIFY. (2) The company holds a **general meeting** within **60 days** of receiving Central Government approval and passes a **special resolution** VERIFY. (3) The auditor must be given a **reasonable opportunity of being heard** before removal. (4) A new auditor is appointed in the same meeting/as required.

SOLUTION Q6 (c) OR LLP audit – auditor's duty

(1) Obtain the **LLP agreement** and check compliance with it and the LLP Act, 2008 and Rules; (2) check whether accounts are maintained on a cash or accrual basis under the **double-entry** system at the registered office; (3) verify **partners' contributions** (cash, tangible/intangible property – valuation) and capital accounts, **profit sharing**, remuneration and interest as per the agreement; (4) verify the **Statement of Account and Solvency** (Form 8) and the annual return (Form 11); (5) check designated partners' approval of accounts; (6) report whether the accounts give a **true and fair view**. Audit is compulsory where turnover exceeds **₹40 lakh** or contribution exceeds **₹25 lakh**.