

Mock Test Paper - Series I: July, 2025

Date of Paper: 23rd July, 2025

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

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

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. Worthy Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems wherein the attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing) and the use of unsecured Wi-Fi, which prompted employees to click on malicious links. The malware exploited outdated operating systems on the devices to extract sensitive corporate information. In the given case, cyber-attack encountered by the company is known as:
 - (a) Fileless Malware
 - (b) Mobile Malware
 - (c) Ransomware
 - (d) Trojan
2. CA. Rishi, statutory auditor of KMC Ltd., identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA. Rishi. Guide CA. Rishi on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?

- (a) In accordance with SA 710, CA. Rishi should give unmodified opinion, but include Other Matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
 - (b) In accordance with SA 710, CA. Rishi should seek legal opinion.
 - (c) In accordance with SA 710, CA. Rishi should qualify current period audit report with respect to corresponding figures only.
 - (d) In accordance with SA 710, CA. Rishi should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of Matter paragraph.
3. Rajul and Associates, Chartered Accountants, were appointed as the stock auditors by the Bank's audit committee for ten branches for year 2024-25. The Bank's management appointed and fixed the remuneration of Rajul and Associates, Chartered Accountants as the statutory auditors also for the year 2024-25, for the same ten branches for which they were given the assignment of stock audit. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting?
- (a) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
 - (b) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
 - (c) Rajul and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.
 - (d) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

Case Scenario I [MCQ 4-8]

Innovate Robotics Pvt. Ltd. (IRPL) engaged in the business of manufacturing advanced robotic machinery and developing proprietary automation software appointed M/s Gaur & Associates, Chartered Accountants, as the statutory auditor for the financial year 2024-25.

The financial highlights of IRPL for the year were as follows:

Particulars	Balance as at 31 st March 2024)
Total Turnover (Previous Year: ₹85 crores)	₹ 120 crores
Borrowings from banks and financial institutions	₹ 35 crores
Paid-up Share Capital	₹ 20 crores
Profit Before Tax	₹ 15 crores

During the audit, Engagement Partner CA. Gaurav and his team observed the various issues which are given as under:

- (i) While conducting substantive procedures, the audit team noticed a significant increase in sales during the last quarter of the financial year. A major portion of this increase, amounting to ₹ 8 crores, was attributed to sales made to a new customer, TechSynergy Solutions Pvt. Ltd., which was incorporated on 1st October, 2024. The audit team's inquiries revealed that the payment for these sales was received on 5th April, 2025, just before the audit commenced. Upon further investigation, Anjali, an audit assistant, discovered that one of the directors of TechSynergy Solutions was the husband of the daughter of IRPL's Chief Financial Officer (CFO), Mr. Alok. When CA. Gaurav brought this information to Mr. Alok's attention, the CFO dismissed it as a mere coincidence and insisted that the transaction was conducted at arm's length. He also argued that since the payment was fully received, there was no risk of a misstatement. Management also refused to disclose this relationship in the financial statements, contending that it was not a related party transaction as per the applicable financial reporting framework, and that doing so would unnecessarily complicate matters. It was also observed that approval by way of resolution was also not obtained by management before entering into the contract with TechSynergy for sale of goods.
- (ii) During the physical verification of Property, Plant, and Equipment (PPE), the audit team & management could not locate a highly specialised robotic arm, which was recorded in the fixed asset register with a written down value of ₹ 2.5 crores. Later, management provided a verbal explanation that the asset had been sent to a facility in Germany for immediate calibration in February 2025 and was in transit. However, they failed to provide any supporting documentation such as gate pass, dispatch challan, or insurance documentation for this movement. This matter remained unresolved at the time of finalisation of the audit report.
- (iii) IRPL holds 60% equity shares in a subsidiary, AutoBots Ltd. The statutory auditors of AutoBots Ltd., in their audit report for FY 2024–25, expressed a qualified opinion due to non-provision of doubtful debts amounting to ₹ 1.5 crores, which the auditor considered materially misstated.

During the final phase of the audit, on 15th April 2025, IRPL's CEO offered a position of 'Head of Software Development' to CA. Gaurav's wife, a highly qualified software engineer. CA. Gaurav subsequently discovered that his father purchased 1,00,000 equity shares of ₹ 10 each in AutoBots Ltd., a subsidiary of IRPL on 27th June, 2025 i.e., after issuance of audit report. The total paid-up capital of AutoBots Ltd. is ₹ 5 crores.

In the final meeting on 25th April 2025, IRPL's management strongly contended that the unresolved matters were minor in the context of their overall profitable operations. They urged CA. Gaurav to issue an unmodified audit opinion, warning that any modification could jeopardize a crucial funding deal for the company.

Based on the above facts, answer the following:

4. With reference to the ₹8 crore sales transaction with TechSynergy Solutions Pvt. Ltd., and management's refusal to disclose the relationship with the entity, how should CA. Gaurav assess this matter in accordance with SA 240?
 - (a) CA. Gaurav should accept the CFO's explanation and conclude that the transaction does not pose a significant risk, as the payment was fully received subsequent to the year-end, which mitigates the risk of financial loss.
 - (b) CA. Gaurav should treat the transaction as indicative of a significant risk of material misstatement and consider the implications for the audit, including the reliability of management's representations, regardless of the subsequent payment.
 - (c) CA. Gaurav can rely on the management's assertion that the transaction was at arm's length and that the relationship does not meet the technical definition of a related party, thereby concluding that no further action is necessary.
 - (d) CA. Gaurav should only request a written representation from management confirming the nature of the transaction and their assertion that no related party relationship exists and then proceed to issue an unmodified opinion.
5. What is the reporting responsibility of CA. Gaurav under para 3(i) of CARO 2020, regarding the undisposed robotic arm with a written down value of ₹ 2.5 crores that was not physically located?
 - (a) Since the management has provided a verbal explanation that the asset is in transit for calibration, CA. Gaurav should accept it and is not required to report any discrepancy in the CARO report.
 - (b) The discrepancy is not considered material as it represents only a small portion of the company's total turnover of ₹ 120 crores, and therefore, no reporting under CARO 2020 is necessary.

- (c) CA. Gaurav should state in his CARO report that a material discrepancy of ₹ 2.5 crores was noticed during the physical verification of Property, Plant, and Equipment, and this has not been properly dealt with in the books of account.
 - (d) CA. Gaurav should qualify his main audit report for this matter but can choose not to mention this specific discrepancy in the CARO report to avoid redundancy.
6. Assuming that CA. Gaurav's father purchased the shares with a face value of ₹ 10 lakhs in AutoBots Ltd., the subsidiary company, on 1st April, 2025, what is the implication on the audit engagement of IRPL under the Companies Act, 2013 and the Chartered Accountants Act, 1949?
- (a) There is no implication, as the shares are held in the subsidiary company (AutoBots Ltd.) and not in the holding company (IRPL).
 - (b) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, and continuing the engagement constitutes professional misconduct.
 - (c) Since CA. Gaurav was not aware of his father's investment at the time of accepting the audit, he is not in violation, provided he now obtains a declaration from his father confirming it is not a material investment.
 - (d) CA. Gaurav is disqualified from being the auditor of IRPL because his relative holds securities in a subsidiary of the company exceeding the prescribed limit of ₹ 1 lakh, but the disqualification can be retrospectively corrected if his father sells the shares within 60 days of CA. Gaurav becoming aware of the holding, thereby avoiding any misconduct.
7. What is the most appropriate type of audit opinion that CA. Gaurav should express for IRPL's financial statements in accordance with SA 700 regarding multiple unresolved issues, specifically the ₹ 8 crore revenue transaction, the missing ₹ 2.5 crore asset and the impact of the subsidiary's qualified opinion?
- (a) An adverse opinion, because the collective impact of the identified misstatements is so material and pervasive that the financial statements as a whole are misleading.
 - (b) A qualified opinion, as the issues identified are material but are confined to specific elements of the financial statements and are not pervasive.
 - (c) A disclaimer of opinion, because the inability to physically verify a key asset constitutes a significant limitation on the scope of the audit.

- (d) An unmodified opinion with a Key Audit Matters (KAM) paragraph describing the revenue recognition and asset verification issues as high-risk areas.
8. If CA. Gaurav surrenders to the pressure from IRPL's management and issues an unmodified audit report for the year ended 31st March 2025, despite the unresolved issues regarding the revenue transaction with TechSynergy and the unverified robotic arm, he would be guilty of professional misconduct. Which of the following clauses of Part I of the Second Schedule to the Chartered Accountants Act, 1949, would be applicable?
- (a) Clause 5 and 9
 - (b) Clause 6 and 4
 - (c) Clause 5 and 8
 - (d) Clause 5, 6 and 7

Case Scenario II [MCQ 9-12]

SCL is a prominent, listed Non-Banking Financial Company (NBFC) (non-deposit taking NBFCs with an asset size of ₹ 1,000 crore and above) primarily engaged in providing corporate loans and retail financing. Mehta & Shah Associates (MSA), a partnership firm with two partners, CA. Karan Mehta and CA. Arjun Shah, was appointed as the statutory auditor of SwiftFin Capital Ltd. (SCL) for the financial year ended 31st March, 2025.

During the audit, MSA team led by CA. Mehta, began reviewing SCL's compliance with RBI's Master Directions for NBFCs. They discovered that three large corporate loan accounts, with a total outstanding balance of ₹ 15 crores, had principal and/or interest payments overdue for a period ranging from 95 to 110 days as at the balance sheet date. However, these accounts were still classified as 'Standard Assets' in the company's records. The management of SCL argued that these were long-standing, "blue-chip" clients with whom they were in advanced restructuring negotiations. They contended that classifying these accounts as Non-Performing Assets (NPAs) would trigger cross-default clauses in other agreements of those clients and permanently damage valuable business relationships. They insisted that the non-classification was a temporary measure based on commercial judgment.

While reviewing the board minutes, the audit team came to know about a lawsuit filed against SCL in January 2025. A group of retail customers alleged that the company had provided loans by charging interest rates that were not transparently disclosed and were in violation of the RBI's Fair Practices Code. SCL's internal legal department had prepared a note for the board estimating a financial outcome of up to ₹ 5 crores if the judgment went against the company. However, the financial statements contained no provision or disclosure for this matter.

Management asserted that their legal advisors believed the probability of an unfavourable outcome was "remote".

In April 2025, impressed with the firm's diligence, the management of SCL also offered the tax audit engagement under Section 44AB of the Income-tax Act, 1961, to MSA for the Assessment Year 2025-26. CA. Mehta reviewed the firm's workload for the assessment year. As on that date, CA. Mehta had already signed 55 tax audit reports, and his partner, CA. Arjun, had signed 60 tax audit reports.

Based on the above facts, answer the following:

9. Considering the requirements of SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" and the specific context of an NBFC audit, what is the most appropriate course of action for CA. Mehta regarding the non-classification of loan accounts worth ₹ 15 crores as NPAs?
 - (a) CA. Mehta should accept management's commercial judgment, as advanced restructuring negotiations are in progress, and disclose the matter in an "Emphasis of Matter" paragraph to ensure user awareness.
 - (b) CA. Mehta should inform the management that this non-classification constitutes a material misstatement due to non-compliance with RBI's mandatory prudential norms. If management refuses to correct this by reclassifying the assets and making provisions, he must modify the audit opinion.
 - (c) CA. Mehta's primary responsibility is to report this specific instance of non-compliance with IRAC norms to the Department of Supervision of the RBI, and he can issue an unmodified opinion on the financial statements.
 - (d) CA. Mehta should obtain a specific written representation from management confirming the future recoverability of the loans and based on this representation, he can agree to the existing classification and issue a clean report.
10. With reference to the tax audit engagement offered by SCL and assuming that the CA. Arjun is finalised as the signing on behalf of the firm Mehta & Shah Associates (MSA), can the firm legally accept this new Tax Audit assignment for the Assessment Year 2025-26 as per the guidelines issued by the Council of ICAI?
 - (a) No, the firm cannot accept the engagement because the total number of tax audits conducted by the partner CA. Arjun (60) is very close to the limit, and accepting one more would be a violation.
 - (b) Yes, the firm can accept the engagement, but the audit report must be signed by CA. Mehta, as CA. Arjun has already reached his permissible limit of 60 audits.

- (c) No, the firm cannot accept the engagement because the specified limit of 60 tax audits applies to the firm as a whole, and the partners' individual counts are irrelevant.
 - (d) Yes, the firm can accept the engagement because the specified limit of 60 tax audits applies to each partner individually, and the firm can still take five more Tax Audits before reaching its 120 Tax Audit limit.
11. CA. Mehta has identified the matter regarding NPA classification and the non-disclosure of the lawsuit as the two most significant issues of the entire audit. He wishes to highlight these matters prominently in his report as Key Audit Matters. Considering the nature of matters, which of the following is the only appropriate method for CA. Mehta to communicate these in his audit report?
- (a) Describe both issues in detail in the "Key Audit Matters" (KAM) section, as they represent the areas of highest risk and significant auditor judgment.
 - (b) Describe both issues in an "Emphasis of Matter" (EOM) paragraph, as they are fundamental to understanding the company's financial position and risks.
 - (c) Describe the issues giving rise to the misstatements in the "Basis for Modification" paragraph, which will support a qualified or adverse opinion.
 - (d) Describe the issues in an "Other Matter" (OM) paragraph, as they are relevant to the users' understanding of the conduct of the audit and management's integrity.
12. Apart from making inquiries with management wherein the management's assessment of the lawsuit is "remote," which audit procedures should be designed and performed by CA. Mehta?
- (a) He should discuss the matter with audit committee, expressing concern that management's representation is unreliable and insists on making a provision of ₹5 crores required in the financial statements based on the available evidence and his independent assessment.
 - (b) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared and sent by management, requesting the entity's external legal counsel to provide a necessary update on the litigation.
 - (c) He should seek direct communication with the entity's external legal counsel through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.
 - (d) After seeking direct communication with the entity's external legal, he should independently engage a forensic accountant at the firm's own cost to obtain the evidence against the lawsuit, which should be admissible in the court of law.

Case Scenario III [MCQ 13-15]

Verma & Associates, Chartered Accountants, a firm majorly engaged in statutory audits and tax audits, is in the process of exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:

- (a) One of the clients of Verma & Associates, AstraTech Industries is planning to acquire a mid-sized manufacturing company, BlueWave Solutions to strengthen its supply chain and enter new markets. As part of the preliminary assessment, a due diligence exercise is to be undertaken to evaluate whether the proposed acquisition would create operational and strategic synergies. A comprehensive financial due diligence is planned and scheduled after agreement on the purchase price. The scope of this exercise includes an analysis of the target company's cash flow position, accounting policies, brief business history and promoter background, accounting information systems, and other relevant financial metrics.
- (b) During the due diligence engagement, an articled assistant raised a query with the engagement partner regarding the extent of review required. The assistant specifically sought clarification on whether a 'letter of comfort' issued by BlueWave Solutions to a bank fall within the scope of the due diligence review.
- (c) Additionally, Verma & Associates has received a written order from the Central Government directing it to conduct an investigation under Section 210 of the Companies Act, 2013, in relation to one of its audit clients, Rajul Ltd. In relation to this investigation, the firm is considering to take assistance of an expert to obtain professional input on certain specialised matters.

Based on the above facts, answer the following:

13. Whether letter of comfort given to banks by the BlueWave Solutions needs to be reviewed as part of the financial due diligence?
- (a) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.
 - (b) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.
 - (c) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.
 - (d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.

14. Which among the following is not a matter included in the scope of a full-fledged financial due diligence?
- (a) Accounting Information System.
 - (b) Cash flow.
 - (c) Accounting Policies.
 - (d) Brief history of the target and background of its promoters.
15. Whether Verma & Associates can take the assistance of experts while conducting the investigation? Select the most appropriate option.
- (a) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.
 - (b) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.
 - (c) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.
 - (d) Yes, Verma & Associates should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA. Arvind, statutory auditor of Divinity Technologies Pvt. Ltd., noticed that Mr. Kamlesh was engaged by Management for investigation of suspected fraud within the organisation. CA. Arvind formally requested a copy of the report of the same to understand the nature, extent and implications of the suspected fraud so that he could appropriately consider it in his audit procedures and reporting responsibilities. Despite multiple written reminders, the management did not provide the report.

In view of this, CA. Arvind requested the management to at least provide a written representation regarding the fraud on/by the Company. The management neither provided the investigation report nor responded to his request to provide the requested representation. How should CA. Arvind deal in the given situation? **(5 Marks)**

- (b) HAM Ltd. is engaged in the business of manufacturing electronic components, including sensors, microchips, and lithium-ion battery cells. The production process requires raw materials such as rare earth metals, semiconductor wafers, and chemical electrolytes. The company maintains a large stock of raw materials, the nature of which is technically complex and requires expert knowledge for physical verification. Therefore, management hired their experts to assist in the stock verification process. Simultaneously, auditors also hired their own expert to evaluate the inventory.

During the audit, auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes, and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

Though the auditor was aware that he has not obtained sufficient appropriate audit evidence and it would be right to express a modified opinion in the auditor's report. However, he was reluctant in doing so, thus, expressed an unmodified opinion and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to the relevant Standard on Auditing relating to the action of the auditor of issuing unmodified audit report.

(5 Marks)

- (c) CA. Zora has recently accepted engagement of the statutory audit of Segment Ltd. for the financial year 2024–25. While reviewing the trial balance and financial records, Zora identifies that the Opening Balances as on 1st April 2024 are carried forward from the previous year and were audited by another auditor, CA. Rohan. Zora wants to be satisfied regarding the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements.

- (i) Briefly mention the audit procedures Zora should perform to obtain sufficient and appropriate audit evidence regarding the Opening Balances, considering it is an initial audit engagement?
- (ii) Also suggest the approach to be followed by Zora if he is either unable to obtain adequate evidence about the Opening Balances or finds material misstatements therein.

(4 Marks)

2. (a) RST Ltd. is a company listed in India. The Company has appointed M/s R & Co. as auditors. CA. R has recently joined the firm and has been appointed as the engagement partner for the first time. During the audit planning, the engagement partner discovers that a relative of a team member holds a significant financial interest in RST Ltd. The team member had not reported this relationship earlier.

He understands that it is necessary to ensure compliance of independence for the audit team as per standard audit practices. But he could not find as such any policies and procedures available with the firm in documented form.

Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs.

(5 Marks)

- (b) Gupta, Sharma and Khandelwal are partners in a firm engaged in trading activities. They share profits and losses in the ratio of 2:2:1 respectively. As part of their expansion plan and expertise, the existing partners have mutually agreed to admit Mr. Jain as a new partner in the firm with effect from 1st April 2025. Mr. Jain is to be given a 1/4th share in the future profits of the firm. To safeguard his interest before investing capital and entering into the partnership, Mr. Ankit, a Chartered Accountant, has been appointed by Mr. Jain to conduct an independent investigation of the firm. What are the important steps involved in conducting the investigation by Mr. Ankit on behalf of Mr. Jain, the incoming partner? **(5 Marks)**

- (c) Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services. Comment. **(4 Marks)**

3. (a) Mr. Ramesh, a practicing Chartered Accountant and partner at RR & Associates, recently ordered a new set of visiting cards and letterheads for his firm. He made following changes in the CA India logo to make the cards attractive:

- Changed the background from white to grey to match the firm's colour theme;
- Reduced the size of the logo to fit it in a smaller area on the top-right corner.
- Replaced the word "India" in the logo with his firm's initials.
- Added a gradient effect to the blue colour in the letters "CA".

He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

- (b) Vishnu & Co. is in process to issue a prospectus containing projected financial statements to provide information about future expectations of the Company to potential investors. You are hired by Vishnu & Co. to examine the projected financial statements and give reports thereon. Briefly mention the factors you will consider before accepting the audit engagement. Also, under what circumstances the engagement should not be accepted or should be withdrawn? **(5 Marks)**
- (c) KLM Industries Ltd., a mid-sized company engaged in consumer electronics manufacturing, has recently undergone a major digital transformation by implementation of a fully automated production tracking system, cloud-based accounting software, and a blockchain-based vendor payment system. These changes were introduced during the financial year 2024-25. The management believes that these technologies will increase the efficiency and reduce the chances of errors, and hence, have revised the risk assessment accordingly. As an auditor, what steps should you take to evaluate the impact of such technology changes on the company's internal controls and financial reporting? **(4 Marks)**
4. (a) CA. Sudeep, a newly qualified Chartered Accountant holding Certificate of Practice, approached CA. Suraj, the statutory auditor of his father's company Kings Ltd., to allow him to gain some practical and professional knowledge and experience in his firm before he can set up his own professional practice. CA. Suraj allowed him to sit in his office for 6 months and allotted a small chamber with other office infrastructure facility. During his association with CA. Suraj's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST returns and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA. Suraj's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 4,00,000 by CA. Suraj for his association out of gratitude. Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto. **(5 Marks)**
- (b) XYZ Ltd., a listed entity, is preparing its Annual Report for the financial year 2024-25. The company has operations in many countries and has implemented policies on ethics, diversity, and environmental sustainability. The management has taken steps to align its reporting with the National Guidelines on Responsible Business Conduct (NGRBC).
- As part of its BRSR submission, the company provides information on its workforce strength, gender diversity, number of subsidiaries, and policies on

human rights. It also discloses data on energy consumption, carbon emissions, and the number of employees trained in sustainability practices. However, it does not include life cycle assessments or details of its biodiversity conservation initiatives. Identify which sections of the BRSR reporting framework are covered by XYZ Ltd. based on the disclosures mentioned. Also, comment whether XYZ Ltd. has complied with the minimum mandatory disclosures required under BRSR. **(5 Marks)**

- (c) All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation? **(4 Marks)**

5. (a) CA. Garvit has been appointed as the auditor of Liv Bank, a nationalised bank. During the audit, he observes that the bank has recently expanded its credit card division and is witnessing a significant rise in the number of credit card applications. He also comes to know about an incident where a few unissued credit cards went missing from a branch, raising concerns about the effectiveness of the bank's internal controls. Liv Bank is aware that there should be strict control over the storage and issuance of credit cards to prevent misuse and fraud.

In the given situation, how will CA. Garvit evaluate the internal control system in the area of credit card operations of the bank? **(5 Marks)**

- (b) You are the auditor of SAFE Ltd., which is in the business of supplying food products to various airline companies operating in aircrafts in domestic circle only. As per terms of agreement with airlines, the company is required to maintain stock of various non-perishable food items sufficient for the coming one month (average holding of inventory to the tune of ₹ 120 Crores). The payment terms have been settled, and the company receives payment in 45 days after the supply of goods.

Business was running smoothly till 31st March 2025. However, in the first week of April 2025, a nationwide strike by airline employees led to the complete suspension of domestic flight operations across the country for an indefinite period. Consequently, the business of SAFE Ltd. also got severely affected and

the scheduled supplies of goods to airlines also were not made. Further, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of SAFE Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31st March 2025 represent true and fair view? **(5 Marks)**

- (c) CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. Being in the insurance business, the company gets majority of its clients through their agency contracts. CA. Rudra has the practice of releasing the commission payments on the condition that he gets 25% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**

6. (a) CA. Jayesh has recently been appointed Chief Internal auditor of a listed company. The internal audit charter inter alia includes long term view of internal audit function, purpose and objectives of internal audit, reporting structure, scope & approach, accountability for certain deliverables like reducing risk ratings, improving control environment etc. & authority attached. Given his sharp insight, he realizes that a proper plan needs to be put in place for reviewing performance/ training of professional staff constituting in-house teams and acquisition of fresh professional talent. Does the above fall within purview of critical activities to be performed by Chief Internal Auditor to achieve objectives of Internal audit function? Comment on the above with regards to critical activities intended to achieve objectives of internal audit function outlined in internal audit charter.

(5 Marks)

- (b) You have been appointed as an auditor of Megh & Sons for FY 2024-25, as entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The appointment was made in April 2025. The financial statements have been prepared by the management in accordance with the Accounting Standards. The management introduced the new computerized accounts receivable system in November 2024, which is still in the implementation phase. Consequently, the management is in the process of rectifying system deficiencies and correcting errors. Upon implementation of new system, the earlier system of accounting of receivables had been discontinued. The auditor was unable to obtain sufficient appropriate audit evidence about the entity's accounts receivable and inventories. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the

financial statements. Draft the Opinion Paragraph and Basis for Opinion Paragraph to be included in the Independent Auditor's Report. **(5 Marks)**

- (c) Compute the overall Audit Risk if looking at the nature of business there are chances that 30% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 60%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete the Audit gives him satisfaction level of detection of frauds & error to an extent of 75%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk. **(4 Marks)**

Or

- (c) M/s. CDR & Associates is one of the three firms shortlisted by JDB Cooperative Bank for assignment of Statutory Audit for the F.Y 2024-25. The bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. CDR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **(4 Marks)**