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PART – I

SECTION – A

Integrated Case Scenario – I

AT Solutions Ltd. (ATS) is a rapidly growing, unlisted tech company specializing in providing cloud-based software services. The company was founded five years ago by two visionary co-founders, Mr. RV (CEO) and Mr. AG (CTO), who also serve as the key members of Those Charged with Governance (TCWG).

CA RM is the Engagement Partner for the audit of ATS for the financial year ending March 31, 2025. Your firm, RM & Associates, has been the statutory auditors for the last three years.

During the audit, your team encounters the following key issues and observations :

- ATS earns revenue primarily through subscription services. A new policy was implemented in the current year, effective from April 1st, 2024, to recognize revenue from multi-year contracts on an accelerated basis in the initial year, deviating from the previous practice of straight-line recognition over the contract period. This change was not communicated to your firm beforehand and resulted in a significant overstatement of current year revenue by ₹ 4 crores, which is both material and pervasive amount to the financial statements. The company's previous policy was in line with applicable accounting standards. When you raise this matter with the management, they insist that the new policy better reflects the value derived from the initial customer onboarding efforts. The management refuses to revert to the previous policy.

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- ATS holds a small amount of physical inventory, consisting of specialized server components. The physical verification was conducted by the company's internal team on March 31, 2025. However, the auditor was not able to observe the stock count due to a last-minute travel restriction on the audit team. Upon inquiry, the management provides a signed stock count sheet and a video recording of the count. Your team performs alternative procedures, including inspecting subsequent sales invoices and conducting a review of the inventory movement records. The inventory balance is ₹ 24 lakhs, which is not material to the financial statements.
- Your team identified a significant transaction where ATS provided a loan of ₹ 20 crores to a subsidiary company, "ABC Solutions Pvt. Ltd.", which is a related party. The transaction was approved by the board but was not adequately disclosed in the draft financial statements. When confronted, the management explained that since both the companies have common ownership and control, they did not deem it necessary to disclose the transaction, believing it was an internal matter.
- A former employee has filed a significant lawsuit against ATS, claiming intellectual property theft. The claim amount is ₹ 6 crores, and the legal counsel has advised the company that the outcome is highly uncertain, but a potential liability cannot be ruled out. The management has provided a contingent liability note in the draft financial statements, but it only mentions the lawsuit without quantifying the potential financial impact or detailing the nature of the claim, stating that they do not want to alarm potential investors.

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- Your firm recently hired a new articled assistant, Mr. A, who is a close relative of the CFO of ATS. Mr. A was initially assigned to the audit engagement. This relationship was not disclosed by the audit firm, and the firm's quality control procedures failed to identify this potential threat to independence. The engagement partner, CA RM, only became aware of this fact during the final review meeting. The audit fieldwork is complete. However, CA RM has applied the appropriate safeguards.

Based on the above facts, answer the following Q. Nos. 1 to 6 by choosing the most appropriate option :

1. Based on the auditor's observation regarding the new revenue recognition policy, what type of audit opinion should CA RM issue on the financial statements of ATS ? 2
 - (A) Unmodified opinion, as the change is management's discretion.
 - (B) Qualified opinion, because the financial statements are materially misstated due to the non-adherence to the previous accounting policy. *SAGG ✓*
 - ☒ (C) Adverse opinion, because the material misstatement from the change in revenue recognition policy is pervasive. *SAGG ✓*
 - (D) Disclaimer of opinion, due to the management's refusal to correct the misstatement. *SAGG X*
2. Considering the issue with the physical verification of inventory, what is the most appropriate course of action for the auditor ? 2
 - (A) Issue a Qualified opinion as the inventory balance is not material, and alternative procedures were performed. *X*
 - (B) Issue a Disclaimer of opinion since the auditor could not observe the physical count. *X*

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- (C) Include the matter relating to inventory in Emphasis of Matter paragraph.
- (D) Since the inventory is not material, the auditor should consider the audit to be complete without any modification to the opinion.

3. In the context of the related party loan transaction with ABC Solutions Ltd., what is the auditor's primary responsibility? 2

- (A) To issue a Qualified opinion with respect to related party transaction.
- (B) To report the matter to the Serious Fraud Investigation Office (SFIO) under Section 143(12) of the Companies Act, 2013.
- (C) To assess if the non-disclosure constitutes a material misstatement and, if so, to request management to disclose it.
- (D) To issue an Unmodified opinion with an Emphasis of Matter paragraph to draw users' attention to the non-disclosure.

4. What should be the auditor's conclusion if the management refuses to disclose the pending litigation? 2

- (A) The auditor should include in Other Matter Paragraph regarding the uncertainty of the pending litigation.
- (B) The auditor should issue a Disclaimer of opinion since the outcome is uncertain.
- (C) The auditor should include an Emphasis of Matter paragraph in the audit report to highlight the uncertainty regarding the pending litigation.
- (D) The auditor should express an Unmodified opinion as the management has provided a note on the contingent liability.

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5. What is the most appropriate safeguard that CA RM should apply upon discovering the relationship between the articled assistant and the CFO ? 2

(A) The audit report should be qualified due to a lack of auditor independence. ✗

(B) The articled assistant should be immediately removed from the audit team, and the work performed by him should be re-evaluated and re-performed if necessary. ✓

(C) The firm must resign from the engagement immediately as the independence is impaired. ✗

(D) The firm should inform TCWG of the situation, and an Unmodified opinion can be issued if the work performed by the articled assistant is not material. ✓

6. Which out of the following is not the auditor's responsibility concerning the internal control system of ATS in respect of related party transaction ? 2

(A) The auditor is required to report on the internal financial controls over financial reporting (ICFR) as per the Companies Act, 2013. ✗

(B) The auditor should report a material weakness in internal control related to revenue recognition and related party transactions. ✓

(C) The auditor should communicate the significant deficiencies in the internal control system, to TCWG in writing. ✓

(D) The auditor should report under clause (xiii) of CARO 2020. ✗

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Integrated Case Scenario – II

LMN & Associates, Chartered Accountants, a leading firm in providing assurance services, is in the course of finalizing various audit assignments. The audit team has 5 audit assistants in addition to the engagement partners.

They are appointed as statutory auditors of DEF Finance Limited for the F.Y. 2024-25. This is an Investment and Credit Company (ICC) incorporated in March 2020. The company has total assets of ₹ 1,200 crores as on 31st March, 2024, with financial assets constituting 65% of total assets (netted off by intangible assets). The company's income from financial assets is 58% of its gross income. The company applied for RBI registration in April 2024 and currently has Net Owned Funds (NOF) of ₹ 8 crores. The company has been operating without RBI registration since inception.

LMN & Associates are also the statutory auditor for the F.Y. 2024-25 of SH Finance Limited; a Non-Banking Finance company registered with RBI under the Middle Layer category. The company is primarily engaged in providing loans and advances to small and medium enterprises (SMEs) and individuals. During the course of audit CA L, the engagement partner observed that the company has classified a demand loan of ₹ 3.8 crores to RR Traders as NPA. This loan became NPA on 1st September, 2023. The estimated realizable value of security is ₹ 2.2 crores and the company has made a provision of ₹ 1.6 crores (₹ 1.6 crores = 100% of unsecured portion). He also observed that the company has invested in approved liquid assets worth ₹ 45 crores and held them in safe custody at its own premises.

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During the audit process of the above companies, the engagement partners have assigned the responsibility of various areas to the audit assistants including signing of documents on behalf of the firm where need arises keeping in view the clarifications issued by the Council as envisaged in the provisions of Chartered Accountants Act 1949. One of the audit assistants has signed the following documents and conducted under mentioned jobs during audit of DEF Finance Ltd :

- (i) Issued the notes to accounts and cash flow statement ultimately finalized for onward submission. ✓
- (ii) Asking for information or issue of questionnaire. ✓
- (iii) Acknowledging and carrying routine correspondence with clients. ✓
- (iv) Issued non-financial report expressing professional authentication. ✗

CA N, the engagement partner of MT Industries Limited, while conducting a comprehensive review of the audit trail functionality and related controls, observed that multiple employees use common User IDs for processing routine transactions to improve efficiency. Changes made to the audit trail configurations in the past are not formally documented or authorized through a defined approval process.

During the course of audit of Global Reach Ltd, an Indian parent company, CA L prepares the consolidated financial statements for the year ended 31st March, 2025. In his opinion the following informations given in the notes to the separate financial statement need not be included in the consolidated financial statement under IND AS 110 :

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- (i) Source from which bonus shares are issued (e.g., capitalization of profits or reserves or from securities premium account). ✓
- (ii) Disclosure required under Micro, Small and Medium Enterprises Development Act, 2006 ✓
- (iii) Disclosure of all utilized monies out of the issue indicating the form in which utilized funds have been invested. ✓
- (iv) Earnings in foreign exchange classified as export of goods not calculated on F.O.B. basis. ✓

Based on the above facts, answer the following Q. Nos 7 to 12 by choosing the right option :

7. What is the minimum NOF requirement that DEF Finance Limited must achieve by 31st March, 2027 ?

2

- (A) 2 crores
- (B) 7 crores
- (C) 10 crores
- (D) 8 crores

8. For the loan of ₹ 3.8 crores to RR Traders, what should be the correct asset classification and minimum total provisioning required for F.Y. 2024-25 ?

2

- (A) Sub-standard Asset with provision of ₹ 1.98 crores ✓
- (B) Doubtful Asset with provision of ₹ 2.26 crores.
- (C) Doubtful Asset with provision of ₹ 2.04 crores
- (D) Loss Asset with provision of ₹ 3.8 crores

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8/2/2024
15/2/2024

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9. During the audit of DEF Finance Ltd, which actions of the audit assistant regarding signing of documents and conducting of jobs should be approved by the engagement partner as correct ?

2

(A) (i) & (ii)

(B) (ii) & (iii)

(C) (iii) & (iv) ✗

(D) (i) & (iv) ✗

10. Which of the following are most specific IT controls for MT Industries Limited to implement and operate to demonstrate that the audit trail feature is functional, operated and not disabled ?

2

(i) Controls to ensure that User IDs are assigned to each individual employee and that User IDs are not shared among multiple users. ✓

(ii) Controls to ensure that the audit trail data is encrypted using advanced cryptographic algorithms. ✗

(iii) Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained. ✓

(iv) Controls to ensure that all audit trail reports are printed and physically stored in fire-proof cabinets. ✗

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Choose the correct option from below :

- (A) (i) & (ii)
- (B) (ii) & (iii)
- ~~(C) (i) & (iii)~~
- (D) (iii) & (iv)

11. Which of the following informations given in the notes to the separate financial statement need not be included in Global Reach Ltd.'s consolidated financial statements under IND AS 110 ?

2

- (A) (i) & (ii) X
- ~~(B) (ii) & (iii)~~
- (C) (iii) & (iv)
- (D) (i) & (iv) X

12. What should be CA L's observation regarding the custody arrangement of investment made in approved liquid assets held by SH Finance Limited ?

2

- (A) The arrangement is acceptable as approved liquid assets can be held in company's own custody.
- ~~(B) The company should lodge in safe custody these liquid assets with a designated scheduled commercial bank as required by the NBFC Acceptance of Public Deposits Directions and also should obtain certificate from RBI to that effect.~~
- (C) Safe custody arrangement is not relevant for audit purposes.
- (D) Approved liquid assets need not be lodged with banks as they are risk-free assets.

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13. Mr. Verma, the CTO of a mid-sized technology firm, has received an urgent alert from his network monitoring dashboard: the company's customer portal is responding extremely slowly and, within minutes, becomes completely inaccessible. The alert appears to originate from the firm's own IT systems and even displays familiar company branding and language in the notification. Concerned about a potential server malfunction, Mr. Verma contacts the operations team – but they report no hardware failures or software errors. Meanwhile, customers flood the support line, complaining that they cannot log in or place orders. Real-time charts on the dashboard show an enormous surge of traffic – far beyond normal usage patterns.

2

Based on the above scenario, which type of cyber-attack is faced by the firm ?

- (A) IoT-Based Attack (B) Spoofing Attack
(C) Denial-of-Service Attack (D) Identity-Based Attack
14. ABC Manufacturing Ltd. operates a large factory employing 1,200 workers. Over the past year, management has introduced new shift schedules to meet rising demand. However, production targets have pushed some line supervisors to require employees to work extended hours, routinely exceeding 12-hour shifts with only 15-minute breaks. Several workers have complained of chronic fatigue, frequent musculoskeletal injuries and lack of time for rest or family commitments. A small group attempted to form a workers' committee to discuss these issues, but were told by management that any "collective gathering" would hamper productivity and could lead to disciplinary action.

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ABC Manufacturing Ltd.'s board of directors has engaged you, to conduct the social impact assessment and whether the company policies are aligned with Corporate Social Responsibility (CSR) guidelines.

Based on the above scenario, which principle is not being adhered to by the Company ?

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- (A) Principle 5 – Respect and Promote Human Rights
- (B) Principle 8 – Promote inclusive growth and equitable development
- (C) Principle 3 – Promote well-being of all Employees including those in the Value Chain.
- (D) Principle 4 – Respect for stakeholders' Interests and Responsiveness.

15. CA H, with an experience of 3 years in practice, has recently joined as a partner with JP & Associates, Chartered Accountants. He is making efforts to increase his professional income by taking up various assignments. Some of the areas where he has engaged himself are as under :

- (i) He is a part time faculty for the Live Virtual Classes run under the aegis of the Institute for CA Students.
- (ii) He is also a lecturer of Management Accounting in one Private University in his locality.
- (iii) He is providing tutorship to Class XII Commerce students of Good Edu Public School run by G H Educational Society.
- (iv) He is providing consultation for recovery of loans and advances portfolio of MM Bank Limited.

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The senior partner of his firm is of the view that all these assignments which CA H has taken up require specific and prior approval of the Council and that CA H will be deemed to be guilty of professional misconduct as he has not taken such approval.

Based on the above, which amongst the four activities require specific and prior approval of the Council ?

2

(A) (i) & (ii) X

(B) (ii) & (iii)

~~(C) (iii) & (iv)~~

(D) (ii) & (iv)

(2)

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PART - II

SECTION - A

1. (a) DEF Apparels Ltd. is a manufacturing company with its business having a global outreach. The company appoints CA Y as the statutory auditor for the F.Y. 2024-25. During the audit, CA Y encountered the following issues :

- (1) The company has a large manufacturing facility with Fixed Assets of the value of ₹ 250 crores, which constitutes 60% of the total assets. The facility was significantly damaged in flash floods during the year. Management refused to allow an independent valuer to assess the damage, claiming internal estimates are sufficient. The company has not made any provision for impairment despite visible damage to machinery and buildings. Insurance claims are pending with disputes regarding coverage.
- (2) The company has entered into multiple transactions with related parties totaling ₹ 120 crores during the year. However, the management has refused to provide complete documentation regarding these transactions, citing confidentiality agreements. The audit team was denied access to board meeting minutes discussing these transactions and could not verify the commercial rationale or arm's length nature of these deals.

In view of the observations made, what kind of opinion should CA Y give in the Audit Report? Justify your answer citing the above scenarios. On the basis of opinion decided by CA Y, you are required to draft the Opinion and Basis of Opinion paragraph to be given in the Independent Audit Report.

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(b) AXO Automobiles Limited, a leading manufacturer of electric vehicles, 5
appoints WYZ & Co. Chartered Accountants as the statutory auditors for
the financial year ended March 31, 2025. CA W, the engagement partner,
during the course of audit identifies the following misstatements :

- An amount of ₹ 4 lakhs of rent income has not been recorded due to oversight.
- An expense of ₹ 6 lakhs pertaining to F.Y. 2023-24 has been charged to Profit and Loss Account in F.Y. 2024-25.
- In a sample testing of warranty provisions, projected misstatement in the population is ₹ 10 lakhs.

CA W is of the opinion that the above misstatements need to be rectified to portray the correct financial results of the company. The management of AXO Automobiles Ltd. refused to make the necessary corrections on the contention that these amounts were not material in relation to the company's turnover of ₹ 250 crores.

With reference to the relevant Standards on Auditing analyze the circumstances faced by CA W and guide him how he should evaluate the effect of these misstatements which are not corrected by the management. What communication requirements are applicable for the auditor in this situation ?

(c) XYZ & Co., a mid-sized audit firm, has recently expanded its operations and taken on several large clients. To manage the growing workload, the firm's CEO has delegated operational responsibilities for the firm's quality control system to two senior partners. However, certain concerns have been raised :

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- (1) One of the partners, though commercially successful in bringing in new clients, has limited experience in audit quality oversight.
- (2) The firm's new incentive system heavily rewards partners and staff based on revenue generation and client acquisition, with little emphasis on audit quality or compliance with professional standards.
- (3) Due to rapid expansion, the firm has allocated most of its resources towards marketing and client development.

The aforesaid concerns reflect on which element of quality control within the firm as per SQC1 ? What are the considerations one should exercise to achieve quality in all the engagements that the firm performs ?

2. (a) MNP Manufacturing Ltd., a listed company with a turnover of ₹ 2,500 crores, appointed three joint auditors (CA Anil & Associates, CA Raman & Co. and CA Reena & Associates) to undertake the statutory audit of the company. The joint auditors divided the work amongst themselves in accordance with SA 299. [CA Anil & Associates] were responsible for fixed assets and related depreciation, [CA Raman & Co] took the area of cash, bank and investments and [CA Reena & Associates] handled inventory and receivables.

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At the Annual General Meeting held on 30th September 2025, the company decided not to reappoint CA Reena & Associates due to disagreements over certain audit observations regarding valuation of inventory. The shareholders passed a special resolution appointing CA Neha & Associates in place of CA Reena & Associates, while retaining the other two joint auditors – CA Anil & Associates and CA Raman & Co.

CA Neha accepted the appointment immediately upon receiving the company's appointment letter and a certificate regarding compliance of provisions of the Companies Act, 2013. However, she later discovered that the company had not sent any special notice to the shareholders regarding her appointment as required under the Companies Act, 2013. She also found that CA Reena & Associates had not been given an opportunity to make representations to the shareholders regarding her non-reappointment.

- Analyze the professional conduct of CA Neha in light of the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

- (b) You have been appointed as internal auditor of a Company 5 manufacturing and trading in Chemicals. You have asked your team to review the internal controls and get the first hand information of each department and their heads and note their respective roles in the company's procurement and inventory processes.

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Your team has observed that →

- (i) The Head of Purchase department, a relative of the promoter, has for several years been in-charge of purchasing and sanctioning payments, without allowing anybody to question him.
- (ii) There has been no rotation of duties for several years of most of the employees, in particular, the Chief Accountant who has a good rapport with majority customers.
- (iii) The Storekeeper also has not kept adequate stock records since he joined the company without carrying out physical verification of the assets.

Analyse the specific violations of the principles of an adequate internal check system. Evaluate how these control deficiencies, individually and collectively, increase the inherent and control risk for the entity.

- (c) M/s RSP & Associates, a firm of Chartered Accountants, has been engaged to conduct a review of the financial statements of AR Pvt. Ltd. for the quarter ended 30th September 2025.

During the review, the engagement partner, CA R, explained to the audit team that unlike a full-scope audit, a review primarily relies on inquiries and analytical procedures to obtain limited assurance about whether the financial statements are prepared in accordance with the applicable financial reporting framework.

Explain how performing analytical procedures assists the practitioner in a review of financial statements.

3. (a) The Comptroller and Auditor General of India (C&AG) appointed M/s. VR & Associates, a firm of Chartered Accountants, to conduct the audit of Sunshine Ltd., a Public Sector Undertaking (PSU) under the Government of India and intimated to the auditors about the following concerns in respect of the PSU. 5

Sunshine Ltd. proposed to set up a solar panel manufacturing project in North Gujarat with an estimated cost of ₹ 5,750 crores, which included ₹ 2,000 crores earmarked for Research and Development (R&D). While all approvals, documentation, and statutory requirements were duly complied with, the C&AG expressed concern that the proposed R&D expenditure appeared wasteful and lacking justification on the tests of public interest, as several established companies were already engaged in similar activities in that region.

Identify the type of audit that the C&AG expects M/s. VR & Associates to conduct in this context. Also, explain the principles of this audit.

- (b) CA Amit, the auditor of KRT Pvt. Ltd, also undertakes statutory compliances related to Income Tax, GST and MCA for the client. For carrying out the compliances within the time limits KRT Pvt. Ltd. transfers ₹ 3,00,000 to CA Amit with an email that clearly earmarks the utilization of the said amount : 5

- (1) ₹ 1,20,000 is paid as an advance towards professional fees for ongoing audit and taxation work.
- (2) ₹ 1,80,000 is to be utilized to make statutory payments of TDS, GST, MCA filings and DIN renewals falling due within 1 month.

CA Amit receives the above amount of ₹ 3,00,000 in his regular savings account.

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From the amount of ₹ 1,80,000, he deposits ₹ 50,000 towards TDS payable and ₹ 60,000 against GST liability on the due dates that fall within 1 month from the date of receiving the money from the client.

The balance ₹ 70,000 pertaining to MCA filings and DIN renewals was deposited after 3 months due to portal issues. In between, CA Amit paid his office rent of ₹ 40,000 from this amount and deposited it back in that account within 2 weeks.

Analyse the actions of CA Amit and comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

- (c) Everfresh Beverages Limited has recently implemented Robotic Process Automation (RPA) across various business processes to enhance operational efficiency and reduce manual errors. The company has deployed RPA bots in key areas, namely, invoice processing, payroll generation and purchase order processing. This has resulted in significant time saving and improved accuracy in routine processes.

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As the statutory auditor of Everfresh Beverages Limited discuss the key audit implications and the common risks associated with RPA.

4. (a) CA Rohan is the engagement partner for the audit of Horizon Ltd.'s complete set of financial statements for the year ended March 31, 2025. During the audit, he identified a material misstatement concerning the valuation of a specific class of inventory. As a result, CA Rohan concluded that it was necessary to express a qualified opinion on the complete set of financial statements.

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Subsequently, Horizon Ltd. prepared summary financial statements derived from these audited financial statements and requested CA Rohan to issue a report on them. After performing the required procedures, CA Rohan is satisfied that the summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

- (i) Based on the requirements of relevant SA, advise CA Rohan on the specific additional disclosures he must include in auditor's report on the summary financial statements, considering the qualified opinion on the audited financial statements.
 - (ii) In the above case if the auditor's report on the audited financial statements contains an adverse report, then which additional elements are required to be disclosed in the auditor's report on the summary financial statement ?
- (b) M/s. Arora & Taneja, a firm of Chartered Accountants with four partners, has recently been recognized for its strong commitment to professional development and community service. During the F.Y. 2024-25, the following instances came to light during a peer review : 5

- (1) Support to ICAI Programme Organizing Unit (PoU) :

The firm contributed funds to the "Financial Reporting Update Seminar" organized by one Program Organising Unit of the ICAI. The event had prior approval from the CPE Directorate, and the firm's name was included among the sponsors in the official ICAI circular and event signage.

(2) CSR Activity by Partner :

One of the partners, CA Anjali Taneja, personally financed a *Clean Water Drive* under her company's CSR initiative. The posters and banners displayed the following :

"An initiative supported by CA Anjali Taneja (Partner, Arora & Taneja)" [Firm's logo was displayed at the bottom corner of the banner]

Analyse the professional and ethical implications of the above situations in light of the ICAI Code of Ethics.

- (c) Global Techno Systems Limited is among the top 1000 listed companies in the country. The company is preparing and presenting its Integrated Report in line with the internationally recognized Integrated Reporting Framework. The company continues to align its BRSR disclosures with its Integrated Report to demonstrate how it creates value over the short, medium, and long term through effective use of the six capitals. 4

Following further information is provided in respect of the above company :

- (i) The company has implemented a structured leadership development programme for its employees across all divisions. This initiative focuses on enhancing professional skills, innovation capabilities, and ethical decision-making, resulting in improved employee engagement and alignment with the organization's long-term strategy.

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- (ii) The company has commissioned a new, fully automated production line equipped with modern machinery and smart control systems. This has significantly improved production efficiency, reduced wastage, and enhanced product quality, leading to overall improvement in operational performance.

Discussing the above information, identify and explain which of the capitals of Integrated Reporting are being referred to at (i) and (ii) respectively.

5. (a) You have been appointed as the statutory auditor of KYM Pvt. Ltd. for the F.Y. 2024-25. The company has a Paid-up capital and Reserves & Surplus of ₹ 2 Cr; total borrowings of ₹ 9 Cr; total revenue ₹ 9 Cr. (excluding revenue of ₹ 2 Cr. from discontinuing operations) during F.Y. 2024-25. 5

You are required to state additional matters specified, as may be applicable, besides the report u/s 143 of the Companies Act, 2013 with regard to the following aspects :

- (i) The company has incurred cash losses of ₹ 50 Lakh during F.Y. 2024-25 and ₹ 75 Lakh during F.Y. 2023-24 with negative working capital. The suppliers have reduced credit period while some customers have delayed payments beyond the credit period. A few customers have been declared insolvent.
- (ii) The company has been continuously in profits since inception. Because of the losses incurred during the last two F.Y.s, the management suspected certain financial irregularities. Subsequently, a fraud was discovered through proper mechanism and was being addressed by the management on certain complaints filed with them. You have been informed of such a case.

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(iii) The company has been awarded certain projects during F.Y. 2023-24 of Metro lines, Monorail and Coastal Roads for which the company had borrowed funds ₹ 4 Cr. from Bank. Metro lines and Monorail were ongoing projects but the Coastal Road project was yet to commence to-date and the amount unspent is ₹ 4 Cr. sanctioned for this project.

(iv) In the case of ongoing projects of Metro lines and Monorail, there was an unspent amount of ₹ 2 Cr. as on 31-03-2025.

Is there any reporting responsibility cast on you regarding the above matters of KYM Pvt. Ltd. under CARO 2020 for F.Y. 2024-25 ? If no, where and how the above matters would be dealt with in your audit report for F.Y. 2024-25 ?

(b) As the senior audit manager for "Alpha Tech Ltd.", a listed technology company with significant debt financing, you are planning the audit for the financial year ending March 31, 2025. Your previous two audits resulted in an unmodified opinion. However, the company has recently been in the media spotlight due to allegations of manipulating share prices and not disclosing all related party transactions. The company is under intense pressure from external stakeholders to meet aggressive earnings targets. 5

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During your preliminary risk assessment, you identify that :

- A significant portion of the senior management's compensation is tied to achieving unrealistic profitability targets.
- The company's financial results show rapid, unusual profitability compared to its competitors.
- A number of significant, complex, and unusual transactions occurred very close to the year-end.
- You also notice that there has been a high turnover of senior management and legal counsel in the past year.

Based on the above facts and with reference to relevant SA, you are required to identify and explain the specific fraud risk factors present in the scenario that suggest a heightened risk of material misstatement due to fraudulent financial reporting.

- (c) A practicing Chartered Accountant, Mr. P, is approached by a prominent retail chain to conduct "Mystery Audits" at their stores. The goal of the audit is to evaluate compliance with internal policies and service standards. Mr. P accepts the assignment and structures his professional fees to be contingent upon the number of operational lapses and non-compliances he identifies, with a higher fee for more significant findings. 4

Discuss whether Mr. P is guilty of professional misconduct under the Chartered Accountants Act, 1949, with specific reference to the relevant schedules.

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6. (a) M/s. AKP & Co., Chartered Accountants, have been engaged by Tech Systems Ltd. (TSL), a listed company engaged in cloud computing solutions and enterprise software services, to conduct a Due Diligence Review in connection with its proposed acquisition of a 70% stake in Code Technologies Pvt. Ltd. (CTPL), a fast-growing start-up specializing in artificial intelligence (AI) and data analytics. 5

The management of TSL believes that CTPL's proprietary AI models and client portfolio could provide significant strategic advantage, but its finance and legal teams have expressed concerns regarding revenue projections, compliance with data protection laws, cybersecurity regulations, and corporate filings.

You are the senior audit manager at M/s. AKP & Co. and are responsible for planning and conducting the due diligence engagement. The audit staff is new to this kind of work. You are required to explain the steps involved in conducting due diligence to the audit team.

- (b) SDI Bank Ltd. is finalizing its financial statements for the year ended 31st March, 2025. PAM & Associates, Chartered Accountants are appointed statutory auditors of SDI Bank Ltd. for the financial year 2024-25. CA M is the engagement partner for conducting the audit. 5

During the course of audit, the audit team seeks guidance of CA M, the engagement partner for the following observations made while conducting the audit of investments :

- (i) The bank holds ₹ 450 crores in government securities, ₹ 250 crores in debentures, ₹ 95 crores in shares and ₹ 75 crores in bonds. During the audit, it is noticed that the investment team comprising of 4 staff members, is responsible for all investment functions.

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- (ii) There are 5 Bank Receipts (BRs) with other banks totaling ₹ 35 crores at the year end. Out of these 3 BRs have been outstanding for more than 8 months.
- (iii) The audit team observes during the course of audit that during the year the Bank has re-classified ₹ 80 crores of investments from AFS (available for sale) to HTM (held to maturity) on the basis of a resolution passed by Asset Liability Committee, but without explicit approval from the Board of Directors.

Outline the audit procedures that CA M, the engagement partner will advise the audit team to be undertaken to address each of these observations.

- (c) RBR Infrastructure Pvt. Ltd. is bidding for a long-term government project involving construction of smart highways. As part of the bidding documents, the company is required to present Prospective Financial Information (PFI) for the next five years to demonstrate its financial viability. CA J has been engaged to examine the Prospective Financial Information. While examining the PFI, CA J observes that the Management has assumed zero increase in construction material costs over five years, even though industry reports predict a steady 6-8% annual increase due to inflation. Further, the company has based its revenue projections on the assumption that it will win two additional large contracts, even though bids are yet to be submitted. Elaborate on the duties of CA J while examining the Prospective Financial Information.

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(c) PMP Industries Ltd. is a listed manufacturing company. CA F is the statutory auditor for the F.Y. 2024-25. During the course of audit CA F and his audit team made the following observations :

- Fictitious sales of ₹ 20 crores through fake invoices
- Missing inventory worth ₹ 8 crores with forged records

On communicating the observations with the Management and those charged with governance they refused to take corrective action. Instead of making the corrections, the Managing Director threatened legal action if disclosures are made in the Audit Report. The Board of Directors is divided, with promoter directors supporting the Managing Directors and others agreeing to the auditor's contention.

Since the fraud is material to the financial statements, CA F finds it difficult to continue the audit engagement due to these exceptional circumstances. State with reference to the relevant Standard on Auditing the course of action CA F will take.