

Mock Test Paper - Series II: April, 2026

Date of Paper: 6<sup>th</sup> April, 2026

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.**

**Case Scenario I [MCQ 1-5]**

GIVE Ltd., an unlisted company in Indore, is engaged in the business of spices. Total paid up capital of the company is ₹ 9.5 Crore. Details of annual turnover and profit of the company for the last 3 years are given below:

<b>Year ended</b>	<b>Turnover (₹ in crore)</b>	<b>Profit (loss) before tax (₹ in crore)</b>
31-03-2023	485.20 (Audited)	76.25
31-03-2024	287.35 (Audited)	1.93
31-03-2025	106.25 (provisional)	(7.75)

The company is using conventional method for preparing spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.

A new competitor viz, Taste Ltd, had come in the market during the year 2023 and by the end of March, 2024, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of GIVE Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 85 lakh. The company approached AXI Bank Ltd for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2024, the bank had sanctioned the loan; and disbursed ₹ 40 lakh till 31<sup>st</sup> March, 2025.

GIVE Ltd. has appointed M/s G&G, Chartered Accountants, as auditors of the company at its AGM held on 15-08-2024 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2024-25 in February, 2025 and completed the work by the end of May, 2025. The audit team submitted following findings to the engagement partner:

- WE Ltd., one of the material suppliers, filed a case against the company on 10-08-2024 for a compensation of ₹ 2.35 crore.
- Company has made an estimate for allowance of debtors @7%.
- 68% of the value of inventory was only covered in physical verification during the year 2024 due to fire.
- Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.
- Three incidences of fraud noticed (Total ₹ 1.35 crore)- fraud committed by Accounts manager ₹ 15 Lakh, by a cashier ₹ 30 Lakh and by the Purchase manager ₹ 90 Lakh.

As an auditor of GIVE Ltd for the year 2024-25, answer the following questions based on the facts given in the above paragraph:

**Based on above facts, answer the following MCQs**

1. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would not be the audit procedure to be performed?
  - (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
  - (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.

- (c) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
  - (d) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
2. Company has made an estimate for allowance of debtors @7%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?
- (a) Estimates made for inventory obsolescence that are frequently made and updated.
  - (b) Judgments about the outcome of pending litigation with WE Ltd against the company.
  - (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in marketplace.
  - (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors' review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.
3. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned, an amount of ₹ 40 lakh was earmarked for the purchase of the machinery- Spice Grinder; but the company has acquired an improved model of machinery, viz, Spice grinder and mixer instead. State which of the reporting option would be correct.
- (a) State the fact in CARO report that out of term loan taken for machinery-spice grinder, ₹ 40 Lakh was not utilized for acquiring the machinery for which it was sanctioned.
  - (b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.
  - (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.

- (d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive.
4. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether GIVE Ltd. is a going concern or not, which of the following audit procedures should not be performed?
- (a) Analyse and discuss the company's cash flow and profit of the previous years with the projected accounts.
  - (b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.
  - (c) Evaluating management's future plan and strategy to increase market share of product.
  - (d) Analyse and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.
5. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?
- (a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.
  - (b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.
  - (c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.
  - (d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

## Case Scenario II [MCQ 6-9]

PO & Associates, a firm of Chartered Accountants, having CA. P and CA. O as partners, is based at Chennai. PO & Associates are appointed to conduct statutory audit of Ring Ltd. Ring Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. Tom as its internal auditor. PO & Associates asked CA. Tom to provide direct assistance to them regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

CA. P accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. P realised his mistake in accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

CA. O provides management consultancy and other services to its clients. CA. O was also awarded 'Best Speaker of the year' in recognition of his contribution from the Institute. Later on, CA. O posted his framed photograph on his website wherein he was receiving the said award from the Institute.

Upon hearing about the efficient services provided by PO & Associates Chartered accountants, they were approached by PQR Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 9,501/-.

### Based on above facts, answer the following MCQs

6. Before signing the tax audit report, CA. P sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. P be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
- (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. P will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

- (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. P will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
  - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. P will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.
  - (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. P will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
7. With respect to the fees to be charged for its new assignment, which option can be opted by PO & Associates.?
- (i) To charge fees as percentage of Net Profits, or
  - (ii) To charge fees of ₹ 9,501/-.
- (a) (i) Only.
  - (b) (ii) Only.
  - (c) Either (i) or (ii).
  - (d) Neither (i) nor (ii).
8. As per the Chartered Accountants Act, 1949, under which clause CA. O is liable for misconduct?
- (a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
  - (b) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
  - (c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
  - (d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
9. PO & Associates sought direct assistance from CA. Tom, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
- (a) CA. Tom cannot assist PO & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, PO & Associates can ask

CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.

- (b) PO & Associates can ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
- (c) PO & Associates cannot ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.
- (d) PO & Associates cannot ask CA. Tom for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. Tom may assist PO & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.

### **Case Scenario III [MCQ 10-12]**

TYU & Associates LLP, is a firm of Chartered Accountants, consisting of 12 partners has been allotted Central statutory audit of Money Bank Limited, a scheduled commercial bank.

- (i) During the course of audit, you, as the Engagement partner, have been asked by the GM to calculate CRAR. For this purpose, you have referred to the Master circular on "Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)", which provides the guidelines to be followed by banks for capital adequacy.

You are informed that the basic approach of capital adequacy framework is that a bank should have sufficient capital to provide as table resource to absorb any losses arising from the risks in its business. You have observed that Capital is divided into tiers according to the characteristics/qualities of each qualifying instrument. For supervisory purposes capital is split into two categories: Tier I and Tier II, representing different instruments quality as capital.

You have calculated Eligible total capital funds comprising -

1. Tier I capital of Share capital ₹ 200 Crore, and disclosed Reserves ₹ 20 Crore.
2. Tier II capital of Other Reserves ₹ 30 Crore, and subordinated debt ₹ 20 Crore.

The Risk weighted assets constitute ₹ 25 Crore, while Off-balance sheet items are ₹ 5 Crore.

- (ii) As a part of the scope, the audit firm has been asked to find out the correct position of Demand and Time liabilities of Money Bank.

DTL balance as on 30th September 2024 was ₹ 50,000 Crore which included the following-

	₹ Cr.
(i) Paid up capital	27,000
(ii) Reserves	1,650
(iii) Credit balance in Profit & Loss account	1,210
(iv) Loan taken from RBI	575
(v) Refinance taken from EXIM bank and NHB	480
(vi) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery	125
(vii) Net credit balance in branch adjustment accounts	105
(viii) Interest accrued but not accounted for in books	90
(ix) Margins held and kept in sundry deposits for funded facilities	80

- (iii) During the FY 2024-25, XYZ & Associates LLP is appointed as Statutory auditors of APP Ltd., an NBFC, which was set up under the Companies Act, 2013 and got itself registered as non-banking financial company (NBFC) with the Reserve Bank of India, fulfilling the required criteria. During the financial year ending 31st March 2025, the company commenced operations on a massive scale. You are informed that RBI has revised different facets of existing NBFC Classification and regulation like Capital requirements, Government standards, Prudential regulations, etc. based on four layers that are defined based on their size, activity and perceived riskiness.

During the FY 2024-25 APP Ltd. has accepted deposits of ₹ 900 Crore, while its asset size is ₹ 990 Crore. It has also undertaken following activities -

- (i) Standalone Primary Dealers (SPDs)
- (ii) Infrastructure Debt Fund
- (iii) Housing Finance
- (iv) Infrastructure Finance

The auditors are about to begin audit of APP Ltd. for which your audit team has been asked to prepare audit checklist.

- (iv) TYU & Associates LLP has been appointed as auditors of Heavy Electricals Corporation, a Public Sector Undertaking (PSU) during the FY 2024-25 by C & AG. It has been intimated about the intention of taking up planned performance audit with the scope and extent of audit including the constitution of audit team and the tentative time schedule, well before the commencement of Audit. The Engagement partner has asked the audit team to prepare an Audit Design Matrix (ADM) as it is a structured and highly focused approach for designing a performance audit study. The audit team has been informed that ADM should be prepared on the basis of information and knowledge obtained during the planning stage. Further, it is desirable to prepare ADM for each of the audit objectives.

Based on the above facts, answer the following Questions

10. Based on facts given in para (ii), you are required to Compute Demand and Time Liabilities (DTL) balance as on 30th September 2024.
- (a) ₹ 18,880 crore
  - (b) ₹ 19,360 crore
  - (c) ₹ 18,790 crore
  - (d) ₹ 18,000 crore
11. Keeping in view of the information in para (iii), Identify under which layer APP Ltd. will be categorised -
- (a) Top Layer
  - (b) Upper Layer
  - (c) Base Layer
  - (d) Middle Layer
12. Keeping in view of the information in para (iv), in the case of Performance audit of PSU, which one of the following is not part of Audit Design Matrix (ADM)
- (a) Evidence
  - (b) Audit programme
  - (c) Audit Questions
  - (d) Data collection and Analysis Method

13. M/s PT & Co., a firm of Chartered Accountants, engages Mr. Rahul, who is not a Chartered Accountant, to assist in administrative coordination, client communication and liaison activities. The firm pays him a portion of its professional receipts, describing the payment as “legal consultancy and office support charges.” However, Mr. Rahul does not possess any recognised professional qualification prescribed by the Council.

In light of the provisions of the Chartered Accountants Act, 1949 and the Schedules thereto, determine whether such payment to Mr. Rahul is permissible.

- (a) Permissible as sharing of fees for legal consultancy services.
  - (b) Constitute professional misconduct under Clause (3) of Part I of the First Schedule to the Chartered Accountants Act, 1949
  - (c) Constitute professional misconduct under Clause (2) of Part I of the First Schedule to the Chartered Accountants Act, 1949
  - (d) Permissible if it is disclosed in the engagement letter
14. During the due diligence review of Alex Ltd for the financial year ended 31<sup>st</sup> March 2025, the reviewer Mr. Vardhman assessed the business feasibility to evaluate whether the current business would be more beneficial in future or not. The management of Alex Ltd., however, did not understand this perspective and contended that the reviewer has no powers to assess the business feasibility, as the company had been consistently profitable for many years.

In the above context, which of the following statement should be correct?

- (a) The contention of the management was correct.
  - (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well.
  - (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer.
  - (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.
15. Credit Corporation Ltd., an NBFC, has established email-based approval processes for urgent fund transfers. During the course of audit, it was observed that the Managing Director received a “Highly Confidential” email appearing to be from the Chairman, seeking immediate authorisation for an overseas wire transfer.

Upon further investigation, it was identified that the email was fraudulent. This is an example of:

- (a) Spear phishing
- (b) Vishing
- (c) Whaling
- (d) Smishing

**PART II – Descriptive Question (70 Marks)**

**Question No.1 is compulsory.**

**Attempt any four questions from the rest.**

1. (a) You are appointed as Statutory Auditor of High Ltd. and are in the midst of conducting Audit for the financial year ending on 31<sup>st</sup> March, 2025. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.30 crores from a company incorporated on 24<sup>th</sup> March, 2025. Upon further inquiry, you discovered that purchases have been booked at the instructions of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation? **(5 Marks)**
- (b) Flower Ltd. is a company engaged in the manufacturing of iron doors. ANI & Associates are the statutory auditors of Flower Ltd. for the Financial Year 2024-25. During the course of audit, CA Ram, the engagement partner, found that the Company's financing arrangements have expired, and the amount outstanding was payable on March 31, 2025. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Ram express in case of Flower Ltd.? **(5 Marks)**
- (c) M/s Sam Karan & Associates has been appointed as an auditor of Heaven Ltd. for the financial year 2024-25. CA Sam, one of the partners of M/s Sam Karan & Associates, completed entire routine audit work by 21<sup>st</sup> June, 2025. Unfortunately, on the very next morning, while roving towards office of Heaven Ltd. to sign final audit report, he met with a road accident and died. CA Karan,

another partner of M/s Sam Karan & Co., therefore, signed the accounts of Heaven Ltd., without reviewing the audit work performed by CA Sam. State with reasons whether CA Karan is right in expressing an opinion on financial statements, the audit of which is performed by another auditor. **(4 Marks)**

2. (a) MNO Ltd., at its annual general meeting, appointed Mr. M, Mr. N, and Mr. O as joint auditors to conduct the audit for the financial year 2024-25. For the valuation of the newly constructed infrastructure project of the company, Mr. M, Mr. N, and Mr. O decided to consult their own known engineers. Due to differences of opinion, each joint auditor sought advice from their respective engineers. As a result, significant discrepancies were found in the valuation reports provided by the engineers. However, Mr. M agreed with the report provided by Mr. N's engineer, while Mr. O did not. Mr. M argues that report of Mr. N's engineer should be included in the audit report due to the majority of votes. Now, Mr. O is in a dilemma.

What would be the responsibility of the auditors if the report provided by Mr. N's engineer is later found to be faulty? **(5 Marks)**

- (b) Mr. Kunal has been appointed as the statutory auditor of a listed company Kuber Ltd. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 1.75 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be made after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 27<sup>th</sup>, 2025, along with the remaining part of the Audit Fee.

Comment on the validity of this fee structure and the terms of payment with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the guidelines issued by ICAI. **(5 Marks)**

- (c) Mr. Monu is a consultant tasked with helping a mid-sized manufacturing company modernize its operations by integrating Internet of Things (IoT) technology. The company wants to connect various devices such as manufacturing equipment, smart home security systems for their facility, and inventory management systems. They aim to leverage IoT to improve operational efficiency, predict equipment maintenance needs, and enhance overall security. However, they are concerned about the potential risks and the impact on their audit processes. Describe the key components of IoT, the risks associated with IoT implementation,

and the implications for the company's audit processes. How should the company address these concerns to ensure a smooth transition? **(4 Marks)**

3. (a) During the audit of the financial statements of Good Limited for the year ended March 31, 2025, CA Aryan, the statutory auditor, requested external confirmation for certain trade receivables as part of audit procedures in accordance with SA 505:

- (i) CA Aryan sent a confirmation request to a debtor ABC Ltd. for balance of ₹ 16,75,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated.
- (ii) He also sent a confirmation request to another debtor PQR Ltd. with an outstanding balance of ₹ 14,50,000 requesting a response only if there was a disagreement with the stated amount.

CA Aryan received responses from the aforementioned debtors in following manner:

- ABC Ltd. confirmed that, as per their records, they owed ₹ 15,40,000 to Good Limited instead of ₹ 16,75,000 as per the company's books.
- PQR Ltd. did not respond to the confirmation request.

Identify and explain the type of confirmation request sent by CA Aryan to ABC Ltd. and PQR Ltd. Also, discuss the course of action CA Aryan should take for the discrepancy in the confirmation received from ABC Ltd. and non-receipt of confirmation from PQR Ltd. **(5 Marks)**

(b) INB Bank Ltd. is suffering from huge number of NPAs. During the month of April 2025, the management of the bank decided to sell some of its NPAs. Bank is doing this exercise for the first time. The management has selected following NPA accounts for sale:

Name	NPA since F.Y.	Amount (₹ In Lakh)
Cut Pvt. Ltd.	2021-22	38.55
Dairy Farm	2023-24	56.32
City Book	2020-21	27.50
Fashion Hub	2019-20	62.35
GRW and Associates	2022-23	19.75
Perry Cream	2023-24	11.25

Being internal auditor of the bank, you are required to scrutinize the proposal made by the branch and help them by providing specific points to be considered.

**(5 Marks)**

- (c) CA Priti is appointed as the statutory auditor of Moon Ltd. for the financial year 2024-25 to audit the complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Priti as a separate engagement for the financial year 2024-25. While drafting the audit report of complete set of financial statements, CA Priti decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion.

Comment with reference to the relevant Standard on Auditing regarding the opinion to be given by CA Priti in audit report of separate engagement of audit of Property, Plant and Equipment.

**(4 Marks)**

4. (a) You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by ICAI. The company you have joined is not amongst top 1000 listed companies in the country. However, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.

In above context, dwell upon what is your understanding of "Sustainability reporting"? You are also required to list its expected benefits.

**(5 Marks)**

- (b) CA. Suman, the auditor of KEY Pvt. Ltd. has delegated following works to his articles and staff:
- i. Raising of bills and issuing acknowledgements for money receipts.
  - ii. Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.
  - iii. Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

**(5 Marks)**

- (c) Home Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Home Pvt. Ltd.'s interim financial statements for the six-month period ending 30<sup>th</sup> September 2025, instead of a full audit. To comply with this request, the management appoints CA Vanya, a practicing Chartered Accountant, to conduct the review and issue a

report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Vanya is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report. What kind of assurance is given in a review engagement? How is it different from an audit?

**(4 Marks)**

5. (a) CA Mohan was appointed as a Statutory Auditor of HTM Limited, a listed company, which has three subsidiaries namely H Ltd., T Ltd., M Ltd. and also 16 branches across India. The Auditors are duly appointed for all the subsidiaries and branches. What should be the considerations of CA Mohan regarding determination of materiality during the audit of consolidated financial statements? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter paragraph in accordance with SA 705/706) made by component auditors? **(5 Marks)**

- (b) While assessing the impact of uncorrected misstatements in the audit of Global Private Limited, Mr. Shivam encountered a significant issue related to the calculation of materiality on revenue. The initial materiality calculation was based on estimated figures provided by the management. Management, to estimate full-year revenue, extrapolated the sales for 11 months to arrive at a figure for 12 months. However, given the nature of Global Pvt, Ltd. as a company in the construction sector, where monthly sales exhibit substantial variations, a unique challenge emerged.

The actual sales for the last month deviated significantly from the estimated sales due to an unexpected slowdown in project completions. As a result, last month's actual sales represented only 30% of the estimated sales. Now, Mr. Shivam is confronted with a dilemma regarding the appropriate approach to evaluate uncorrected misstatements using previously calculated materiality. Kindly Guide Mr. Shivam in the light of relevant Standards on Auditing. **(5 Marks)**

- (c) CA Kapil is the auditor of INFRA Limited having a turnover of more than ₹ 250 crores. The audit fee for the year is fixed at ₹ 85 Lakhs. During the year, the company offers CA Kapil an assignment of representation before Income Tax Appellate Tribunal for certain matter for remuneration of ₹ 1.80 crores. CA Kapil accepted the assignment. Discuss action of CA Kapil with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(4 Marks)**

6. (a) CA Hanuman is carrying out an audit of restated financial statements of AOPM Limited for past 3 financial years i.e. 2024-25, 2023-24 and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Hanuman is planning to issue an Audit Report on 5<sup>th</sup> August, 2025 covering these restated financial statements. Before issuing the audit report, CA Hanuman requested Management Representation Letter from the management of the

Company for this assignment. The Management of the Company provided Management Representation Letter dated 1<sup>st</sup> April, 2025 covering the period of financial year 2024-25 only as they were not in position to provide for the financial year 2023-24 and 2022-23 because they were not in place during that period.

How would CA Hanuman deal with the above situation as per relevant Standard on Auditing? **(5 Marks)**

- (b) While conducting the statutory audit of Super Ltd. for the financial year 2024–25, the auditor, CA Chintan, identified several weaknesses in the internal control system in areas such as cash handling, inventory management, and authorization procedures. These deficiencies indicated potential risks of errors and fraud. Chintan decided to communicate these weaknesses to the company's management and those charged with governance through a Letter of Weakness. However, he wants to ensure that the communication reflects the scope and limitations of the audit properly. You are required to elucidate the important points CA Chintan should keep in mind while drafting the letter of weaknesses in internal control system. **(5 Marks)**
- (c) Mr. Shubham, a Chartered Accountant was the auditor of 'Work Limited' for the year 2023-24 and 2024-25. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 15 lakh and was the same amount as in the last year 2023-24. Later it was found that the company's investments were only for ₹ 1,65,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**

**OR**

- (c) CA. Vijay is performing a forensic accounting engagement involving gathering of evidence in relation to suspected fraud of substantial amount in a company. He has been appointed under terms of a contractual agreement with the company.
- The company operates in an electronic environment. While performing engagement, his team has gathered evidence from electronic records in Enterprise Resource Planning system (ERP), messages in company's e-mail system and also from system logs and audit trails generated by company's computer systems. However, while doing so, team has failed to take care of aspects such as keeping record of each person in team gathering relevant evidence, date and time of collection and storage of such evidence. What implications it may have on forensic accounting engagement as such?

**(4 Marks)**