FINAL EXAM
PAPER - 3
Advanced Auditing, Assurance & Professional Ethics

0 6 MAY 2026

Question Paper Booklet No. **2366497**

GENERAL INSTRUCTIONS TO CANDIDATES

1. **The question paper comprises two parts, Part I and Part II.**
2. **Part I comprises Multiple Choice Questions (MCQs).**
3. **Part II comprises questions which require descriptive answers.**
4. **Answers to Questions of Part I (i.e., MCQs) are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II (i.e. descriptive questions) are to be written inside the descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.**
5. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
6. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
7. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
8. **Duration of the examination is 3 hours.** You will be required to submit the descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
9. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
10. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

PART – I

1. Answer all MCQs, on the OMR Answer Sheet as given on the cover page of descriptive answer book.
2. Use HB pencil only to darken the circles for MCQ answers in the answer sheet.
3. After each MCQ, four options have been given. **Choose the correct or most appropriate option** and darken the corresponding circle against the question number in the OMR Answer Sheet, completely, as shown below, with HB pencil.

Marking the Answers	
Example : For Question No. 12, if the candidate considers the correct answer to be C, he is to mark as shown below (Correct Method). 12 (A) (B) ● (D)	**Not as shown below (Wrong method) :** 12 (A) (B) (C) (D) 12 (A) (B) (C) (D) 12 (A) (B) (C) (D) 12 (A) (B) (C) (D) 12 (A) ● ● (D)

4. Any answer to MCQ marked inside descriptive answer book will not be considered and no marks will be awarded.
5. If a candidate wants to change the option already darkened, he should erase it completely, with good quality eraser and ensure that no mark is visible after erasing.
6. No mark will be awarded if no circle is darkened or more than one circle is darkened for a particular MCQ. There is no negative marking for a wrong answer.
7. Rough work, if any, must be done on the pages, specified as SPACE FOR ROUGH WORK only and nowhere else in the question paper booklet or in the answer sheet.
8. Before commencement of the exam, please fill up the necessary information in the space provided below and also in the answer sheet.

Total No. of Printed Pages : 32 **Maximum Marks : 100**

Roll No. | | | | | | |

Question Paper Booklet Code | J | N | Y |

Name of the Candidate

Signature of the Candidate

PART – I

30 Marks

(MCQ Portion)

- ***Answers to MCQs are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book only. Answer to MCQs, if written inside the descriptive answer book shall not be evaluated.***
- ***Please write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.***

Integrated Case Scenario – I

Myra Developers Ltd ('MDL') is a prominent, publicly listed conglomerate primarily engaged in the development of "Smart City" infrastructure and large-scale urban transit systems. The Company currently manages several high-value projects under the Service Concession Arrangement (SCA) model. Effective Financial Year 2025-26, M/s. MS & Associates, Chartered Accountants were re-appointed as the statutory auditors, for a period of five years, with CA Raja as the Engagement Partner. To comply with the firm's quality control policies for high-risk listed clients, CA Puja was designated as the Engagement Quality Control Reviewer (EQCR).

The audit environment became increasingly complex during the final quarter of the year. A primary area of concern involved the valuation of Service Concession Assets, which are valued based on discounted future cash flows from projected toll collections and government subsidies. Due to the high degree of estimation uncertainty and specialized mathematical models involved, CA Raja determined this to be a "significant risk" area. To address this, the firm engaged a third-party valuation specialist. CA Raja verified the expert's professional membership and

checked two previous project reports the expert had completed for other firms. However, he chose not to delve into the specific discount rates or growth assumptions used in the current model, citing that his decade-long experience in construction auditing provided him with enough "intuitive comfort" to accept the expert's final figures without further technical challenge.

As the audit progressed into April 2026, the engagement team flagged a transaction involving an unsecured, interest-free loan of ₹ 15 crores extended to Emerald Ventures Private Ltd. Investigation revealed that the spouse of MDL's Managing Director holds a 30% equity stake in Emerald Ventures. The Board was just informed about this transaction without any specific details and the board approvals were entirely bypassed. When confronted, the CFO argued that the loan was a 'temporary bridge' for a sub-contractor and that the amount was negligible, representing less than 1% of MDL's total asset base and thus did not warrant any disclosure.

Concurrent with the financial review, the team evaluated MDL's compliance with broader regulatory frameworks. It was discovered that the Environmental Management Authority had issued a 'Show Cause Notice' to MDL for failing to renew the mandatory operating licenses for three major project sites. These licenses are fundamental to the Company's legal right to operate, while these projects continued to generate revenue and no financial penalties had been crystallized by the balance sheet date. CA Raja noted the non-compliance in the working papers but concluded that since it had no 'direct effect' on the calculation of the current year's depreciation or revenue, it did not require specific procedures beyond a standard management representation letter.

The audit report was formally signed dated May 15, 2026. However, a week later, on May 22, 2026, before the Company had printed and dispatched the annual reports to the shareholders, a catastrophic fire occurred at the Company's central logistics hub. The fire decimated specialized equipment and inventory worth ₹ 40 crores. Since the insurance policy for that specific hub had lapsed two months prior, the loss was total. When CA Raja requested management to adjust the financial statements or at least include a detailed note for the subsequent event, the Board refused, claiming that auditors responsibility for FY 2025-26 accounts ended the moment the audit report was signed off.

Based on the above facts, answer the following **Q. Nos. 1** to **5** by choosing the most appropriate option :

1. Considering the mandatory requirements for listed entities, which of the following represents a lapse in objective evaluation of an EQCR ? **2**

   (A) EQCR has made a review of the financial statements and the proposed auditor's report.

   (B) EQCR did not specifically evaluate and document the engagement team's assessment of the firm's independence prior to report finalization.

   (C) EQCR disagreed with the engagement partner's reporting conclusion but escalated the matter to the firm's technical committee as per policy.

   (D) EQCR restricted the detailed review to areas involving significant judgment instead of reviewing all routine audit documentation.

2. Regarding the "Show Cause Notice" and the expired environmental licenses, how should the auditor's responsibility be categorized under the standards on auditing ? 2

(A) The auditor's responsibility is limited to performing specified audit procedures, specifically inquiry and inspection, to identify non-compliance that may have a material effect on the financial statements.

(B) The auditor must obtain sufficient appropriate audit evidence regarding compliance because these regulations have a direct effect on the determination of material amounts and disclosures.

(C) Since the non-compliance is "fundamental to the operating aspects," the auditor must treat this as a "direct effect" law and perform extensive substantive testing on all environmental filings.

(D) No responsibility exists under the auditing standards because the legal non-compliance had not resulted in a quantified financial penalty or "direct" monetary misstatement by the year-end.

3. Given the dispute over the ₹ 15 crore loan to a Company in which the MD's spouse held shares, what is the mandatory reporting requirement for M/s. MS & Associates under CARO 2020 ? 2

(A) Since the amount is less than 1% of the total assets, it is considered "immaterial" for CARO purposes and no mention is required.

(B) The auditor must state whether the provisions of Section 185 and 186 have been complied with, and since they have not, provide the specific details of the non-compliance.

(C) The auditor should report this under the "Related Party Transactions" clause of CARO only if the transaction was not at "arm's length," regardless of Section 185 compliance.

(D) Because the transaction involves a spouse and not the Director directly, Section 185 is not triggered, and thus no reporting is required under CARO.

4. Following the warehouse fire on May 22, 2026, and management's subsequent refusal to amend the financial statements, which is the most appropriate course of action for CA Raja ? 2

(A) He should issue a "Qualified Opinion" immediately, dating the new report May 22, 2026, to account for the unadjusted inventory loss.

(B) As the report is already signed, he should inform the management that he will "withdraw" his signature, effectively cancelling the previous report via a public notice.

(C) He must notify those charged with governance not to issue the financial statements to third parties; if they are still issued, he must take steps to prevent reliance on the report.

(D) He should include an "Emphasis of Matter" paragraph in the next year's audit report (FY 2026-27) to explain the loss that occurred in the previous period.

5. CA Raja's reliance on the valuation expert's findings for the Service Concession Assets was based on his 'intuitive comfort' and the expert's professional credentials. With reference to relevant Standard on Auditing, which of the following statements is appropriate ? 2

(A) CA Raja's approach is appropriate because an auditor is not expected to review the assumptions and methods of a specialized valuer and is entitled to rely on the expert's professional membership as sufficient evidence of the reliability of the work.

(B) CA Raja failed to meet the requirements of the standards because he did not evaluate the adequancy of the expert's work, which includes evaluating the relevance and reasonableness of the expert's significant assumptions and methods.

(C) The auditor's reliance is technically deficient because the engagement of a third-party expert for a 'significant risk' area automatically requires the Engagement Quality Control Reviewer to perform an independent re-calculation of the model.

(D) CA Raja acted correctly by focusing on the expert's previous project reports for other firms, as this fulfils the requirement to obtain a sufficient understanding of the expert's field of expertise to verify the final valuation figures.

Integrated Case Scenario – II

Horizon Tech-Solutions Ltd (HTSL) is a prominent, unlisted public company specializing in providing end-to-end cloud infrastructure and digital transformation services. M/s. JK & Associates, Chartered Accountants were the Statutory Auditors, with CA Vicky as the engagement partner for third consecutive year. HTSL's operations are highly decentralized, with its primary revenue driver being the 'HR-Flow' platform. To maintain cost efficiency, HTSL has outsourced its entire data processing and payroll calculation engine to Data-Sync Private Ltd (DSPL). During the audit planning phase in October 2025, the CFO, Mr. Rane, received an urgent email from an address nearly identical to the Group Chairman's, requesting a 'discreet' $50,000 wire transfer for an undisclosed project. Simultaneously, several junior staff members in the accounts department reported

receiving urgent SMS alerts claiming their corporate login credentials had expired and providing a link to a 'Security Portal' to prevent account lockout. Later, in December 2025, the IT Manager was contacted by a person claiming to be from the Company's telecom provider, who successfully convinced him to reveal the administrative password for the VoIP gateway over a recorded 'verification call'.

As the audit progressed into the finalization stage, HTSL provided CA Vicky with a Type 2 Report for DSPL. This report covered the description, design and operating effectiveness of controls at DSPL. CA Vicky's audit assistant, noting that payroll costs constitute 68% of the total expenditure, drafted an unmodified audit report including a paragraph stating : *"Our opinion is based in part on the report of the service organization's auditor, which confirms the effectiveness of the payroll processing engine."* To meet the reporting deadline, CA Vicky decided to utilize the internal audit function. He assigned them to trace transaction flows from the CRM to the general ledger and to attend the physical verification of high-value hardware at four remote data centers. However, he also asked them to 'independently evaluate' whether the Management's assessment of the Company's ability to continue as a going concern was 'reasonable' given a recent loss of a major contract.

Meanwhile, CA Anaya, a senior partner at the firm, was offered the role of 'Whole-time Director' at a reputable non-profit educational Trust. While she has no financial interest in the Trust, the role involves significant administrative responsibilities and a fixed monthly honorarium.

Based on the above facts, answer the following **Q. Nos. 6 to 9** by choosing the most appropriate option :

6. Considering the various security breaches described (the Chairman's email, the SMS alerts, and the password disclosure over the phone), which of the following accurately categorizes the nature of these social engineering attacks for the purpose of the Risk Assessment and Internal Control evaluation ? **2**

   (A) The Chairman impersonation email represents Whaling; the SMS credential reset alerts represent Smishing; and the password extraction through the verification call represents Vishing.

   (B) The Chairman impersonation email represents Spear-phishing; the SMS alerts represent Smishing; and the phone-based credential extraction represents Vishing.

   (C) The Chairman impersonation email and the phone-based password extraction both represent Whaling due to targeting employees in sensitive control positions, while the SMS alerts represent Smishing.

   (D) All three incidents represent targeted Spear-phishing attempts using different communication channels.

7. CA Vicky is reviewing the audit report draft prepared by his assistant regarding the reliance on the Type 2 report of DSPL. Considering the materiality of payroll, which of the following is the most appropriate professional response ? **2**

   (A) The assistant is correct; because the payroll cost is a material 68% a reference to the service auditor is necessary to limit M/s JK & Associates' liability.

(B) The reference should be removed from the report; however, CA Vicky must perform additional procedures to obtain an understanding of the controls at the service organization.

(C) The reference should be moved to an 'Emphasis of Matter' paragraph to highlight the significant reliance on the service auditor's Type 2 report without modifying the opinion.

(D) The reference is permitted only if CA Vicky issues a 'Qualified Opinion', as the use of services of DSPL constitute a limitation on the scope of the statutory audit.

8. CA Vicky has assigned several tasks to the internal audit function. Evaluate the appropriateness of these assignments under the framework of using the work of internal auditors. 2

(A) All assigned tasks (tracing transactions, hardware counts, and evaluating going concern) are appropriate as they pertain to the operating effectiveness of the entity's reporting framework.

(B) Tracing transactions and attending hardware counts are inappropriate for internal auditors as these are core substantive procedures that must be performed by the engagement team to ensure independence.

(C) Only the evaluation of the going concern is inappropriate; however, the internal auditors can perform hardware counts only if CA Vicky provides 'direct assistance' supervision throughout the process.

(D) Only the tracing of transactions and hardware counts are appropriate; the evaluation of the going concern assumption involves significant judgment and is the sole responsibility of the external auditor.

9. Regarding CA Anaya's offer to become a Whole-time Director at the educational Trust. Which of the following is most appropriate in the background of professional guidelines issued by the Institute ? 2

(A) Since she holds no 'substantial interest' and the entity is a non-profit, she can accept the role without any notification to the Institute, provided the honorarium is below the prescribed limit.

(B) She can accept the role only if she resigns as a partner from M/s. JK & Associates, as a member cannot simultaneously be in 'Full-time Practice' and 'Full-time Employment' as a Director.

(C) She may accept the role of a Whole-time Director only after obtaining the specific and prior approval of the Council, regardless of whether the entity is a business or a non-business concern.

(D) She is permitted to accept the role under the 'General Permission' category of the Institute, provided she informs the Council within 30 days of joining the trust.

Integrated Case Scenario – III

M/s. Sterling & Co LLP, Chartered Accountants are the statutory auditors of Green-Horizon Infrastructure Ltd (GHIL), a listed entity. The management has requested the firm to draft and finalize their comprehensive Business Responsibility & Sustainability Report (BRSR) for the current fiscal year.

CA Prem, the engagement partner, reviewed the section concerning the Company's influence on public and regulatory policy. The Company is a prominent "Platinum Member" of the National Infrastructure Council (NIC) and the Renewable Energy

Federation (REF), paying substantial annual fees to these industry chambers. Additionally, the Company's CEO served as a key member of a Ministry-led task force that drafted the "National Green Hydrogen Policy 2024", providing extensive technical inputs on subsidies and regulatory easing. The Company also submitted a formal white paper to the Ministry of Power suggesting specific amendments to the Electricity Act regarding grid access. During the year, it had also submitted to one of the industry chambers certain key inputs on leveraging India's power infrastructure for creating renewable energy solutions as its task force member on the subject.

The Managing Director argues that since the auditors are already the designated "Assurance Provider of BRSR Core" as per SEBI requirements, having them also prepare the underlying study would ensure maximum data consistency. He further contends that the firm can legally provide both preparation and assurance services for the same BRSR framework to an audit client.

GHIL is currently undergoing an ₹ 80 crore expansion, called the 'Green Data Park'. The budget is allocated as ₹ 45 crore for cooling systems, ₹ 30 crore for civil construction (steel and cement), and ₹ 5 crore for licensing. An internal whistleblower alleged that the civil contractor, in collusion with the Project Manager, submitted invoices for 'Grade-A Steel' while installing 'Grade-B' material, pocketing the price difference. The Board is now debating the technical distinction between the two, asking CA Prem to perform 'extended audit procedures' on these construction invoices versus appointing a separate firm for a 'Forensic Accounting' engagement.

Based on the above facts, answer the following **Q. Nos. 10** to **12** by choosing the most appropriate option :

10. How the above information would likely to be disclosed by GHIL in "principle –wise performance disclosures" as a part of BRSR for the current year ? Select the correct option. **2**

    (A) Information relating to membership of Chamber/associations is in the nature of Leadership Indicators and requires optional disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Essential Indicators and requires mandatory disclosures.

    (B) Information relating to membership of Chamber/associations is in the nature of Leadership Indicators and requires mandatory disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires mandatory disclosures.

    (C) Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires optional disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires mandatory disclosures.

    (D) Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires mandatory disclosures. Information relating to inputs provided by company to the Ministry of Power on a legislative bill is in the nature of Leadership Indicators and requires optional disclosures.

11. Select the correct option with reference to professional code of conduct applicable for the M/s. Sterling & Co LLP who are involved in preparation of BRSR study, providing advisory services, and acting as BRSR Core Assurance provider ? 2

(A) Preparation of BRSR study by M/s. Sterling & Co LLP is permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services or acting as BRSR Core Assurance provider is not permissible as per SEBI framework for the same client.

(B) Preparation of BRSR study or providing advisory services by M/s. Sterling & Co LLP is permissible by recent decisions of Ethical Standards Board for the same client. However, acting as BRSR Core Assurance provider is not permissible as per SEBI framework for the same client.

(C) Preparation of BRSR study by M/s. Sterling & Co LLP is not permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services or acting as BRSR Core Assurance provider is permissible as per SEBI framework for the same client.

(D) Preparation of BRSR study or acting as BRSR Core Assurance provider by M/s. Sterling & Co LLP is not permissible by recent decisions of Ethical Standards Board for the same client. However, providing advisory services is permissible as per SEBI framework for the same client.

12. The Board is debating the forensic investigation for the steel price inflation in the 'Green Data Park'. Which of the following statements is inappropriate in this regard ? 2

(A) In statutory audit individual transactions and balances play a major role irrespective of the fact whether they have a material impact on the overall financial statements.

(B) The Forensic professional does not conduct an audit using sample selection methodologies to perform substantive or compliance tests.

(C) No audit report with any opinion is issued by Forensic Professional.

(D) The Forensic Professional's mandate is limited to present his findings to a superior authority who will examine these from a legal point of view to establish whether the law has been violated or not.

13. Virup Global Holdings Ltd (VGHL) is preparing Consolidated Financial Statements for the year ended March 31, 2026. VGHL owns 80% of Nexus Systems Private Ltd. (NSPL). During the year, VGHL sold goods to NSPL at a 25% markup on cost. At year end, 40% of these goods remained unsold in NSPL's inventory. The applicable tax rate is 30%. 2

The group prepares consolidated financial statements under Ind AS. Separately, NSPL had a customer receivable of ₹ 4 crore outstanding as at March 31, 2026. On May 15, 2026, the customer was declared insolvent following a fire incident that occurred on March 30, 2026 in his factory.

The required consolidation adjustments and treatment of subsequent events is

(A) Unrealised profit elimination equals 10% of intercompany sales value, deferred tax adjustment is not required, and the customer insolvency is treated as a non-adjusting event requiring disclosure only.

(B) Unrealised profit elimination equals 40% of intercompany profit only, deferred tax adjustment is not required on consolidation entries, and the customer insolvency is treated as a non-adjusting event.

(C) Unrealised profit elimination equals 25% of closing inventory value, deferred tax adjustment is optional based on materiality, and the customer insolvency is treated as a disclosure event only.

(D) Unrealised profit elimination equals 8% of intercompany sales value, deferred tax adjustment is required on unrealised profit elimination, and the customer insolvency is treated as an adjusting event requiring recognition of impairment.

14. During the statutory branch audit of ABC Bank for the financial year ended March 31, 2026, you are reviewing the credit portfolio of the Corporate Banking division. One significant exposure involves G-Mart Ltd, which was granted a working capital credit limit of ₹ 100 lakh on September 1, 2023. According to the bank's internal policy and regulatory norms, these limits were due for a comprehensive renewal on September 1, 2025. 2

Upon scrutiny, you observe that as of March 31, 2026, the formal renewal had not been executed, despite more than 180 days having elapsed since the due date. The Branch Manager contends that the account is "perfectly healthy", noting that the balance has remained within the sanctioned Drawing Power, interest has been serviced promptly, and the account shows high turnover. The delay is attributed to the sudden demise of G-Mart Ltd's statutory auditor, which stalled the finalization of audited financial statements required for renewal.

A letter dated February 15, 2026, from the client confirms that a new auditor was appointed and the audited financial statements were finally submitted on April 10, 2026, and the bank issued the formal renewal letter on April 12, 2026, prior to the signing of your branch audit report.

Your audit assistant argues that because the 180-day grace period expired during the financial year without a formal renewal, the account's status is non-negotiable and must be downgraded to NPA.

As the Statutory Branch Auditor, how should you evaluate the asset classification of G-Mart Ltd's account for the year ended March 31, 2026 ?

(A) Classify as NPA; the 180-day grace period from the due date expired prior to the balance sheet date, making the account technically irregular regardless of the reason for delay.

(B) Classify as NPA; it is a non-adjusting event under AS 4 "Contingencies and Events Occurring after the Balance Sheet date". There is no matter of substance over form.

(C) Classify as Standard; it is an adjusting event under AS 4 "Contingencies and Events Occurring after the Balance Sheet date". It is a matter of substance over form.

(D) Classify as NPA; however, the classification can be reversed in the same financial year's audit report if the renewal is completed before the independent auditor's report is signed.

15. The examination of public enterprises by the Committee takes the form of comprehensive appraisal or evaluation of performance of the undertaking. It involves a thorough examination, including evaluation of the policies, programmes and financial working of the undertaking. Therefore, the Parliament and the State Legislatures have, for this purpose, constituted specialized Committees. Funds were approved to procure medical equipment for district hospitals. Audit reports show that 30% of the equipment remains unused due to lack of trained staff. Which Committee can bring to the notice of the house that the particular policy is not leading to the desired results or is leading to waste : 2

(A) Committee on Public Undertakings.

(B) Public Accounts Committee.

(C) Financial Committee.

(D) Estimates Committee.

PART – II

70 Marks

(Descriptive Portion)

(Candidates are required to give descriptive answers for this part inside the answer book)

1. *Questions paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.*
2. *Working notes should form part of the answer.*
3. *Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.*
4. *Candidates are required to write the question number legibly.*

1. (a) The statutory audit of Nizovus Pharmaceuticals Ltd, for the financial year 2025-26, is underway. During the review of "Professional and Legal Fees" ledger, the engagement team noted a significant payment to a high-profile law firm specializing in Intellectual Property (IP) disputes. The management, during initial inquiries, stated that the payment was for 'general advisory services' and that no active litigation exists that requires disclosure under the applicable financial reporting framework. However, the minutes of the Board Meeting from February 2026 hint at a potential significant patent infringement claim from a global competitor. **5**

The engagement partner, CA Rukma, insisted on sending a letter of direct inquiry to the external legal counsel to assess the probability of an outflow of resources. The management has refused to permit this

communication, citing 'confidentiality clauses' in their contract with the law firm. They have offered to provide a comprehensive written representation confirming that no material litigations are pending. CA Rukma is concerned about the management's stand and non-availability of direct confirmation from the lawyers.

Is management's written representation sufficient in place of legal confirmation ? Advise CA Rukma, about the additional audit procedures and reporting implications, if legal confirmation is denied.

(b) Hortiko Ltd is a logistics company that maintains its primary inventory and research assets in a specialized cold-storage facility. On April 5, 2026, a massive technical failure in the cooling systems led to the spoilage of specialized raw materials valued at ₹ 21 crore. This event occurred after the balance sheet date but before the financial statements were authorized for issue. 5

Management has determined this to be a 'non-adjusting event' and has provided a detailed disclosure in Note 28 to the Financial Statements, explaining the financial impact and the status of the insurance claim. The statutory auditor, after performing subsequent event procedures, is satisfied with the disclosure and has concluded that the matter is fundamental to the users' understanding of the financial statements. However, the auditor has also confirmed that this event does not impact the 'Going Concern' assumption for the foreseeable future.

Considering the above facts, state the reporting requirements under relevant Standard on Auditing and draft a suitable paragraph to be included in the Independent Auditor's Report.

(c) CA Pawan is engaged by M/s RK Industries, a partnership firm to compile its financial statements for the past two financial years. During performance of the engagement, CA Pawan, was not satisfied with certain significant adjustments made to inventory valuation over the years. The matter was subsequently resolved after obtaining appropriate clarifications from the management. Further, at the completion stage, CA Pawan, has provided the final compiled statements along with the compilation report to M/s RK Industries. 4

You are required to explain the documentation requirements that should be adhered to by CA Pawan for this type of engagement.

2. (a) CA Ravi is the engagement partner of PQR Ltd for conducting the Statutory audit for the FY 2025-26. During the audit of PQR Ltd., he had the following observations : 5

(i) Management used an outdated discount rate (12% as against 8%) leading to ₹ 2 crore understatement of recoverable amount/ overstatement of impairment loss, which in the auditor's view is not appropriate.

(ii) Management delayed providing expected inventory records for 10 days, causing extensive extra effort.

You are required to :

(i) State with reasons how each of the above constitutes a significant finding requiring communication to *"Those charged with governance"* as per relevant Standard on Auditing.

(ii) State, apart from the above, other significant findings that an auditor should communicate to *"Those charged with governance"*.

(b) CA Vinit, a practicing Chartered Accountant, after attending various courses in Data Analytics and Artificial intelligence designates as "AI Professional" in his visiting cards and letter heads. He wants to advertise through a write up, setting out the professional services provided by him and consequently he has included the basic details such as his name, membership number, professional address, website, email, details of employees and various services provided. In the Profile section of write up, he includes the following details : 5

(i) Disclosure of client MNP Ltd.'s turnover figures from recent audit as '₹ 500 crores audited' to show case expertise in large-scale statutory audits.

(ii) A mention of the 'Outstanding Accountant of the Year 2025' award received from the local Rotary Club in the previous year;

(iii) The firm's tagline "Precision in Every Calculation" which CA Vinit believes is an honest description of his work.

Analyze and comment whether the act of CA Vinit is in compliance with the guidelines and provisions of the Chartered Accountants Act, 1949.

(c) G-Tech Solutions Ltd. is a large multinational corporation engaged in providing cloud-based financial services. The company's operations are heavily reliant on proprietary software applications and extensive databases containing sensitive client financial information. 4

During the statutory audit for the financial year 2025-26, the engagement partner, CA Harsh, observes that the company has recently integrated multiple new digital platforms to automate revenue recognition processes and safeguard its trade secrets. Further, the company has disclosed that an incident involving an attempted unauthorized access to its network occurred approximately six months prior to the year end, although management has described the incident as minor.

As the statutory auditor, CA Harsh is in the planning stage of the audit and wants to evaluate the entity's risk assessment process with specific reference to cybersecurity risks. Explain the key aspects that CA Harsh would evaluate in identifying the entity's risk assessment process relating to cybersecurity.

3. (a) FinBridge Digital Lending Ltd, a non-deposit taking financial intermediary registered with the financial sector regulator, operates an online platform that enables individual lenders to fund retail borrowers after performing onboarding, credit scoring, documentation, and recovery support functions. During the audit, CA Mehta, the engagement partner, observed that certain borrower accounts with overdue instalments were internally tagged as "watchlist" instead of being migrated to non-performing categories pending expected recovery from collection agents. 5

Further, income relating to such stressed accounts continued to be recognised based on contractual schedules. The Board has approved broad risk policies, however, detailed operational guidance and periodic monitoring reports were not consistently documented.

Mr. Mehta wants to assess whether FinBridge Digital Lending Ltd, is complying with the Prudential Norms. Guide Mr. Mehta in this regard.

(b) CA Jiva, a practicing Chartered Accountant since last five years, is providing various advisory services to a wide range of clients. One of his client ASP Ltd is a subsidiary of an overseas conglomerate. CA Jiva is providing advisory services in the field of taxation, GST consultancy, issuing Form 15CB for foreign remittances. All services were being smoothly provided to ASP Ltd until after a certain period it was revealed on an enquiry from the Regulator that the overseas conglomerate had invested in ASP Ltd to use it for carrying out money laundering and crypto laundering. The regulator directed CA Jiva to provide details about ASP Ltd for the ongoing enquiry. CA Jiva contended that he was providing only taxation, GST consultancy and certification to ASP Ltd and therefore was not required to keep detailed information about the company.

Based on the guidelines issued by ICAI comment on the contentions of CA Jiva ?

(c) CA Deepa is the statutory auditor of SGP Textiles Ltd for the FY 2025-26 and is in the process of finalizing the audit report. 4

During the course of the audit CA Deepa obtained information indicating that SGP Textiles Ltd. is experiencing severe liquidity crisis arising from a sudden shift in market demand and cancellation of its largest export order. As at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. Management has disclosed in the notes to the financial statements that these events or conditions indicate material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However, the financial statements for the FY 2025-26 have been prepared on going concern basis, based on management's expectation that a proposed merger with a larger conglomerate will be completed and will stabilize the company's financial position.

Analyze and state the reporting responsibilities of CA Deepa in the Independent Auditor's Report of SGP Textiles Ltd in accordance with the relevant applicable Standard on auditing.

4. (a) Evershine Refineries Ltd has recognized a substantial provision towards decommissioning and environmental restoration obligations relating to its offshore drilling operations. The measurement of this provision requires complex assumptions involving long-term discounting, engineering life-cycle estimates, and evolving environmental compliance costs. For the current financial year, the Company has relied on a 5

technical assessment prepared by its internal Chief Technical Officer (CTO), who is a qualified environmental engineer and has been associated with the organization for over two decades. Based on internally developed operational efficiency measures, the CTO's report recommends a 15% reduction in the existing provision.

During the audit, the engagement partner, CA Meera, has identified the provision as a significant matter due to the significant estimation uncertainty and its material effect on the profitability of the Company. Although the CTO possesses relevant technical competence, CA Meera has noted that the CTO's performance incentives are linked to the Company's profitability targets. Further, the audit team does not possess specialized engineering expertise to independently validate the technical assumptions underlying the revised provision estimate, and no comparable external market benchmarks are available for similar offshore decommissioning projects.

Analyse the case and guide CA Meera whether to rely on CTO's recommendations with reference to the relevant Standard on Auditing.

(b) CA Pranav is engaged to perform a review of the historical financial statements of LAN Innovations Ltd. for the financial year 2024-25. While performing analytical procedures, CA Pranav identifies several significant payments made to a newly incorporated entity. Based on the nature and pattern of transactions, CA Pranav suspects that the entity may be a related party. Upon inquiry, management provides only a 5

vague oral explanation, asserting that the entity is an independent third-party vendor. To corroborate management's assertions, CA Pranav requests written representations, confirming identity, completeness and appropriate disclosure of all related party relationships and transactions. However, management refuses to provide written representations, stating that oral explanations are sufficient for a limited review engagement.

In the context of SRE 2400, explain the course of action CA Pranav should take in response to management's refusal to provide written representations. Discuss the circumstances under which CA Pranav would be required to disclaim a conclusion or withdraw from the engagement.

(c) MK Steel Manufacturing Ltd is a listed company among the top 1000 entities in India, leading in steel production and related products. the company has been expanding its operations over the past four years and is now operating five large manufacturing units across different industrial belts in the country.

The steel manufacturing process generates substantial waste including slag, dust and chemical residues, majority of which is disposed of in landfills without proper treatment. The company's energy consumption has also increased by 50% over the last three years, which is met mostly through coal-based thermal power, thereby contributing significantly to carbon emissions.

Outline the BRSR principle which is most relevant to the above scenario mentioning the core elements associated with it.

5. (a) TOOLS Limited is a Public company engaged in manufacturing of industrial components. During the course of statutory audit for the FY 2025-26, CA Vasu, the engagement partner, identified a serious discrepancy on 15th April 2026 involving misappropriation of funds amounting to ₹ 75 lakhs, perpetrated by the senior accountant through the creation of fictitious vendor invoices. Subsequent verification and inquiry revealed that the accountant had acted independently, without the involvement of other employees. The management acknowledged the failure of internal controls and requested CA Vasu not to highlight this in the audit report, contending that the amount was immaterial in context of the company's turnover of ₹ 500 crore. 5

Evaluate the scenario and elaborate the duties of CA Vasu under the Companies Act, 2013 with respect to the fraud and reporting requirements, if any, in accordance with CARO, 2020.

You are also required to state the responsibility cast on the Board of Directors in relation to the fraud which has occurred.

(b) QR Ltd, a listed company, has appointed CA Suba as its Chief Internal Auditor, and she is continuing in this role for the third consecutive year. 5

The following unresolved issues were reported in the Internal audit reports for quarter ended June 2025 and September 2025 :

- Lack of adequate segregation of duties in inventory procurement cycle.
- Persistent delays in reconciliation of vendor balances.
- Deficiencies in IT user access controls.

During a recent meeting, the Audit Committee expressed concern over the recurrence of these issues and asked CA Suba to present a list of corrective actions taken by management against the above-mentioned findings.

In context of the applicable Standards on Internal Audit, answer the following :

(1) Explain the responsibilities of CA Suba with regard to the above reported issues.

(2) Identify the most appropriate report that should be submitted to the Audit Committee in this situation and briefly outline the key matters that should be covered in such a Report ?

(c) CA Karan, a practicing Chartered Accountant, was approached by Greentech Solutions Ltd. requesting him to issue a certificate regarding the utilization of term loan funds for their expansion project. The company had received ₹ 25 crores from a financial institution and needed to submit a utilization certificate within 60 days of disbursement. CA Karan issued the utilization certificate, stating that the entire loan amount was properly utilized for the intended purpose. However, his verification process was limited to reviewing the summary reports provided by the finance manager and brief discussions with the managing director. He did not examine the bank statements, supporting documents like purchase invoices, contracts, payments, etc. The certificate did not mention any limitations or assumptions made during the verification process. 4

Four months later, it was discovered that ₹ 5 crores of the loan amount were diverted for purposes other than the approved project, leading to regulatory action against the company.

Comment on the action of CA Karan with reference to the Chartered Accountants Act, 1949 and schedules thereto.

6. (a) ED Motors Ltd, a leading manufacturer of high-performance electric bikes, is planning to expand its operations globally. In order to obtain a long-term loan working capital funding of ₹ 450 crores from a consortium of banks, the company has prepared Prospective Financial Information (PFI) covering the next three years. 5

CA Madhu, who has been the statutory auditor of the company for the past four years, has been appointed to examine and report on the PFI prepared by the management. During her preliminary discussions, CA Madhu noted the following matters :

(i) The management is completely new to the complexities involved in international marketing projections.

(ii) The financial projections are significantly dependent on hypothetical assumptions that the company will achieve a 20% market share in Europe, within the first year. This assumption would require productions levels exceeding the current installed capacity of their domestic manufacturing facility.

(iii) Management has relied on a combination of internal budgetary data and external reports from independent industry analysts to justify their growth projections.

On the basis of above information determine the nature, timing and extent of examination procedures that CA Madhu would perform on the Prospective Financial Information in accordance with applicable Standard on Assurance engagements.

(b) QRT Electricals Ltd is a mid-sized manufacturing company with a substantial investment in Fixed Assets comprising of Plant & machinery and Land. UV Ltd is proposing to acquire QRT Electricals Ltd and for this purpose it has considered various aspects like studying the overall picture, Statement of Profit and Loss, Balance Sheet. You have been appointed as an investigating accountant to carry out the business investigation and it was found that some machinery owned by the company is over 15 years old. Furthermore, the company has revalued its fixed assets two years ago, increasing their book values. Maintenance expenses have also declined over the years. The machinery related to packaging line has remained idle from past 2 years.

As an investigating accountant, you are required to highlight the considerations that shall be taken into account while evaluating the Fixed Assets item shown in the Balance Sheet of QRT Electricals Ltd.

(c) CA Alok is the auditor of VT Limited, an unlisted public company, which has a turnover of ₹ 100 crore during the FY 2025-26. The statutory audit fee for the year is fixed at ₹ 10 lakh. During the year, the company also offered CA Alok, the following further assignments : 4

(i) Tax audit of the company u/s 44AB of the Income Tax Act, 1961, for which the fees is fixed at ₹ 5 lakh.

(ii) Various certification work for which fees is fixed at ₹ 2 lakh.

(iii) Representation before GST authorities for which fees is fixed at ₹ 4 lakh.

CA Alok seeks your advise for accepting the above assignments. Comment with reference to the provisions of the Chartered Accountants Act, 1949.

OR

(c) The Ministry of Information Technology of the Government of India has initiated a large-scale infrastructure project to improve rural connectivity under its "Digital Connect" programme. As part of the audit team, you are assigned to conduct a performance audit of this project with a focus on assessing its efficiency. While auditing the efficiency of the project, what key aspects should the auditor consider to determine whether resources are used efficiently. 4

JNY

SPACE FOR ROUGH WORK