PART – I
(MCQ Portion)

30 Marks

- ***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.***

Case Scenario-I :

M/s GDP Associates, Chartered Accountants, were appointed as the statutory auditors of S Technology Ltd. for the financial year 2025-26. During audit planning, the auditors identified revenue recognition and trade receivables as significant risk areas. Accordingly, they decided to apply audit sampling in accordance with SA 530 while performing tests of controls and substantive audit procedures.

During the sampling process, the auditors found that supporting documents for one selected sample item were unavailable, and no suitable alternative audit procedures could be performed. They also identified a deviation indicating a possible misstatement in the population and an anomalous item requiring further investigation.

Considering the large volume of accounting data maintained by the company, the engagement team decided to use Computer-Assisted Audit Techniques (CAATs). One team was assigned to analyse sales trends, identify seasonal patterns and present the findings in a graphical format for management. Another team was assigned to examine the complete purchase data to identify duplicate vendor payments, duplicate invoice numbers, missing vendor codes and other unusual transactions.

During the audit of revenue transactions, management informed the statutory auditors that the internal auditor had already verified those transactions and requested them to rely on such work. The statutory auditors accepted and used the work of the internal auditor without evaluating its adequacy or appropriateness and without documenting their conclusions.

As part of substantive audit procedures relating to trade receivables, the auditors obtained external confirmations from major customers in accordance with SA 505. During the confirmation process, some confirmation replies were received from unofficial email IDs, although the balances agreed with the company's records. No replies were received from certain customers selected for positive confirmations despite two follow-up requests. Further, a few customers confirmed balances different from those recorded in the company's books.

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

1. Based on SA 530 - Audit Sampling, which of the following is the most appropriate response while dealing with the situations encountered during sampling ?

2

(A)If the audit procedure is not applicable to a selected item, the auditor shall perform only alternative audit procedures, but not on a replacement item.

(B)Where a deviation or misstatement is considered to be an anomaly, the auditor shall obtain a high degree of certainty that such deviation or misstatement is representative of the population.

(C) The auditor should rely solely on the sample results and assume that any deviation identified is immaterial to the population.

(D) If the auditor is unable to apply the designed audit procedure or suitable alternative procedures to a selected item, the auditor shall treat the item as a misstatement in the case of tests of details.

2. With reference to the above facts, the most appropriate Computer Assisted Audit Techniques (CAATs) tools for the two assignments, respectively, are :

(A)Power BI and Audit Command Language

(B) Audit Command Language and Alteryx

(C)CaseWare and Power BI

(D)Alteryx and CaseWare

3. The statutory auditors relied on the work of the internal auditor without performing any audit procedures or maintaining documentation. Which of the following is correct as per SA 610 - Using the Work of Internal Auditors ?

(A)The statutory auditor may rely on such work only after discussing the matter with the internal audit function, evaluating the adequacy of the work performed and documenting the conclusions reached.

(B) Since the internal auditor had already performed the audit procedures, the statutory auditor could rely on such work without performing any further procedures or maintaining documentation.

(C) Audit procedures performed by the internal auditor are entirely different from those performed in a statutory audit; therefore, such work can never be used.

(D)The statutory auditor may rely on such work after evaluating it; however, documentation of such evaluation is not required.

4. With respect to confirmation replies received from unofficial email IDs, which of the following is the most appropriate auditor response ? **1**

(A)Accept the confirmation replies since the balances agree with the company's records.

(B) Treat such responses as audit evidence of lower reliability, obtain further audit evidence and reassess the risk of material misstatement if the responses are found unreliable.

(C) Discard the confirmations and issue a qualified opinion.

(D)Replace the selected customers with new samples and issue fresh confirmation requests.

5. Where a positive confirmation response is necessary, but no response is received despite follow-up requests, the auditor should : **1**

(A)Ignore the balance if it is individually immaterial.

(B) Determine the implications for the audit, including the sufficiency of audit evidence obtained and the effect on the auditor's opinion.

(C) Replace the non-responding customer with another customer of similar characteristics to maintain the planned sample size.

(D)Request management to obtain a confirmation directly from the customer and treat the response as sufficient appropriate audit evidence.

6. Customers reporting balances different from those recorded in the company's books represent exceptions. The auditor should : **1**

(A)Treat the difference as a projected misstatement for the entire population.

(B) Investigate the nature and cause of the exception to determine whether it is indicative of a misstatement.

(C) Request management to revise the accounting records before considering the confirmation as audit evidence.

(D)Ignore such exceptions if they are below performance materiality.

Case Scenario-II

M/s. AAA & Co., Chartered Accountants, is a firm of Chartered Accountants in practice having its main office at Dehradun, a hill area. The firm subsequently opened two permanent branch offices, one at Mussoorie and another at Nainital. The Mussoorie office is situated approximately 55 kms from the municipal limits of Dehradun, while the Nainital office is situated approximately 239 km from Dehradun.

The firm has placed CA N, a partner, in charge of the Mussoorie office. However, CA N resides at Dehradun and attends the Mussoorie office for 165 days in a year. The firm believes that since she is a partner, her appointment as the member in charge of the Mussoorie office is sufficient. For the Nainital office, the firm has appointed CA K, a paid assistant, as the member in charge. CA K, however, is employed by AAA & Co. on a part-time basis, as he also works for another organisation.

The firm also decides to take advantage of the concession available to members/firms practicing in hill areas. It proposes to open a temporary office at Chandigarh, a city in the plains, during the winter season. The proposed temporary office is to remain operational for four months, while the regular office at Dehradun will continue to remain open.

The firm further proposes to keep the name board of M/s. AAA & Co. at the Chandigarh office throughout the year, even after the temporary office ceases to function. It also intends to mention the Chandigarh address on its letterheads and visiting cards. The firm plans to send intimation to the Institute regarding the temporary office after it commences operations.

Based on the above facts, answer the following Q. Nos. **7** to **11** by choosing the most appropriate option. :

7. Considering the locations of the two permanent branch offices of M/s. AAA & Co., which of the following is the most appropriate ? **2**

(A)Both the Mussoorie and Nainital offices qualify for exemption because they are located outside Dehradun but within the same State.

(B)The Mussoorie office qualifies for exemption because it is situated 55 kms from Dehradun municipal limits, whereas the Nainital office does not qualify because it is situated approximately 239 km away.

(C)Neither the Mussoorie nor Nainital office can qualify for exemption.

(D)Both offices qualify for exemption because the 50 kms condition is applicable only where the additional office is situated outside the State in which the main office is located.

8. CA N has been designated as the member in charge of the Mussoorie office. In view of the facts given in the case, which one of the following is the most appropriate ? **2**

(A)CA N satisfies the requirement because she is a partner of AAA & Co. (B)CA N satisfies the requirement because she attends the Mussoorie office for 165 days in a year, which is more than the requirement of Section 27.

(C)CA N does not satisfy the requirement because she attends the Mussoorie office for 165 days in a year, which is less than the requirement of Section 27.

(D)CA N cannot be placed in charge of the Mussoorie office because only a paid assistant can be appointed as the member in charge.

9. With respect to CA K's appointment as the member in charge of the Nainital office, which of the following is correct ? **2**

(A)The appointment is valid because CA K is a member of the Institute and has been specifically designated by the firm.

(B) The appointment does not satisfy the requirement because where the member in charge of a branch is a paid assistant, he must be in whole-time employment with the firm.

(C) The appointment is valid because the requirement of whole-time employment applies only to partners and not to paid assistants.

(D)The appointment is valid provided CA K attends the Nainital office throughout the year, even though he remains a part-time employee.

10.AAA & Co. proposes to operate the temporary office at Chandigarh for four months during winter. Which of the following is the correct position ? **2**

(A)The proposal is permissible because members practicing in hill areas can open temporary offices in cities in the plains without any restriction on the period.

(B) The proposal is permissible because the regular office at Dehradun will continue to remain open.

(C) The proposal is not permissible in its present form because the temporary office in a city in the plains can be operated for a period not exceeding three months in a year.

(D) The proposal is permissible for four months provided no new professional assignments are accepted at Chandigarh.

11. Apart from the four-month period, the firm has proposed certain other arrangements regarding the Chandigarh temporary office. Which of the following is the correct compliance of the conditions prescribed ? **2**

(A)The firm should not display its name board at the temporary office at times other than the permitted period, should not mention the Chandigarh office as a place of business on its letterheads or visiting cards, and should inform the Institute before commencement and again after closure of temporary office.

(B) The firm can display its name board at the temporary office at times other than the permitted period, should not mention the Chandigarh office as a place of business on its letterheads or visiting cards, and should inform the Institute before commencement and again after closure of temporary office.

(C) The firm should not display its name board at the temporary office at times other than the permitted period, can mention the Chandigarh office as a place of business on its letterheads or visiting cards, and should inform the Institute before commencement and again after closure of temporary office.

(D)The firm should not display its name board at the temporary office at times other than the permitted period, should not mention the Chandigarh office as a place of business on its letterheads or visiting cards, and should inform the Institute after commencement and again after closure of temporary office.

Case Scenario-III

ABC Limited, a listed company, engaged in the manufacture and sale of engineering equipment has appointed M/s PQR & Associates as its statutory auditors for the financial year 2025-26. During preliminary discussions on the company's governance framework and internal controls, the Chief Financial Officer states : “Those Charged with Governance actively oversee the company's anti-fraud framework. Therefore, they are primarily responsible for the prevention and detection of fraud.”

During the course of audit, the engagement team was unable to obtain sufficient appropriate audit evidence regarding the valuation of the company's inventory, valued at ₹ 50 crores and constituting 40% of the company's total assets. This was on account of restrictions placed by management on physical verification of the inventory, amid on- going litigation. As a result, the existence and completeness of this inventory could not be verified by the auditor. In light of this, the auditor decided to issue a disclaimer of opinion on the financial statements of ABC Limited.

The engagement partner CA P, while performing the audit procedures relating to certain overseas transactions, observed several unusual journal entries recorded near the year-end, delays in providing supporting documents for certain overseas payments, and inconsistent explanations from management. CA P treated these matters as red flags requiring further investigation. Management also denied the audit team to have access to the relevant records. Despite repeated requests, the limitation on scope was not removed. CA P evaluated whether alternative audit procedures could provide sufficient appropriate audit evidence, but concluded that the possible effects of undetected misstatements could be material and pervasive.

Although CA P had already issued the limited review reports for the first and second quarters of the financial year 2025-26, M/s PQR & Associates decided to resign from the engagement on 20th November, 2025, after complying with the applicable legal and regulatory requirements. Before accepting the resignation, the Audit Committee requested CA P to clarify his professional responsibilities regarding the pending limited review reports.

Based on the above facts, answer the following Q. Nos. **12** to **17** by choosing the most appropriate option :

12. With reference to the statement made by the Chief Financial Officer in the above case, which of the following is the most appropriate comment ? **1**

(A) The CFO's view is correct because Those Charged with Governance are ultimately responsible for preventing and detecting fraud.

(B) The CFO's view is not appropriate because the primary responsibility for the prevention and detection of fraud rests jointly with management and Those Charged with Governance. Management, with the oversight of those charged with governance place a strong emphasis on fraud prevention, which reduces the opportunities for fraud to take place.

(C) The CFO's view is not appropriate because the primary responsibility for the prevention and detection of fraud rests jointly with management and Those Charged with Governance. Those charged with governance with the oversight of management place a strong emphasis on fraud prevention, which reduces the opportunities for fraud to take place.

(D) The CFO's view is correct because management is responsible only for designing internal controls, whereas fraud prevention is the responsibility of Those Charged with Governance.

13. Which amongst the following is not correct in terms of the reporting responsibilities of auditors when they disclaim an opinion in the report of ABC Limited ?

1

(A) Auditor shall not describe in Basis for Opinion section the reasons for other matters known to the auditor that would independently have required a modification.

(B) Auditor shall amend responsibilities description to state the responsibility is to conduct the audit per SAs and issue a report.

(C) Auditor shall add : "because of the matter(s) in Basis for Disclaimer of opinion section, we were not able to obtain sufficient appropriate evidence to provide a basis for an opinion."

(D)Auditor shall retain the independence and ethical responsibilities statement in the amended description.

14. With reference to the red flags identified by CA P during the audit, consider the following statements : **1**

I. Red flags are indicators or warning signs of potential danger or inappropriate behaviour.

II. The presence of a red flag necessarily establishes the existence of fraud.

III. Red flags indicate that the auditor should exercise caution and perform further investigation.

IV. Red flags may be classified as financial performance, accounting system, operational, or behavioural red flags.

Which of the following is correct ?

(A) I, III and IV only

(B) I and IV only

(C) II and III only

(D) I, II and III only

15. After management refused to remove the scope limitation, CA P evaluated the professional actions available before deciding to resign. In this context, consider the following statements : **1**

I. The auditor should determine whether alternative audit procedures can obtain sufficient appropriate audit evidence.

II. Before withdrawal, the auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

III. The auditor should immediately withdraw from the engagement once management refuses to remove the scope limitation.

IV. If withdrawal is not practicable or permitted under applicable law or regulation; the auditor may need to disclaim an opinion on the financial statements.

Which of the following is correct ?

(A) I and II only

(B) I, II and IV only

(C) II, III and IV only

(D) I, III and IV only

16. With reference to CA P's proposed resignation on 20th November, 2025, which of the following correctly states his responsibility regarding the pending limited review reports ? **1**

(A)He was required to issue only the limited review report for the third quarter before resignation.

(B) He was required to issue the limited review report for the third quarter as well as the next quarter before his resignation.

(C) He was not required to issue any further limited review report since the reports for the first two quarters had already been issued.

(D)Since the resignation was within 60 days from the end of the relevant quarter, only the limited review report for the third quarter was required to be issued.

17. Assume, instead, that CA P had decided to resign on 10th November, 2025. In such a case, which of the following would be correct regarding the pending limited review reports ? **1**

(A)He was required to issue only the limited review report for the third quarter before resignation.

(B) He was required to issue the limited review report for the third quarter as well as the next quarter before his resignation.

(C) Since the resignation was after 30 days from the end of the relevant quarter, he was required to issue the limited review report for the third quarter as well as the next quarter.

(D)He was not required to issue any further limited review report before resignation.

18. DEF Finance Limited, a Non-Banking Financial Company (NBFC), identified the following during its internal review :

- A cash shortage of ₹ 12,500 was noticed at one of its branches. The internal investigation did not reveal any evidence of fraudulent intention on the part of the cashier.
- At another branch, a cash shortage of ₹ 6,000 was detected by the statutory auditor. The shortage had not been reported by the cashier at the time of its occurrence, although no fraudulent intention had been established.

The Compliance Officer is of the view that, since fraudulent intention has not been established in either case, neither incident is required to be reported as a fraud.

Which of the following is the most appropriate conclusion ? **1**

(A) The Compliance Officer is correct, as cash shortages are reportable as fraud only where fraudulent intention is suspected or proved.

(B) Only the first case is reportable as fraud since the cash shortage exceeds ₹ 10,000, whereas the second case is not reportable in the absence of fraudulent intention.

(C) Both cases are reportable as fraud even though fraudulent intention has not been established.

(D) Only the second case is reportable as fraud because it was detected by the statutory auditor, whereas the first case requires evidence of fraudulent intention.

19. With reference to Ind AS 110 – Consolidated Financial Statements, an investment entity is not required to present consolidated financial statements if it is required to measure all of its subsidiaries at fair value through profit or loss. **1**

In this context, consider the following statements relating to an investment entity :

I. It obtains funds from one or more investors for the purpose of providing those investors with investment management services.

II. An investment entity is required to measure all of its assets and liabilities, including property, plant and equipment, at fair value through profit or loss.

III. It measures and evaluates the performance of substantially all of its investments on a fair value basis.

IV. It commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

Which of the above statements are correct in respect of an investment entity ?

Identify the correct option :

(A)I, III & IV only

(B) Only II

(C) II & IV only

(D)I, II & III only

20. Which of the following are examples of fraud risk factors related to attitudes and rationalization in the misappropriation of assets ? **1**

I. Disregard for the need for monitoring or reducing the risk of misappropriation of assets.

II. Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of employees.

III Inadequate system of authorization and approval of transactions.

. Disregard for internal control over misappropriation of assets by overriding

IV. existing controls or failing to take remedial action on known deficiencies.

V. Tolerance of petty theft.

VI. Inventory items are small in size, of high value, or in high demand.

Identify the correct option :

(A) I, II, III, IV

(B) I, II, IV, VI

(C) I, II, IV, V

(D) I, II, III, V, VI

21. POR Limited is engaged in the business of trading electronic items. As part of the internal audit for the financial year 2025-26, the internal auditor was assigned the responsibility of reviewing the internal control and internal check system operating within the Sales Department. During the course of the review, the auditor examined the manner in which various sales-related functions were divided among the employees and observed the following division of work :

- Officer A handled the sales ledger and cash receipts.
- Officer B handled dispatch of goods and issuance of delivery challans.

Which of the following statement is correct with respect to the internal check arrangement in the Sales Department of POR Limited ? **1**

(A) The division of work is appropriate because each officer has been assigned responsibility for a separate stage of the sales process.

(B) The division of work is inappropriate because the functions of officer A are not segregated properly.

(C) The division of work is inappropriate because the functions of officer B are not segregated properly.

(D) The division of work is inappropriate because the functions of both the officers A and B are not segregated properly.

22. BC Components Ltd. has been facing significant cash-flow difficulties during the year ended 31st March, 2026. The company has substantial loan repayments falling due shortly after the reporting date and has incurred recurring operating losses. Management has prepared cash-flow projections based on certain financing arrangements that are yet to be finalised.

During the audit, the auditor concludes that the going concern basis of accounting is appropriate, as management has plans to address the financial difficulties. However, the auditor also determines that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

The auditor further observes that the financial statements do not adequately disclose the nature and implications of this material uncertainty.

What is the most appropriate reporting treatment in this situation ? **1**

(A)Express an unmodified opinion and include the matter in the Emphasis of Matter paragraph.

(B) Express a qualified/ adverse opinion and mention in the Basis of Opinion paragraph.

(C) Express a disclaimer of opinion.

(D)Express an unmodified opinion with a Material Uncertainty Related to Going Concern section.

23. As a branch auditor of D.U. Finance Bank Limited, M/s PQC & Associates audited a branch with significant NPAs in its advance portfolio as on 31st March, 2026. During FY 2025-26, the bank sold an NPA in respect of advance made to T (gross book value ₹ 100 crores, provisions ₹ 60 crores) to an Asset Reconstruction Company for ₹ 25 crores. Another NPA in respect of advance made to U (gross book value ₹ 70 crores, provisions ₹ 30 crores) was sold to an ARC for ₹ 50 crores. Both NPAs were removed from the books of the bank.

What amount of shortfall will be adjusted, and reversal of provision made, in the Profit and Loss account of D.U. Finance Bank Limited for FY 2025-26 ? **1**

(A) Shortfall of ₹ 15 crores shall be debited to the Profit and Loss account, and no reversal of provision to be made.

(B) Net shortfall of ₹ 5 crores shall be debited to the Profit and Loss account, and no reversal of provision to be made.

(C) No shortfall shall be debited to the Profit and Loss account, but reversal of provision of ₹ 10 crores will be made.

(D) Shortfall of ₹ 25 crores shall be debited to the Profit and Loss account, and no reversal of provision to be made.

PART – II
(Descriptive Portion)

70 Marks

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

1. Question 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) R & Company, Chartered Accountants, were appointed as the statutory auditors of T Limited under Section 139 of the Companies Act, 2013, for the financial year 2025-26. During the course of the audit, the engagement team completed its audit procedures on the financial statements and was in the process of finalizing the audit report. The engagement partner obtained the company's draft Annual Report for review prior to signing the audit report. On a detailed reading of the draft Annual Report vis-à-vis the audited financial statements and the knowledge obtained by the engagement team during the course of the audit, the following two matters came to light :

I. <u>Revenue Performance</u> :

The MD&A section of the draft Annual Report prominently claims that the company has achieved “strong revenue growth during the year, driven by successful expansion into new markets”. However, on cross-verification with the audited financial statements, the engagement team noted that revenues from the company's core operating segments have in fact declined during the year, and that any overall growth reflected in the top line is attributable to one-off non-recurring items rather than sustainable operational performance.

II. Internal Controls :

The Corporate Governance Report forming part of the draft Annual Report asserts that "the Company maintains a strong and effective internal control system, and no material weaknesses were identified during the year". However, during the course of the audit, the engagement team had identified and formally communicated (under SA 265) certain significant deficiencies in internal control relating to key financial reporting processes, which have also

Based on the above, explain the following :

(i) How shall the auditor read and consider the above information ? **3**

(ii) How shall the auditor respond when concluding that a material misstatement of the other information exists ? **2**

1. (b) S Ltd. is a listed fintech company in Bengaluru. Over 90% of its transactions in millions are processed through a fully integrated, automated ERP system, with minimal manual intervention in day-to-day transaction processing. The ERP interfaces with ancillary systems typical of a fintech business, such as payment gateways and settlement platforms.

During the audit for the year, the engagement team, in the course of its risk assessment procedures under SA 315, has identified the following :

I. Revenue recognition has been assessed as an area carrying significant risk of material misstatement, given its inherent susceptibility to manipulation.

II. There is a specific concern regarding potential for management override of controls, evidenced by the possibility of unusual journal entries being posted at or near the year-end, in an otherwise highly automated environment where manual postings are rare.

III. There is an identified risk of fraud in revenue-related accounting estimates (e.g., estimates involving accrued revenue, revenue reversals, or provisioning typical of a high-volume digital transaction business).

IV. At the same time, the entity has internal controls in place for transaction authorization within the ERP, which the auditor needs to evaluate before deciding the extent of reliance to be placed on them.

The engagement team is now at the stage of finalizing its risk assessment and designing its response to the assessed risks, in accordance with the relevant Standards on Auditing.

You are required to

(i) Explain the key matters the auditor should consider when planning audit procedures for S Ltd. **3**

(ii) What procedures should be designed by the auditor to address the assessed risks ? **2**

1. (c) ABC Ltd. uses the payroll and accounting processing services of XYZ Services Ltd., a service organisation. During the audit of ABC Ltd., the user auditor is unable to obtain sufficient appropriate audit evidence regarding certain services provided by XYZ Services Ltd. that are relevant to ABC Ltd.'s financial statements. The user auditor has obtained the service auditor's report during the audit. Evaluate the course of action and the reporting requirements of the user auditor in the above situation with reference to the provisions of SA 402. **4**

2. (a) S & Co., a firm of Chartered Accountants, has recently undertaken audit assignments of several large companies. During an internal review, the senior partner observed certain practices being followed by the firm in relation to audit assignments, staffing, fee structure and disclosures. **5**

The observations noted were as follows :

(i) S & Co., being the statutory auditors of a company and having a firm strength of 12 members, continued to undertake branch audits of the same company.

(ii) In the case of a large audit engagement, the partners of S & Co. refused to associate with a small firm consisting of four members as a joint auditor, stating that such firms should not be appointed as joint auditors in large companies.

(iii) The firm maintained a ratio of qualified to unqualified staff of 1:10, excluding articled clerks and audit assistants.

(iv) The firm did not disclose payments received for other professional services rendered through another firm in which some of the partners were also partners.

(v) The firm charged professional fees below the recommended minimum scale of fees.

With reference to the self-regulatory measures prescribed by the ICAI under Professional Ethics, examine the above practices and state, with brief reasons, whether each practice is in accordance with such measures.

2. (b) PQR & Associates, Chartered Accountants, were appointed as the statutory auditors of STU Ltd. for the financial year 2025-26. A search had been conducted by the Income Tax Department on the premises of STU Ltd. During the course of the search, the tax authorities had discovered a large number of loose papers and documents evidencing purchase and sales transactions that had not been recorded in the company's regular books of account. Pursuant to this search, the Income Tax Department passed an assessment order on 31st August, 2025, making an addition of ₹ 10 crore to the company's income on account of such unrecorded transactions, treating the same as undisclosed/unaccounted income of the company for the relevant assessment year(s). **5**

STU Ltd., aggrieved by the said order, has disputed the addition and has filed an appeal before the Commissioner of Income Tax (Appeals) on 28th September, 2025, within the prescribed limitation period. As on the balance sheet date, 31st March, 2026, the appeal is still pending for disposal before the CIT (A), and the tax demand of ₹ 10 crore raised consequent to the search assessment remained unpaid.

What are the reporting requirements for statutory auditors in respect of above matter under CARO 2020 ?

2. (c) You have been appointed to compile the financial statements of XY & Company (a partnership firm) for tax purposes. During the course of your work, you discover that Trade Payables/Creditors are materially misstated due to the following :

Unrecorded Liabilities : Failing to accrue for goods/services received but unpaid by period-end (e.g., invoices in transit), which inflates profits.

Cut-off Errors : Including post-year-end payments as current liabilities or excluding pre-year-end obligations.

Duplicate Recognition : Listing the same creditor twice due to poor reconciliation of statements vs. ledgers.

You are required to

(i) Explain the matters on which you should propose appropriate amendments to the management as per the applicable Standards on Auditing (SAs). **3**

(ii) If the management refuses to make the proposed amendments to the compiled financial information, what course of action will you take ? **1**

3. (a) CA A & Associates, Chartered Accountants, have been appointed as the statutory auditors of LMN Limited for the financial year ending 31st March, 2026. LMN Limited is a listed company whose shares are listed on a recognised stock exchange in India, and its net worth as on 31st March, 2026 is ₹ 300 crore.

During the course of the audit, CA A came across information that the company was planning to discharge untreated chemical waste into a nearby river to reduce operating costs. The proposed activity would result in an imminent breach of environmental laws and may cause substantial harm to the public and nearby communities.

CA A discussed the matter with the management. However, the Managing Director instructed him not to disclose the matter to any authority, stating that it may adversely affect the reputation of the company. He further threatened that the audit firm would be removed from the engagement if CA A proceeded further with the matter.

With reference to the provisions of the Code of Ethics :

(i) Explain whether the provisions relating to NOCLAR under Section 360 apply to CA A in the above situation. **1**

(ii) Discuss the responsibility of CA A in relation to the imminent breach of law or regulation. **2**

(iii) Identify and explain the ethical threat faced by CA A. **2**

3. (b) PR Artworks Private Ltd., a company engaged in the auction and sale of artworks created by renowned artists, has traditionally sold physical paintings and sculptures through its auction platform. With the objective of reaching international buyers and creating additional revenue streams, the company has recently started accepting crypto currency as a mode of payment. **5**

The management is now considering taking a step further by creating Non-Fungible Tokens (NFTs) representing selected artworks. The technical team of the company has begun exploring the process of creating and selling NFTs. However, the operational and finance teams are not familiar with the concept, its characteristics or the risks involved. The management has therefore approached CA M, its professional adviser, to explain the concept and advise the company before implementing the proposed model.

Explain the meaning of NFT, its key features and the challenges the company may face in adopting them for their artwork.

3. (c) OS Pvt. Ltd., a growing technology and manufacturing company, plans to approach banks and prospective investors for funding to support its expansion plans. As part of this process, the management intends to circulate projected cash flow statements and profitability estimates covering the next few years. **4**

The management has requested a Chartered Accountant in practice to assist in the preparation and examination of these prospective financial statements before they are shared with the intended users. Before accepting the engagement, the Chartered Accountant considered the professional and ethical implications of associating with prospective financial information and the nature of any assurance that could be provided in respect of such information.

Identify the relevant clause relating to professional misconduct applicable in the above case and examine whether a Chartered Accountant in practice can associate with prospective financial information. Also, explain the permissible forms of such association and the precautions that should be observed while undertaking such engagements.

4. (a) ABC Limited, a steel manufacturing company, has its Head Office in Mumbai and three branches at Delhi, Chennai, and Kolkata. TRS & Co., Chartered Accountants, was appointed as the principal auditor for the audit of the financial statements for the year ended 31st March, 2025. The Delhi branch, contributing 40% of total sales (a financially significant component) was audited by an independent firm, RST & Associates, Chartered Accountants, appointed as branch auditor.

During the course of the audit, TRS & Co. as principal auditor, reviewed and discussed the audit report and working papers of RST & Associates in relation to the Delhi branch. TRS & Co. also called for and reviewed the internal auditor's report of the Delhi branch as an additional procedure, which did not flag any irregularity.

Despite this, a significant understatement in the valuation of trade receivables at the Delhi branch went undetected both by RST & Associates during the branch audit and by TRS & Co. during its overall review of ABC Ltd.'s financial statements.

(i) You are required to guide the principal auditor about his responsibility as per relevant Standards on Auditing. **3**

(ii) Whether TRS & Co. will be liable for understatement in the valuation of trade receivable ? **2**

4. (b) CA P, a practicing Chartered Accountant, entered into two separate professional engagements during the financial year : **5**

(i) DL Manufacturing Ltd. engaged him to recover long-outstanding trade receivables from defaulting customers. The engagement letter provided that he would be paid 8% of the amount successfully recovered.

(ii) OZ Infrastructure Ltd. appointed him to represent the company in an appeal relating to a disputed tax demand. It was agreed that CA P would receive 5% of the amount of tax successfully saved if the appeal was decided in favour of the company.

A complaint was filed before the Institute alleging that, in both the engagements, CA P had accepted professional fees contingent upon the results of the engagement.

Examine whether CA P is guilty of professional misconduct in respect of each engagement. Also, explain the rationale behind the ethical requirement relating to such fee arrangements. Give reasons with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations.

4. (c) R Limited is seeking a term loan of ₹ 10 crore from CT Bank Ltd. to meet its business requirements. As part of its credit appraisal process, CT Bank Ltd. has specifically requested R Limited to furnish an audited special purpose cash flow statement, projecting the cash available for debt servicing over the next 24 months, so that the bank can assess the company's capacity to service the proposed term loan out of its future operating cash flows.

R Limited has engaged V & Co., Chartered Accountants, to carry out an audit of this special purpose cash flow statement and issue an audit opinion thereon, so that the bank can place reliance on it.

(i) What course of action should have been taken by auditor as per the applicable SA to avoid misunderstanding among the users ? **2**

(ii) Draft a suitable paragraph in the report of auditor regarding restriction and use of above audited cash flow statement. **2**

5. (a) ABC Manufacturing Limited has an established internal audit department. During the statutory audit for the year ended 31st March, 2026, the engagement partner decided to use certain members of the internal audit function to provide direct assistance in performing physical verification of inventory at selected locations and testing the operating effectiveness of selected internal controls over the purchase process. **5**

As the statutory auditor, state the audit documentation that should be maintained when internal auditors are used to provide direct assistance on the audit engagement in accordance with SA 610.

5. (b) A Chartered Accountant firm has recently been appointed as the statutory auditors of XYZ Ltd. The firm has several partners and employees and has well established policies relating to independence, acceptance of clients, consultation, supervision, review and documentation. For the audit of XYZ Ltd., the engagement partner, CA X, is responsible for ensuring that the audit team follows the firm's policies and procedures. During the final stages of audit, it was observed that the audit team had failed to maintain proper documentation of important decisions and judgements taken during audit and the engagement partner also failed to properly implement the relevant quality control procedures during the audit of XYZ Ltd. **5**

Identify the quality control standards that primarily deal with the firm-wide responsibilities and the standard that deals with responsibilities at the individual audit engagement level. State any two key differences between them.

Which standard's requirements have primarily not been complied with in the above scenario ?

5. (c) R Power Distribution Company (a State Public Sector Enterprise) has been receiving large capital grants and operating subsidies, yet consumer complaints about frequent power outages and rising tariff burdens have increased over the last three years. There are also indications of delays in transmission-and-distribution construction projects and cost overruns in executing capital works.

In the above situation, an audit team appointed by the Comptroller and Auditor General of India is required to carry out a comprehensive audit of R Power Distribution Company for a holistic assessment combining financial, compliance, and performance audit aspects. In the circumstances, answer the following questions :

(i) What guidelines, source criteria and standards are available for appraising the enterprise's performance and its systems ? **2**

(ii) How would the audit team prepare an audit programme for the comprehensive appraisal of the enterprise ? **2**

6. (a) TN Ltd., a mid-sized technology company, noticed several unusual financial transactions, unexplained cash flow movements, and inconsistencies in certain business records during an internal review. Since the matter appeared complex and there was a possibility of legal proceedings, the management decided that the issues required an independent forensic examination. Accordingly, the company decided to engage a forensic professional. **5**

Before accepting the engagement, the forensic professional considered whether the objectives and scope of the engagement were clearly understood and whether the engagement could be performed in accordance with the applicable professional and legal requirements.

Explain the role and nature of a Forensic Professional and state the factors that should be considered before accepting such an engagement and also state the areas in which a Forensic Professional is often involved.

6. (b) During the statutory audit of ABC Bank, the auditor is reviewing the sale of Non-Performing Assets (NPAs) during the year. The following NPAs have been proposed for sale : **5**

NPA Case	Details
I.	Classified as NPA for 3 years, the sale agreement is a cash basis and "without recourse".
II.	Classified as NPA for 1.5 years; the sale agreement is cash basis and "without recourse".
III.	Classified as NPA for 2.5 years; the sale agreement is "with recourse" and the bank agrees to provide limited operational support post-sale.

As the auditor of ABC Bank :

(i) For each NPA case, decide whether it can be sold as an NPA, giving reasons.

(ii) In the case of sale of NPAs, what additional audit procedures should the auditor undertake to ensure that the sale has been properly recorded and accounted for in the books of the selling bank ?

6. (c) A Textiles Ltd. is a large export-oriented textile manufacturing company operating three factories in rural Gujarat. The company procures raw cotton from a network of over 5,000 small and marginal farmers, employs approximately 3,000 workers (a significant proportion of whom are women from nearby villages), and has, over the past year, expanded one of its units adjacent to a village settlement. **4**

The local village community near the newly expanded unit raised concerns about increased water consumption by the factory affecting the groundwater table used for irrigation and drinking purposes. A group of farmer-suppliers, through an informal association, also represented to the company that the pricing formula for cotton procurement did not adequately reflect a recent spike in input costs, and requested a review. The company's workers' welfare committee also flagged that persons with disabilities employed at the unit faced difficulty accessing certain floors of the factory due to the lack of ramps/lifts.

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

OR

6. (c) PQR & Co., Chartered Accountants, was approached by LMN Ltd. to undertake a review of its historical financial statements for the year ended 31st March, 2026. The firm is not the company's statutory auditor. During the engagement acceptance procedures, the engagement partner was informed that several accounting records and supporting documents relating to significant transactions were unavailable due to migration to a new accounting system, and the management was unable to indicate when these records would be restored. With reference to SRE 2400, state the circumstances in which a practitioner shall not accept a review engagement (unless required by law or regulation). **4**