

Date: _____

Full Name: _____

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Test No: _____ Subject: _____

Marks Scored: Total _____ / _____

Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained

Remarks:

Subject Strategy:

CA FINAL – NEW SYLLABUS
ADVANCED AUDITING, ASSURANCE & PROFESSIONAL ETHICS

MARKS: 100

FULL TEST NO. 2

QUESTION PAPER

INSTRUCTIONS :

- Mention your name, subject name & Test No on your first page of the Answer Sheet.
- Paper will only be accepted when uploaded on the Students dashboard.
- Login in to your dashboard, and upload your answers under “**My Answer sheet**” tab
- You can Use **Adobe Scan app or Other**, available in Play Store / App Store for scanning your answer sheet.
- Scan your answer sheet as a single pdf in order to avoid rejection or delay in evaluation.
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OMR SHEET

Q.N.		Q.N.		Q.N.	
1.	(A) (B) (C) (D)	11.	(A) (B) (C) (D)	21.	(A) (B) (C) (D)
2.	(A) (B) (C) (D)	12.	(A) (B) (C) (D)	22.	(A) (B) (C) (D)
3.	(A) (B) (C) (D)	13.	(A) (B) (C) (D)	23.	(A) (B) (C) (D)
4.	(A) (B) (C) (D)	14.	(A) (B) (C) (D)	24.	(A) (B) (C) (D)
5.	(A) (B) (C) (D)	15.	(A) (B) (C) (D)	25.	(A) (B) (C) (D)
6.	(A) (B) (C) (D)	16.	(A) (B) (C) (D)	26.	(A) (B) (C) (D)
7.	(A) (B) (C) (D)	17.	(A) (B) (C) (D)	27.	(A) (B) (C) (D)
8.	(A) (B) (C) (D)	18.	(A) (B) (C) (D)	28.	(A) (B) (C) (D)
9.	(A) (B) (C) (D)	19.	(A) (B) (C) (D)	29.	(A) (B) (C) (D)
10.	(A) (B) (C) (D)	20.	(A) (B) (C) (D)	30.	(A) (B) (C) (D)

MCQ Marks Scored: /

Note: Kindly mention the question number and sub-question properly.

- Questions with incorrect question number/sub question number will not be evaluated.
- Start new questions on new page.



FULL TEST PAPER- 2
QUESTION PAPER

MARKS - 100

DURATION - 3 HOURS

INSTRUCTIONS:

1. All the questions are compulsory.
2. Properly mention Test no. on First Page and Page no. on every answer sheet.
3. In case of multiple-choice questions, mention option number only.
4. Multiple-choice questions carry 30 marks, and Descriptive questions carry 70 marks.
5. Working Notes are compulsory wherever required in support of your solution.
6. Do not copy any solution from material.
7. Attempt as much as you know to fairly judge your performance.
8. Please upload your Answer Sheet Horizontally.
9. Copy once get evaluated by Evaluator cannot be re-uploaded by the student.
10. Always check correct Test No. of your subject while uploading answer sheet.
11. Handwriting should be clean.

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PART I
MULTIPLE CHOICE QUESTIONS [30 Marks]

Case Scenario I [MCQ 1-4]

AKZ & Associates is a firm of Chartered Accountants based in Kerala. CA A, CA K and CA Z are the partners of the firm. The firm is engaged in various assignments including audits and its engagement partners who were handling their respective assignments for the financial year 2024-25 dealt with the following issues raised during and after the course of their respective audits. AKZ & Associates are appointed as statutory auditors of JOY Ltd. for the financial year 2024-25. CA K, the engagement partner while conducting an audit of JOY Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of JOY Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA K wants to communicate this and other circumstances as additional information in his report with those charged with the governance. Financial statements of JKP Ltd. for the year ended on 31st March 2025 were signed by CA Z, the engagement partner on 20th May 2025. The AGM was decided to be held during the month of August 2025. On 22nd May 2025, the company had received a communication from the Central Government that an amount of ₹ 9200 crore on account of incentives in respect of F.Y. 2022-23 which was kept in abeyance would be released to the company by 20th June 2025. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31st March, 2025 and requested CA Z to consider this matter. During the course of audit of BAC Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain machineries. The management gave a certificate to prove the existence and value of machinery as appearing in the books of account. The certificate from the Registered Valuer shows a value which is inconsistent with the written representation of management.

LN institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA A of AKZ & Associates is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the LN institute of professional studios is highly satisfied with his teaching skills and the level of knowledge he possesses. Due to his capabilities, the management offers CA A to take up the assignment of statutory audit of their institute for the financial year 2024-25. Based on the above facts, answer the following Questions

1. Since there arose a doubt on the management representation and considering the responsibilities of AKZ & Associates to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:

(a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

(b) The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

(c) In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

(d) The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.

[2 Marks]

2. CA K, engagement partner, in the course of audit of JOY Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required. Help CA K in getting identified incorrect circumstance from the below mentioned circumstances.

(a) when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.

(b) when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.

(c) when there are no key audit matters to be communicated in accordance with SA 701.

(d) when a material uncertainty related to going concern is reported in accordance with SA 570.

[1 Marks]

3. In view of the Board of Directors of the JKP Ltd. agreeing to include an amount of ₹ 9,200 crore on account of incentives in respect of F.Y. 2022-23 in the financial statements of the company for the Financial Year ended on 31 March, 2025 by amending the accounts, CA Z shall consider the following procedures. Identify the incorrect procedure from the following:

(a) Modify the opinion as required by SA 705 and then provide the auditor's report.

(b) Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

(c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

(d) Carry out the audit procedures necessary in the circumstances on the amendment

[2 Marks]

4. In response to the management offer, guide CA A, whether to take up the assignment of statutory audit of LN institute of professional studies for the financial year 2024-25. Select the correct option with reference to provisions of the Chartered Accountants Act, 1949.

(a) CA A can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.

(b) CA A cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.

(c) CA A can accept the statutory assignment as he does not have any substantial interest in the LN Institute of professional studies.

(d) CA A cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.

[1 Marks]

Case Scenario II [MCQ 5-9]

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

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

The company is using conventional method for preparing spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition. A new competitor viz, Taste Ltd, had come in the market during the year 2023 and by the end of March, 2024, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows minimizing manual steps and reducing cost of labour.

In order to reduce cost of production and thereby re-capture the market, the management of GIVE Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is ₹ 85 lakh. The company approached AXI Bank Ltd for a term loan of ₹ 80 lakh which would be repaid in 5 years. On 28-12-2024, the bank had sanctioned the loan; and disbursed ₹ 40 lakh till 31st March, 2025. GIVE Ltd. has appointed M/s G&G, Chartered Accountants, as auditors of the company at its AGM held on 15-08-2024 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2024-25 in February, 2025 and completed the work by the end of May, 2025. The audit team submitted following findings to the engagement partner:

- WE Ltd., one of the material suppliers, filed a case against the company on 10-08-2024 for a compensation of ₹ 2.35 crore.
- Company has made an estimate for allowance of debtors @7%.
- 68% of the value of inventory was only covered in physical verification during the year 2024 due to fire.

- Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule.
- Three incidences of fraud noticed (Total ₹ 1.35 crore)- fraud committed by Accounts manager ₹ 15 Lakh, by a cashier ₹ 30 Lakh and by the Purchase manager ₹ 90 Lakh.

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

5. Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would not be the audit procedure to be performed?

- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
- (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
- (c) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
- (d) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.

[2 Marks]

6. Company has made an estimate for allowance of debtors @7%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?

- (a) Estimates made for inventory obsolescence that are frequently made and updated.
- (b) Judgments about the outcome of pending litigation with WE Ltd against the company.
- (c) A model used to measure the accounting estimates is well known and the assumptions to the model are observable in marketplace.
- (d) Accounting estimate made for allowance for doubtful debts where the result of the auditors' review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome.

[1 Marks]

7. The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned, an amount of ₹ 40 lakh was earmarked for the purchase of the machinery- Spice Grinder; but the company has acquired an improved model

of machinery, viz, Spice grinder and mixer instead. State which of the reporting option would be correct.

(a) State the fact in CARO report that out of term loan taken for machinery -spice grinder, ₹ 40 Lakh was not utilized for acquiring the machinery for which it was sanctioned.

(b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.

(c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.

(d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive.

[2 Marks]

- 8. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether GIVE Ltd. is a going concern or not, which of the following audit procedures should not be performed?**

(a) Analyse and discuss the company's cash flow and profit of the previous years with the projected accounts.

(b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.

(c) Evaluating management's future plan and strategy to increase market share of product.

(d) Analyse and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.

[1 Marks]

- 9. The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?**

(a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.

(b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.

(c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.

(d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement.

[1 Marks]

10. CA Ram and CA Krishna are close friends and are into practice as sole proprietors. Both decided to expand their focus on taking up more assignments in the field of Goods & Services Tax. On the back of the same, they both decided to conduct a joint training session for their clients on GST and decided to share the total fee collected thereof. They invited another CA from their professional circle to join the initiative. However, the person declined the same informing that this act was against professional ethics and would lead to disciplinary action from ICAI. Whether the act of conducting joint training session on GST by CA Ram & Krishna and sharing of the fee collected leads to professional misconduct as per the Chartered Accountants Act 1949?

(a) Yes, as per clause 2 of Part I of First Schedule, a CA in practice is allowed only to pay / share the commission or brokerage or profits from his professional business only with another practicing CA. It does not allow sharing of any fee collected from joint training sessions. Hence both CA Ram & Krishna are guilty of professional misconduct.

(b) Yes, CA Ram & Krishna will be held guilty of professional misconduct for conducting the joint training session on GST as per part IV (other misconduct) of the First Schedule of the Chartered Accountants Act 1949.

(c) Yes, this is a case of solicitation of client whereby, CA Ram can influence clients of CA Krishna and vice-versa. Hence the conduct of the joint training session will lead to being guilty of professional misconduct as per clause 6 of Part I of First Schedule of the Chartered Accountants Act 1949.

(d) No, as per the recent decisions of Ethical Standards Board, it is permissible for two or more CAs in practice collectively to have joint training sessions for their clients on GST, and share the fee collected from the clients thereof.

[1 Marks]

11. CA Harsh was auditing the quarterly financial results prepared in accordance with Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The financial results are prepared using recognition and measurement norms of Ind AS 34 and include disclosures as prescribed by SEBI. These financial results would be hosted on the website of the entity and the stock exchange. Should CA Harsh include Key Audit Matters in the audit report on such financial results?

(a) No, SA 701 applies to audit of complete set of general-purpose financial statements of a listed entity.

(b) Yes, SA 701 applies to audits of any entity.

(c) No, SA 701 applies to review of the complete set of general-purpose financial statements of any entity.

(d) Yes, SA 701 applies to any audit of listed entity.

[2 Marks]

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

(i) He is a part time faculty for the Live Virtual Classes run under the aegis of the Institute for CA Students.

(ii) He is also a lecturer of Management Accounting in one Private University in his locality.

(iii) He is providing tutorship to Class XII Commerce students of Good Edu Public School run by G H Educational Society.

(iv) He is providing consultation for recovery of loans and advances portfolio of MM Bank Limited.

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

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

(a)(i) & (ii)

(b)(ii) & (iii)

(c) (iii) & (iv)

(d)(ii) & (iv)

[2 Marks]

13. CA Isha has been appointed as statutory auditor for the financial year 2024-25 by Air Ltd., which is on the verge of becoming sick unit and has accumulated losses but the said losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24. The audited accounts for the year 2021-22, 2022-23 were showing liability for payment of undisputed audit fees payable to predecessor auditors but were settled completely during last F.Y. 2023-24. In terms of Council General Guidelines, 2008, Chapter VII, read with relevant proviso of the said Guideline, which of the following statement is correct in respect of the aforesaid scenario?

(a) CA Isha shall be deemed to be guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which had not paid undisputed audit fee for the year 2021-22 and 2022-23 of predecessor auditor, though settled in F.Y. 2023-24.

(b) CA Isha would not be held guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which is on the verge of becoming sick unit but whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-2024.

(c) CA Isha would not be held guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd., which is not a sick unit, whose accumulated losses are not equal to or exceeding its entire net worth as per last audited accounts for the year 2023-24 and there are no unpaid undisputed audit fees of predecessor auditors.

(d) CA Isha shall be deemed to be guilty of professional misconduct as she has accepted the appointment as auditor of Air Ltd. which is on the verge of becoming sick unit and it had not paid undisputed audit fee of predecessor auditor though settled in subsequent year.

[2 Marks]

14. Sambhav & Associates, a firm of Chartered Accountants, has been appointed as the statutory auditor of a large manufacturing company XYZ Ltd. Mr. Sambhav, the engagement partner, highlighted the need to obtain a comprehensive understanding of the entity's internal control system across all major areas such as purchases, sales, payroll, and receivables. To accomplish this, the audit team conducted structured discussions with the respective departmental heads using a pre-designed format containing detailed, logically sequenced questions. The responses of the same were formally documented and confirmed by responsible executives so that they can serve as audit evidence of the internal control systems as described by management. Which technique of evaluation of internal control is being referred in this situation?

- (a) Check List.
- (b) Flow Chart.
- (c) Internal Control Questionnaire.
- (d) Analytical Procedures.

[1 Marks]

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:

- (a) Committee on Public Undertakings.
- (b) Public Accounts Committee.
- (c) Financial Committee.
- (d) Estimates Committee.

[1 Marks]

Independent MCQ's [1 Marks Each]

16. A CA is the statutory auditor (fee: ₹10L) for a listed co. (turnover > ₹50Cr). The firm already provides a tax audit (₹3L), certification (₹2L), & NCLT representation (₹5L). What is the maximum fee the CA can accept for a new management consultancy assignment from this company?

- A. ₹5 Lakhs
- B. ₹10 Lakhs
- C. ₹20 Lakhs
- D. 0

17. **CA B is a non-executive director of Green World Co. Ltd. His partner, CA C, is the statutory auditor of the same company. Which provision primarily makes CA C's firm ineligible for the audit?**
- A. Clause (11), Part I, First Schedule - Engaging in other business without permission.
 - B. Clause (9), Part I, First Schedule - Non-compliance with Sec 139/140.
 - C. Sec 141(3)(c) of Companies Act & Clause (4), Part I, Second Schedule.
 - D. Clause (1), Part II, First Schedule - Sharing emoluments from employment.
18. **In case of a disagreement leading to separate audit reports, under which heading must the reference to the other auditor's report be made?**
- A. Basis for Qualified/Adverse Opinion
 - B. Other Matter Paragraph
 - C. Emphasis of Matter Paragraph
 - D. Key Audit Matters
19. **Which statement most accurately defines "Those Charged with Governance" (TCWG) as per SA 260?**
- A. The term exclusively refers to the statutory audit committee of a company's Board of Directors.
 - B. The term refers to the persons with responsibility for overseeing the entity's strategic direction and financial reporting process, which can vary by entity.
 - C. The term strictly refers to the shareholders of the company who appoint the auditor.
 - D. The term is interchangeable with "management" and includes all executive personnel.
20. **As per CARO 2020, if a company has been sanctioned working capital limits over ₹5 crore from banks/FIs against current assets, which is NOT a reporting requirement?**
- A. Whether the company has defaulted in the repayment of these working capital limits.
 - B. Whether the quarterly returns filed with banks/FIs are in agreement with the company's books of account.
 - C. The details of disagreement if the quarterly returns do not match the books of account.
 - D. Whether the limits have been sanctioned based on the security of current assets.
21. **An auditor finds a material uncertainty regarding going concern. Management's use of the going concern basis is appropriate, but their disclosures are inadequate. What is the most likely impact on the audit opinion?**
- A. Issue a qualified or adverse opinion.
 - B. Issue an unmodified opinion, as the going concern basis itself is appropriate.
 - C. Issue a disclaimer of opinion due to the lack of disclosure.
 - D. Issue an unmodified opinion with a "Material Uncertainty Related to Going Concern" paragraph.

22. Which of the following statements is uniquely required in an AUP report (SRS 4400) but not in a compilation report (SRS 4410)?
- A. A listing of the specific procedures performed as agreed upon.
 - B. A statement that the practitioner complied with relevant ethical requirements.
 - C. The date of the report and the practitioner's signature.
 - D. A description of management's responsibilities for the information.
23. A practitioner is asked to report on PFI, but the source historical financial information has never been audited or reviewed. What is the practitioner's primary consideration before accepting?
- A. Whether a sufficient understanding of the entity's accounting and financial reporting practices can be obtained.
 - B. Whether the practitioner can first perform a full audit of the historical information.
 - C. Whether the responsible party is willing to pay a higher fee for the increased risk.
 - D. The engagement must be declined as an audited source is a precondition.



PART II – Descriptive Questions (70 Marks)

Question No. 1 is compulsory. Attempt any four questions from the remaining five questions.

Question 1

(a) ABC Motors Ltd., a listed entity engaged in the manufacture, and sale of automobiles and related parts has prepared its annual financial statements for the financial year 2024-25. The company's management is also responsible for preparing other information, which includes:

(1) Annual Report:

- A Director's Report and Management Discussion & Analysis (MD&A) prepared by the management.
- A Corporate Social Responsibility (CSR) report highlighting the company's initiatives and outcomes.

(2) Chairman's Message:

- A message from the chairman discussing the company's financial performance and strategic outlook.

(3) Future Projections:

- Forward-looking statements in the annual report about anticipated growth in revenue and expansion plans.

The Statutory auditors, M/s AXT & Co., Chartered Accountants, have completed its audit of the financial statements and prepared the auditor's report. During the course of the audit, the following circumstances arise:

- The Director's Report and MD&A are finalized and provided to the auditor before the date of the auditor's report.
- The Chairman's Message and Future Projections are not finalized but are expected to be included in the annual report, which will be released after the auditor's report is issued.

Issues Identified: (1) In the MD&A, M/s AXT & Co., noted a misstatement regarding the company's claim of achieving a 22% reduction in production costs. Audit evidence suggests the reduction was only 15%.

(2) The Chairman's Message, which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.

Answer the following with reference to the relevant Standard on Auditing:

(i) What should M/s AXT & Co., include in the "Other Information" section of the auditor's report for ABC Motors Ltd.?

(ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s AXT & Co. report under the "Other Information" section?

(5 Marks)

(b) Alex & Associates is the statutory auditor of VC Ltd., a listed company and started its operations 6 years ago. The fieldwork for the audit of the financial statements of the company for the year ended 31st March, 2025 was completed on 5th May, 2025. The auditor's report

was dated 19th May, 2025. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 22nd May, 2025. The engagement partner had completed his reviews in its entirety by 16th May, 2025. Comment.

(5 Marks)

(c) GRF Private Limited has appointed Mohit & Associates as the statutory auditors for the financial year 2024–25. The company operates a chain of fitness centres and health clubs. During the audit, the engagement partner, CA M noted the following:

- The customer base is declining due to intense competition.
- Payments to creditors are delayed, and overdue interest is being charged.
- Salaries of staff and trainers are not being paid on time.
- Key financial ratios such as current ratio and debt-service coverage ratio have deteriorated sharply.
- Bankers have refused additional working capital limits.

As the statutory auditor, discuss the audit procedures that CA M should perform under relevant SA, and also explain how he should report if the use of going concern assumption is appropriate but a material uncertainty exists which has been adequately disclosed in the financial statements.

(4 Marks)

Question 2

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

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

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

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

(5 Marks)

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

(i) The Head of Purchase department, a relative of the promoter, has for several years been in-charge of purchasing and sanctioning payments, without allowing anybody to question him.

(ii) There has been no rotation of duties for several years of most of the employees, in particular, the Chief Accountant who has a good rapport with majority customers.

(iii) The Storekeeper also has not kept adequate stock records since he joined the company without carrying out physical verification of the assets.

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

(5 Marks)

(c) M/s RSP & Associates, a firm of Chartered Accountants, has been engaged to conduct a review of the financial statements of AR Pvt. Ltd. for the quarter ended 30th September 2025. During the review, the engagement partner, CA R, explained to the audit team that unlike a full-scope audit, a review primarily relies on inquiries and analytical procedures to obtain limited assurance about whether the financial statements are prepared in accordance with the applicable financial reporting framework.

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

(4 Marks)

Question 3

(a) During the audit of the financial statements of KIN Ltd. for the year ended 31st March 2025, the auditor observed that the company has suffered recurring losses and has negative operating cash flows. Management has prepared the financial statements on a going concern basis and has disclosed in the notes to accounts the major events and conditions creating financial difficulty. The disclosures also include management's plans to improve liquidity and clearly state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

After evaluating the available audit evidence, the auditor concluded that management's use of the going concern basis of accounting is appropriate, and the disclosures made in the financial statements regarding the material uncertainty are adequate.

As the auditor of KIN Ltd., explain how the above matter will be reported in the auditor's report in accordance with the relevant Standard on Auditing.

(5 Marks)

(b) Mr. Amit is a practising chartered accountant based out of Pune. During the weekends, he was involved as a paper-setter for Accountancy subject in the school in which he studied. He

also owned agricultural land and was doing agriculture during his free time. During the year 2023, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2025, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto

(5 Marks)

(c) Omega Technologies Ltd., a multinational company operating in Chennai, has recently adopted integrated reporting to communicate its value creation to stakeholders. During the preparation of its integrated report for the year ended on 31 March 2025, the management included the following initiatives:

(i) The company invested heavily in research and development to develop new artificial intelligence-based products and registered several patents during the year.

(ii) It conducted training programs for employees and collaborated with universities to promote innovation.

(iii) The company strengthened long-term relationships with its suppliers and customers by introducing transparent grievance mechanisms and ethical sourcing policies.

(iv) It also undertook several community development initiatives and actively engaged with local communities to maintain its reputation and trust, ensuring continued acceptance of its operations in the region.

Based on above information, identify and explain which of the capitals of Integrated Reporting are being referred to at (i) to (iv).

(4 Marks)

Question 4

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

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

(5 Marks)

(b) CA. Suman, the auditor of KEY Pvt. Ltd. has delegated following works to his articles and staff:

i. Raising of bills and issuing acknowledgements for money receipts.

ii. Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

iii. Signing financial statements of the company.

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

(5 Marks)

(c) Home Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Home Pvt. Ltd.'s interim financial statements for the six-month period ending 30th September 2025, instead of a full audit. To comply with this request, the management appoints CA Vanya, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Vanya is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report. What kind of assurance is given in a review engagement? How is it different from an audit?

(4 Marks)

Question 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.

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.

(5 Marks)

(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. 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?

(5 Marks)

(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.

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.

(4 Marks)

Question 6

(a) ABC & Associates are the statutory auditors of Rise Ltd., a listed company, for the financial year 2024-25. CA Amit is the engagement partner for the audit assignment. He was of the understanding that as per the requirement of one of the SAs, he has a responsibility to communicate the following matters to those charged with governance:

- (a) The auditor's responsibilities in relation to the financial statement audit.
- (b) Planned scope and timing of the audit.
- (c) Auditor independence.

Which of the matters is not included in the list prepared by CA Amit. Discuss such matters in detail.

(5 Marks)

(b) One of the independent directors sought information regarding the appointment of internal auditors for the following Group Companies in accordance with the Companies Act, 2013 of which certain financial information is given below:

Figures are in ₹ crore and correspond to the previous year. Name Nature Equity Share Capital Turnover Loan from Bank and PFI Public Deposits AKR Limited Unlisted Public 70 120 70 27 TAK Limited Unlisted Private 90 195 98 - PRM Limited Listed 100 197 25 53 You are required to evaluate the requirements regarding the appointment of internal Auditors for the Group Companies. Discuss.

(5 Marks)

(c) CA Naman is conducting an audit of AIR Ltd. for the year 2024-25. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2025. However, it becomes known to CA Naman that one of overseas buyers has made a legal claim against the company on 1st June 2025 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August 2024. In December 2024, buyer had filed a suit for recovery of claim against the company for ₹ 6 crore. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss how CA Naman should proceed to deal with the above issue.

(4 Marks)

OR

(c) Ms. Lata, a practicing Chartered Accountant, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of her name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2024-25. The form requires applicants to upload XML files of their personal income-tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA Lata has transacted in futures and options derivatives (equity) and has reflected income from such transactions in her return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA Lata had earned income from transacting in currency derivatives and commodity derivatives?

(4 Marks)

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