Question Paper Booklet No. **5202287**

GENERAL INSTRUCTIONS TO CANDIDATES

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

PART – I

30 marks

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

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

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

Total No. of Printed Pages : 24

Maximum Marks : 30

Roll No.	1	0	7	2	3	7

Question Paper Booklet Code

A	M	F	1

Name of the Candidate

Signature of the Candidate

This booklet is the property of the Examination Body. Any unauthorized and illegal circulation of its contents in part or in full in any manner whatsoever is strictly prohibited. Candidates involved in such unauthorized and illegal acts are liable to be prosecuted besides being disqualified to appear in any further examinations of the Examination Body.

(1) After each MCQ, four options have been given. Choose the correct and most appropriate option and darken the corresponding circle against the MCQ number in the OMR answer sheet.

(2) Answer to MCQs, if written inside the descriptive answer book shall not be awarded any mark.

(3) Please ensure to 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.

(4) Please write your Roll No. and name on the topmost page of the MCQ booklet at the specified place without fail.

PART – I

Integrated Case Scenario-I :

M/s TAG & Associates, a Chartered Accountant firm was appointed by Comptroller and Auditor General to conduct performance audit of Wind power Ltd., a public sector undertaking of Government of India for the financial year 2024-25. Wind power Ltd. is engaged in generation of wind power with setting up of wind power plants at distinct locations in the country. The audit is assigned with the objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

The audit firm is concerned with Planning for Performance Audit.

The audit manager Mr. G suggested the following procedures in the following sequence of steps for conduct of Performance audit :

(1) Understanding the entity/programme

(2) Defining the objectives and the scope of audit

(3) Deciding audit approach

(4) Developing audit questions

(5) Determining audit criteria

(6) Establishing time table and resources

(7) Preparing Audit Design Matrix

(8) Assessing audit team skills and whether outside expertise required

(9) Intimation of Audit programme to audit entities

AMF1

Further, in the course of performance audit of Wind power Ltd., the engagement partner CA JP entrusted the audit work to four team members namely Mr. P, Mr. Q, Mr. R, Mr. S. The audit team is initially concentrated in deciding audit approach. CA JP suggested that there is no uniform audit approach prescribed that can be applicable to all types of subjects of performance audits. CA JP asked his team members to suggest a method for conducting the Performance audit.

- Mr. P suggested a method which involves a descriptive analysis of an entity, scheme or a programme.
- Mr. Q suggested a method which involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc.
- Mr. R suggested a method which involves collecting information from members of a population to assess the interrelation of events and conditions.
- Mr. S suggested a method which involves review of the systems in place for planning, conducting, checking and monitoring the activity.

CA JP analysed the methods suggested by each team member.

AMF1

M/s TAG & Associates were appointed as statutory auditors of Indore Main branch of a public sector bank for the financial year 2024-25. Advances generally constitute a major part of the assets of the branch. There are substantial number of borrowers to whom variety of advances are granted. Hence they felt that audit of advances requires major attention. M/s TAG & Associates are primarily concerned with obtaining evidence about the following while carrying out audit of advances :

- Amounts due to the bank are appropriately supported by loan documents.
- The stated basis of valuation of advances is appropriate and properly applied and recoverability of advances is recognized in their valuation.
- Advances are disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory and regulatory requirements.
- Appropriate provisions towards advances are made as per RBI norms, accounting standards and generally accepted accounting practices.

Audit approach of advances should encompass designing appropriate audit procedures to obtain audit evidence in all these areas.

The engagement partner, CA R assigned the focus areas in advances to the members of audit team as follows :

Mr. X was assigned to focus on evaluation of internal control on advances.

Mr. Y was assigned to focus on substantive audit procedures on advances.

Mr. Z was assigned to focus on recoverability of advances.

Further during the course of audit, it was observed that in the case of Kiran Ltd., a trading company which has availed a cash credit facility of ₹ 10 crore from Indore Main branch, the drawing power was not arrived at by bank.

As of 31st March 2025, the following details are provided regarding its stock, receivables (with ageing analysis), and creditors for calculating the Drawing Power (DP) :

Particulars	Amount (₹ in lakhs)	Remarks
Total Stock	900	Includes damaged stock of ₹ 60 lakhs.
Total Receivables (Debtors)	800	Ageing details provided below.
Creditors for Stock	140	Related to stock financed by creditors.
Margin on Stock	25%	As per bank sanction terms.
Margin on Receivables	40%	As per bank sanction terms.
Sanctioned Cash Credit Limit	1000	

Debtors' Ageing Analysis :

Age Bucket	Amount (₹ in lakhs)
0 - 30 days	250
31 - 60 days	200
61 - 90 days	250
> 90 days (Overdue)	100
Total Receivables	**800**

On the basis of the above details, you are required to answer the following questions (Q. Nos. 1 to 4) :

1. The following audit procedures are undertaken by the audit team in relation to audit of advances of the Indore Main branch :

   (i) Examine existence, enforceability and valuation of securities in respect of securities requiring registration.

   (ii) Verify correctness of master data of loan accounts updated in CBS. Check parameters like instalments, EMI, rate of interest, tenure of loans etc.

   (iii) Examine whether system laid down in bank for review/renewals of advances is being followed.

   (iv) Examine accounts identified to be problem accounts but which have not yet slipped into NPA category. This can be done by obtaining list of SMA1 and SMA2 borrowers from the bank and same can be considered for selection of problematic accounts.

   (v) Review auditor's reports in case of borrowers having credit facilities from the banking system beyond a cut-off limit fixed by board of directors of bank.

   From the above, identify the audit procedures that Mr. Y should focus upon.

   (A) (i), (ii), (iii)

   (B) (ii), (iv), (v)

   (C) (ii) & (iv)

   (D) (iii) & (iv)

2. What is the Drawing Power (DP) available to Kiran Ltd. as of 31st March 2025 ?

(A) ₹ 1005 lakhs

(B) ₹ 1000 lakhs

(C) ₹ 945 lakhs

(D) ₹ 990 lakhs **2**

3. CA JP, the engagement partner is satisfied with the procedures suggested by audit manager but he is not convinced with the sequence of steps while planning the performance audit of Wind power Ltd. He seeks your advice in suggesting the correct sequence after rearranging them. You are required to select the correct option from the following :

(A) Step 1, 2, 6, 4, 5, 3, 7, 8, 9

(B) Step 1, 2, 4, 3, 5, 7, 6, 8, 9

(C) Step 1, 2, 3, 5, 4, 8, 6, 7, 9

(D) Step 1, 2, 5, 3, 4, 8, 7, 6, 9 **2**

4. As regards the method suggested for conducting performance audit of Wind power Ltd., by which team member, do you think that, it may not be possible for the auditor to work with complete data due to its high volume and in such cases sampling techniques are required to be used ?

(A) Mr. P

(B) Mr. Q

(C) Mr. R

(D) Mr. S **2**

Integrated Case Scenario-II :

M/s GDP Associates, a renowned firm of Chartered Accountants consisting of 15 partners was appointed as statutory auditors for the Financial Year 2024-25 of SYNC Technology Ltd., a technology focused engineering company engaged in turnkey electronics manufacturing services, specializing in precision manufacturing for diverse end-use industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. The company's portfolio includes memory, SSDs, motherboards, power adapters, and systems integration.

In conducting an initial audit engagement, the objective of the M/s GDP Associates is to obtain sufficient appropriate audit evidence about whether Opening balances contain misstatements that materially affect the current period's financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. The company's prior year financial statements were audited by M/s JK Associates, but the predecessor auditor's report was modified due to the non-disclosure of certain liabilities. The opening balances include significant provisions and carry forward adjustments.

M/s GDP Associates decides to use sampling to test compliance with internal controls over revenue recognition. As part of the audit of SYNC Technology Ltd., M/s GDP Associates is performing sampling for tests of controls and substantive procedures. At the end of the sampling process, the auditor needed to conclude on whether the sampling results provided a reasonable basis for conclusions about the population tested.

During testing, the following scenarios arose :

(1) A selected item could not be tested because supporting documentation was unavailable. The auditor is unable to apply the designed audit procedures since documentation relating to sales is lost, like the sales order record, sales invoice, document for dispatch.

(2) A deviation was identified in the sample that could potentially indicate a misstatement in the population.

(3) The auditor found an item that seemed anomalous but required further procedures to confirm it was not representative of the population.

As part of audit, to confirm the accounts receivable balances with customers, M/s GDP Associates sends confirmation requests to SYNC Technology Ltd.'s top 50 customers, whose account balances represent 80% of the company's total receivables. The auditor sends confirmation requests to confirm balances of cash held in bank accounts and outstanding loans with the bank. The auditor also sends confirmation requests to 200 small suppliers with low-value account balances.

The following events occur during the confirmation process :

(1) Out of the 50 positive confirmation requests, 10 responses indicate agreement with the balances, 5 responses indicate discrepancies, and 35 do not respond.

(2) One response to a positive confirmation appears unreliable due to discrepancies in the customer's letterhead and inconsistent information.

(3) The 100 negative confirmation requests receive no responses.

(4) In the case of non-response, the audit firm examined subsequent cash disbursements, email correspondences, and other records like goods received notes.

Further M/s GDP Associates engaged an external IT expert to evaluate the entity's cyber security framework, a significant area of risk identified during risk assessment. M/s GDP Associates and the expert held discussions to finalize the terms of the engagement, which included :

(1) The expert's role in assessing the robustness of SYNC Technology Ltd.'s cyber security systems.

(2) The communication protocol, specifying that the expert would provide interim oral reports during the engagement and a formal written report upon conclusion.

(3) The need for confidentiality agreements, as the entity requested additional restrictions on the disclosure of sensitive cyber security information.

(4) The identification of specific audit team members responsible for liaising with the expert and facilitating communication between the expert and the entity.

During the audit, the following issues arose :

- The expert delayed submitting the formal report, citing unclear communication about the expected scope of work.
- The entity expressed concerns about the confidentiality provisions not being adequately addressed.
- The expert had limited interaction with the auditor, leading to misalignment on the interim findings.

On the basis of the above details, you are required to answer the following questions (Q. Nos. 5 to 8) :

5. Which of the following is the most appropriate for M/s GDP Associates in response to the events that occurred when performing external confirmation procedures to obtain relevant and reliable audit evidence in accordance with relevant Standard on Auditing ?

(A) The failure to receive a response to a negative confirmation request explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.

(B) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is in their favour, and less likely to respond otherwise.

(C) Non-response for negative confirmation does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

(D) The auditor shall use negative confirmation requests as the sole substantive audit procedure when he is aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

2

6. M/s GDP Associates are concerned with SA 620, which deals with the auditor's responsibilities regarding the use of external IT expert when that work is used to assist the auditor in evaluating cyber security framework. Which of the following is incorrect option in relation to agreement with the auditor's expert ?

(A) When the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, only a formal written report at the conclusion of that expert's work may be appropriate while oral reports as the work progresses are not required.

(B) Ensure that the nature, scope, and objectives of the expert's work are agreed upon in writing, including the timeline for deliverables.

(C) Identification of specific partners or staff, who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

(D) It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert. **2**

7. Considering the factors influencing audit procedures for opening balances, which of the following is the most appropriate course of action under relevant Standard on Auditing ?

(A) Perform audit procedures in prior period to obtain evidence relevant to opening balances or evaluate whether prior period's closing balances have been correctly brought forward.

(B) Evaluate the effect of the matter giving rise to modification in the predecessor auditors M/s JK Associates' report, with respect to the current period's financial statements.

(C) Assume the opening balances are immaterial since the predecessor auditors, M/s JK Associates issued a modified opinion and focus only on current year's transactions.

(D) Accept the accounting policies applied to the opening balances based solely on management's assertion, provided they appear consistent with current period's policies. 2

8. Based on SA 530, which of the following is the most appropriate response for the auditor in handling these situations while performing sampling tests and procedures ?

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

(B) In case when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is representative of the population.

(C) Rely solely on the results of the sample and assume that any deviations identified are immaterial to the population.

(D) If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a misstatement, in the case of tests of details. 2

9. Uranus Pvt. Ltd., a partially-owned subsidiary of Saturn Ltd., a manufacturing company, has been operating as an unlisted company in India. The company's shareholders, including non-voting members, have been informed in writing about the company's decision not to present consolidated financial statements. None of the members have objected, and the company holds proof of delivery for these communications.

Saturn Ltd., the ultimate holding company of Uranus Pvt. Ltd., files its consolidated financial statements with the Registrar in compliance with the applicable Accounting Standards. Saturn Ltd. is listed on the National Stock Exchange (NSE) and adheres to Ind AS for its reporting requirements.

Pluto Ltd., is another subsidiary of Saturn Ltd. manages funds from various investors, with a stated business objective of earning returns through capital appreciation and investment income. It evaluates its investments on a fair value basis, reporting these changes through profit or loss. Pluto Ltd. holds 75% shares of Neptune Ltd. and 60% shares of Eris Ltd.

During a regulatory review, issues arose regarding the applicability of Consolidated Financial Statement (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

Which of the following statements is most appropriate regarding the applicability of Consolidated Financial Statements (CFS) requirements and the exemptions provided under the Companies Act, 2013, and Ind AS 110.

(A) Uranus Pvt. Ltd. must prepare consolidated financial statements as it is a subsidiary of a listed company that files its consolidated statements.

(B) Pluto Ltd. must present consolidated financial statements for all entities it controls as it measures its subsidiaries at fair value through profit or loss.

(C) Saturn Ltd. must consolidate all entities it controls, excepting Pluto Ltd. and its subsidiaries as the requirement of preparation CFS shall not apply to Pluto Ltd.

(D) Saturn Ltd. must consolidate all entities it controls, including Uranus Pvt. Ltd., Pluto Ltd. and its subsidiaries.

2

10. M/s DG & Co. is a firm of Chartered Accountants, consisting of two partners, CA D and CA G. The firm operates its main office in Delhi and has established branch offices in Gurgaon, and Shimla. M/s DG & Co. had applied for exemption with respect to the Shimla Office, due to its hill area location. The permission was granted to them allowing a temporary office in Chandigarh during winter months. The temporary office in Chandigarh displayed it's name board year-round and used the address on firm stationery.

The firm is concerned with the compliance of provisions of Section 27 of the Chartered Accountants Act, 1949. Exemption has been given to members practicing in hill areas.

You are required to identify the correct condition(s) from the following :

(i) M/s DG & Co. should be allowed to open temporary offices in Chandigarh for a limited period not exceeding 3 months in a year.

(ii) Shimla office should be closed during winter months and all correspondence should be made at the Chandigarh office only.

(iii) The name board of the firm in the Chandigarh office should not be displayed at times other than the period such office is permitted to function.

(iv) Chandigarh office should not be mentioned in the letterheads, visiting cards or any other documents as a place of business of the member/firm.

(v) Before commencement of every winter it shall be obligatory on the firm to inform the Institute that it is opening the Chandigarh office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

(A) (i), (ii), (iii), (iv)

(B) (i), (iii), (iv), (v)

(C) (i), (ii), (iv)

(D) (ii), (iii), (iv), (v) **2**

1. Secure Bank Ltd., a mid-sized financial institution, prides itself on offering secure digital banking services to its customers. Recently, the bank became a target of a sophisticated malware attack that exposed multiple vulnerabilities in its IT systems.

(I) **Incident 1 :** An employee of Secure Bank received an email from what appeared to be a reputable software vendor, offering a "free system optimization tool". Believing it to be legitimate, the employee downloaded and installed the tool. However, it was a cyber-attack, disguised to appear as harmless software. Once installed, it created a backdoor that allowed attackers to access the bank's internal network.

(II) **Incident 2 :** The attackers leveraged to target employees' smartphones. This malware was introduced through phishing SMS (smishing), which prompted employees to click on malicious links. The malware exploited out dated operating systems on the devices to extract sensitive corporate information.

(III) **Incident 3 :** The attackers executed a malware on the bank's systems by exploiting legitimate tools such as PowerShell and Windows Management Instrumentation (WMI), the attackers initiated a series of commands to explore and manipulate the bank's network.

(IV) **Incident 4 :** A critical server was encrypted by a cyber-attack, disrupting operations for three days. This encrypted all critical financial data, rendering the system inoperable. Investigations revealed that the attack originated from a phishing email sent to an employee. The email contained a link that exploited an unpatched vulnerability in the server.

From the above which of the cyber-attack incident that Secure Bank Ltd. became victim of, is described as "Ransomware ?"

(A) Incident 4

(B) Incident 3

(C) Incident 2

(D) Incident 1

Integrated Case Scenario-III :

M/s FILE & Co. is a firm of Chartered Accountants consisting of 12 partners based at Mumbai. The audit firm is engaged in the audit of DEAF Ltd. for the financial year 2024-2025 for which CA L is the engagement partner.

During the course of the audit of DEAF Ltd., the following misstatements were identified :

I – A calculation error in the depreciation schedule amounting to ₹ 1 lakh.

II – Management's estimate regarding inventory valuation seemed aggressive, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable.

III – A sample audit revealed an error in sales invoices amounting to ₹ 60,000 and the population of similar invoices totalled ₹ 1 crore. The auditor's best estimate of misstatement in population identified in the samples to the entire population is ₹ 6 lakhs.

CA L has determined a threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.

Further :

(i) The auditor communicated with those charged with governance regarding uncorrected misstatements and their effect and requested to them that uncorrected misstatements be corrected.

(ii) The management corrected the inventory valuation issue but did not correct the depreciation error or the error in sales invoices amounting to ₹ 60,000, considering the immateriality.

(iii) After evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, CA L is concerned on the documentation aspect with reference to the relevant Standard on Auditing.

AMF1

M/s FILE & Co. is also the statutory auditors of Purple Pvt. Ltd., a manufacturing company, which has been severely impacted by economic downturns and operational inefficiencies. The company's cash flow statements reveal recurring negative cash flows, and its interim financial statements show a significant decline in profitability. Additionally, Purple Pvt. Ltd. has defaulted on loan covenants, and on-going litigation poses a risk of substantial financial liabilities. Management has stated their plans to mitigate these challenges by restructuring debt, securing additional funding from related parties, and reducing operational costs. However, no formal documentation supporting these plans has been provided yet.

M/s FILE & Co. have identified the events and conditions in the case of Purple Pvt. Ltd. which cast significant doubt on the entity's ability to continue as a Going Concern, and auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty exists and gather evidence including of mitigating factors.

M/s FILE & Co. is planning to perform the following additional procedures :

(i) As long as management provides a representation letter stating their plans to address financing difficulties the auditor is not bound by the terms of breached loan agreements.

(ii) Confirm the existence, legality, and enforceability of arrangements to provide or maintain financial support, both from related/third parties and the assessment of the financial ability of such parties to provide the promised support as immaterial.

(iii) Evaluate the assumptions underlying cash flow, profit, and other relevant forecasts, considering historical accuracy and current market conditions.

(iv) Considering whether existing facts and information have become available since the date of management's initial assessment that could impact the going concern conclusion.

(v) Review minutes of meetings of shareholders, those charged with governance, and relevant committees for references to financial difficulties, plans for mitigating actions, or discussions on securing additional funding.

(vi) If management has not yet performed an assessment, the entity is treated as not a going concern and issue a modified audit opinion without further evidence.

M/s FILE & Co. the statutory auditors of Crypto Ltd., a non-listed public company, carrying out manufacturing activity, have been identified for their quality review based upon risk based approach. However, Crypto Ltd. is neither covered under Rule 3 of NFRA Rules, 2018 nor referred to QRB by NFRA. The Quality Review Board (QRB) is entrusted with conducting a quality review of M/s FILE & Co.'s audit services. During the review, QRB identifies non-compliance with Standards on Auditing (SAs) in areas related to engagement documentation and independence. Meanwhile, NFRA receives a whistle blower complaint regarding audit irregularities in Glitch Ltd., a listed company, audited by FILE & Co. M/s FILE & Co. was charged with failure to identify related parties and transactions with them. Glitch Ltd. has made 95% of sales to a related party which was not identified as such in the annual report of the company. NFRA initiates an investigation under Section 132(4) of the Companies Act, 2013.

Based on the above facts, answer the following questions (Q. Nos. 12 to 15) :

12. Based on the listed additional procedures, which of the following are the inappropriate actions for the auditor to take decision on Going Concern in the case of Purple Pvt. Ltd. ?

(A) (i), (ii), (iii), (iv)

(B) (i), (ii), (iv), (vi)

(C) (ii), (iii), (iv), (vi)

(D) (iii), (iv), (v), (vi) 2

13. Which of the following statements is most appropriate in the context of the roles of QRB and NFRA ?

(A) QRB is empowered to review the quality of audit services for both Crypto Ltd. and Glitch Ltd. since it oversees all entities audited by ICAI members.

(B) NFRA cannot investigate Glitch Ltd. as it falls under QRB's jurisdiction due to the audit being performed by ICAI members.

(C) QRB can review the quality of audit services of Crypto Ltd.; but can not review the quality of audit services of Glitch Ltd.

(D) NFRA and QRB have overlapping jurisdiction for listed entities, and either body can independently investigate Glitch Ltd. 2

14. Which of the following options is correct regarding the classification and treatment of the identified misstatements of DEAF Ltd. under relevant Standard on Auditing ?

(A) The ₹ 1 lakh error in depreciation schedule qualifies as a judgemental misstatement. Management's estimate regarding inventory, leading to an overstatement of ₹ 5 lakhs, which the auditor deemed unreasonable does not qualify as a misstatement.

A sample audit revealed an error in sales invoices amounting to ₹ 60,000 is an factual misstatement.

(B) The ₹ 1 lakh error in the depreciation schedule is a judgemental misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a factual misstatement.

The invoice-related error does not qualify as a misstatement as the individual error is below the trivial threshold.

(C) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a projected misstatement.

The auditor's best estimate of misstatement of ₹ 6 lakhs to entire population is a judgemental misstatement.

(D) The ₹ 1 lakh error in the depreciation schedule is a factual misstatement.

The inventory valuation overstatement of ₹ 5 lakhs is a judgmental misstatement.

The auditor's best estimate of misstatement of ₹ 6 lakhs to entire population is a projected misstatement. **2**

5. Which of the following actions is not required as part of the auditor's documentation for the identified misstatements of DEAF Ltd. ?

(A) Justifications for not communicating identified misstatements to those charged with governance.

(B) Recording the predetermined threshold of ₹ 75,000 as the amount below which misstatements would be considered clearly trivial.

(C) Listing all identified misstatements, including the inventory misstatement, even if corrected by management.

(D) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion. **2**

(24)

AMF1

SPACE FOR ROUGH WORK

AMF2

Roll No. ....107237.....

Total No. of Questions – **6**

Total No. of Printed Pages – **16**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

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

PART – II

70 Marks

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.

PART – II

1. (a) PQR 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 : 5

(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 ST & 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 ST & Co., noted a misstatement regarding the company's claim of achieving a 20% reduction in production costs. Audit evidence suggests the reduction was only 10%.

(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 ST & Co., include in the "Other Information" section of the auditor's report for PQR 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 ST & Co. report under the "Other Information" section ?

(b) Alpha Manufacturing Ltd. (AML) is engaged in the production of speciality machinery for the automotive industry. The company operates in a competitive market and is under pressure to meet aggressive revenue and profitability targets to secure additional funding from the investors. The audit firm BETA LLP has been engaged to conduct AML's statutory audit for the financial year 2024-25. BETA LLP performed risk assessment procedures and related activities towards obtaining information in identifying risk of material misstatement due to fraud and also evaluated whether there is an indication that one or more fraud risk factors are present. Analytical procedures reveal unexpected relationships potentially indicating fraudulent activities, such as sales inflation by **5**

management to meet earnings targets. Management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.

Guide BETA LLP to decide the course of action in determining overall responses to address the assessed risks of material misstatement due to fraud at the (i) Financial Statement Level and (ii) Assertion Level.

(c) Smart Technology Ltd. plans to issue a prospectus to raise capital through a public offering. Smart Technology Ltd. acquired Cloud Computing Ltd., a leader in cloud advisory services, to strengthen its capabilities in providing cloud solutions and this acquisition aligned for a digital transformation strategy. The prospectus includes pro forma financial information to demonstrate the financial effects of a significant acquisition completed recently. As the engagement practitioner, you are entrusted with providing an assurance report on the compilation of this pro forma financial information in accordance with relevant Standard on Assurance Engagement. 4

Smart Technology Ltd.'s management has provided the following details :

(1) The source of the unadjusted financial information includes unaudited financial statements for a subsidiary acquired during the year.

(2) Pro forma adjustments which include Fair value adjustments for acquired assets and liabilities.

(3) The applicable financial reporting framework is IFRS, with modifications specific to the jurisdiction of operation.

In the above context, answer the following :

(i) State the aspects you will consider during planning and performing the Engagement while evaluating the source from which the unadjusted financial information has been extracted.

(ii) As a practitioner you need to obtain evidence about the appropriateness of the pro forma adjustments. Explain what it includes.

2. (a) XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the view point of quality control system in audit firm in terms of requirements of SQC 1 ? Guide the firm in establishing the policies and procedures in respect of an engagement partner. **5**

(b) CA A has been appointed as an auditor of Datacom Ltd. to conduct statutory audit. The company has various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fairly valued for which company got the fair valuation done through an external third party. CA A involved a registered valuer Mr. S as an auditor's expert to do the valuation of derivatives in order to obtain sufficient appropriate audit evidence. CA A and Mr. S are new to each other and they were working for the first time. Mr. S performed his work and submitted the report. CA A, while evaluating the adequacy of the work of Mr. S, observed that expert's work involved use of significant assumptions and methods. Consequently he wants to test the relevance and reasonableness of those assumptions and methods in the applicable circumstances. Guide CA A in this regard as per relevant Standard on Auditing. 5

(c) Metaverse is the emerging 3-D digital space that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. It represents a convergence of digital technology to combine and extend the reach and use of Cryptocurrency, Artificial Intelligence (AI), Augmented Reality (AR) and Virtual Reality (VR). 4

State the key considerations for sustainable future of Metaverse.

3. (a) Brown Enterprises Limited, an unlisted public company, has granted loans to two of its subsidiaries, stood as a guarantor for loans taken by a Limited Liability Partnership (LLP), and made investments in a start-up company during the financial year 2024-25. The company's financial statements disclose the following : 5

(1) Loans Provided :

- ₹ 10 crore to Subsidiary A, with ₹ 6 crore outstanding as of March 31, 2025.
- ₹ 5 crore to Subsidiary B, fully repaid during the year.
- ₹ 3 crore loan to a UR & Co. a partnership firm with ₹ 1.5 crore overdue for 120 days. UR & Co., is not a related party.

(2) Guarantees :

- Guarantee provided to Milestone LLP for ₹ 7 crore loan availed from a bank, outstanding in full as of March 31, 2025.

(3) Investments :

- ₹ 4 crore equity investment in KD start-up.

Additional information:

- For the overdue loan, Brown Enterprises Ltd. has initiated legal proceedings for recovery but no settlement has been achieved.
- All loans and guarantees have been documented with terms and conditions.
- One loan, ₹ 2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.

Based on the above facts you are required to :

(i) Analyse the reporting requirements under CARO, 2020, for Brown Enterprises Ltd.

(ii) The management of Brown Enterprises Limited contended that reporting requirements under CARO, 2020, of overdue in respect of UR & Co., and Subsidiary A, are not applicable. Comment.

(b) M/s JAZZ & Co. is a partnership firm consisting of two partners CA J and CA Z. **5**

CA J is exclusively associated with the firm and is not doing practice in individual capacity, whereas CA Z is doing practice in his individual capacity also.

For the financial year 2023-24, the firm has already undertaken audits and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under :

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA J	30	60	20
CA Z	5	10	12

For the financial year 2023-24, CA Z has undertaken audits in individual capacity and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under :

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA Z	4	9 = 13	8

For the financial year 2023-24, the firm is approached further to take up the following assignments :

3 tax audit assignments under section 44AB for corporate clients

4 tax audit assignments under section 44AD.

Advise whether the firm should accept the further tax audit assignments for the financial year 2023-24 as above in the light of professional code of conduct.

(c) Coastal Ventures Ltd., a newly formed real estate development firm, is applying for a loan from a financial institution to fund a new residential project. The bank requires the submission of the company's financial statements for the year ending March 31, 2025. The company engages an independent practitioner CA X to compile the financial statements based on its accounting records and other information provided. The financial statements will be prepared in accordance with Ind AS (Indian Accounting Standards). CA X intends to record the agreed terms of engagement in an engagement letter prior to performing the engagement. **4**

CA X is of the view that independence requirements will not be applicable for the above assignment. Do you agree ?

CA X is concerned with engagement acceptance and continuance. Suggest him focus points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

4. (a) Instant Finance Ltd. is a Non-Banking Financial Company (NBFC-BL) primarily engaged in providing loans to small businesses and individuals. As per its audited financials for the year ending March 31, 2025, the following information was observed : 5

(1) Instant Finance Ltd. has an aggregate risk-weighted asset base of ₹ 1,000 crore.

(2) The company has reported Tier 1 capital of ₹ 130 crore, which includes ₹ 15 crore raised through perpetual debt instruments.

(3) Instant Finance Ltd. has investments in shares and bonds of other NBFCs totalling ₹ 10 crore, which amounts to 12% of its owned fund.

(4) The company's primary business involves lending against gold jewellery, with such loans comprising 60% of its financial assets.

As a statutory auditor, you are entrusted with assessing compliance with the prudential norms prescribed under the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, regarding capital adequacy.

You are required to :

(i) Evaluate whether Instant Finance Ltd. complies with the minimum Tier 1 capital requirements as per the RBI prudential norms.

(ii) Discuss the treatment and impact of perpetual debt instruments in the calculation of Tier 1 capital for NBFCs primarily engaged in lending against gold jewellery.

(iii) Analyse the adjustment required in Tier 1 capital for Instant Finance Ltd. due to its investments in other NBFCs.

(b) CA A, the proprietor of A & Collegues, Chartered Accountants, is developing his practice and recently secured a major audit assignment for B state Cooperative Society. The engagement fee for this audit is ₹ 1 Cr. **5**

In view of his vision of growth to expand the development of his business, CA A has entered into an agreement with an unregistered financial consultant, Mr. X, who is an MBA from a local university. Mr. X introduced CA A to his business clients and in return, CA A agrees to pay him a 2.5% commission (₹ 2.5 lakhs) on the audit fee as a referral bonus.

Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5,00,000) has to be deposited into the State Treasury to cover administrative expenses. CA A complies with this requirement.

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

(c) Glow management Ltd., a workspace operator, seeks to secure funding from investors. The funds will be used for repayment of debt and cost of capital for strengthening its Balance sheet. To support this, the company has prepared its financial statements for the year ended March 31, 2025. The investors request a limited assurance review rather than a full audit, to ensure the reliability of the financial statements. The management of Glow management Ltd. engages an independent practitioner CA Kishore to perform a review engagement under SAE 2400. During the review, CA Kishore identifies that there was significant increase in deferred revenue. On inquiry, CA Kishore found management's explanation unreasonable that it is related to advances received for upcoming projects and was unable to corroborate this with contracts. 4

Based on the evidence gathered and procedures performed, CA Kishore determines, that the financial statements are materially misstated. He is bound to express a qualified conclusion, as the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements.

In the above context, you are required to help CA Kishore to :

(i) State the phrases to be used in conclusion paragraph as appropriate.

(ii) State the matters to be included in the basis for conclusion paragraph.

(a) Footwear Ltd., a manufacturing company has recently appointed you as its Internal Auditor to review its financial and operational controls. You have to conduct the internal audit in compliance with the standards of Internal Audit, within the framework governing Internal Audits. During the audit, you have identified misappropriation of inventories and suspected fraudulent activities by a procurement manager. You thought it would be more appropriate to bring the same immediately to the attention of the management. As per the principles outlined in Standard on Internal Audit, you need to prepare an internal audit report covering the audit findings. Explain the stages of internal audit reporting results as per relevant Standard on Internal Audit and state the key elements to be included while issuing a clear, well documented Internal Audit Report by you as an internal auditor. 5

(b) GAS limited, is in the business of renewable energy, including fuel cell, electrolyzer, battery energy storage system wishes to contribute to clean energy ecosystem and National Green Hydrogen mission. GAS limited is among top 1000 listed entities and have to mandatorily provide BRSR reporting (Business Responsibility and Sustainability Reporting) on ESG parameters in accordance with the principles of "National Guidelines on Responsible Business Conduct" as mandated by SEBI. One of the principles states that "This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities." Elucidate the essence of core elements associated with the aforesaid principle. 5

(c) M/s GSTR & Associates, Chartered Accountants, is an audit firm consisting of three partners. The partnership firm was formed in the year 2019. M/s GSTR & Associates, specialised in internal audits and tax consultancy services, admitted CA Y as partner in the year 2024. CA Y had vast experience in audit of listed companies as he was the senior audit manager of a leading audit firm before he joins M/s GSTR & Associates. Ruby Limited, a listed entity, appointed M/s GSTR & Associates, Chartered Accountants as statutory auditors for the year ended 31st March 2025. CA Y, the engagement partner signed the balance sheet of Ruby Limited for the year ended 31st March 2025 on 21st May 2025. M/s GSTR & Associates, Chartered Accountants never subjected themselves to the Peer Review process of the Institute. Comment with reference to the Chartered Accountants Act, 1949. **4**

6. (a) Key Ventures Limited is availing the services of Chipmetric Limited for processing of its accounting data including payroll operations. Payroll costs account for 75% of the total costs of Key Ventures Limited. CA Tej, the auditor of Key Ventures Limited wants to obtain an understanding of the nature and significance of the services provided by Chipmetric Limited and their effect on the user entity's internal control to identify and assess the risks of material misstatement. In this regard, he wants to use Type 1 or Type 2 report. **5**

What shall be the considerations of CA Tej in determining the sufficiency and appropriateness of the audit evidence ? Suggest the procedures if he plans to use a Type 1 or Type 2 report as audit evidence to support the understanding about the design and implementation of controls at Chipmetric Limited as per relevant Standard on Auditing.

(b) During the statutory audit of ELITE Bank Ltd., a leading private sector bank, for the financial year 2024-25, the following issue emerged to statutory central auditors. ELITE Bank Ltd. acquired a commercial property in satisfaction of a loan default by a borrower in Financial Year 2016-2017. The property was recorded at net book value of the loan. The bank plans to sell this property in the next fiscal year to recover its dues. A legal dispute has emerged over the ownership of the property, with a third party claiming partial rights. The matter is pending in court. The management has not disclosed this dispute in the financial statements but contends that a favourable court ruling is expected. The auditor's review reveals that the property's fair market value is significantly lower. 5

Based on the above facts, you are required to :

(i) Identify specific audit procedure the auditor should undertake to ensure compliance of the Banking Regulation Act, 1949.

(ii) Under which head ELITE Bank Ltd. should record the above mentioned property ?

(iii) Suggest also other audit procedures that an auditor should focus upon.

(c) Ring Limited is a subsidiary of Pearl Limited. For the financial year 2024-25 M/s Vani & Co., Chartered Accountants were appointed as the statutory auditors of Ring Limited. The CEO of Pearl Limited was impressed with the professional competence of CA Devi, one of the partners of the firm and hence, he offered CA Devi to take up the position of Director (not MD/whole time director) of Pearl Limited. CA Devi is in a dilemma whether to accept the offer. She approaches you and seeks your advice on the same. Advise what CA Devi can do with the offer with reference to the Chartered Accountants Act, 1949 and schedules thereto. 4

OR

(c) KLIM Ltd., a construction company, engaged in constructing and selling residential or commercial properties, having suspected potential fraud of substantial amount, engaged CA J, a forensic accountant, to investigate the matter. During the course of performing a forensic accounting engagement in relation to suspected fraud, which aspects CA J should take care of while undertaking the process of obtaining relevant evidence ? 4