

Mock Test Paper - Series I: March 2026

Date of Paper: 20th March 2026

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I - Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. 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. 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.
3. EAT Ltd., a company engaged in the manufacturing of packaged food products, launched an advertising campaign to expand its market share. The campaign promoted its products as "100% natural and completely risk-free for daily consumption." However, internal reports available with the company indicates that certain ingredients used in the products may pose health risks if consumed excessively. Despite this knowledge, the company neither discloses such potential adverse effects on the product packaging nor in its advertisements. Which of the following BRSR principles is primarily violated in the above case?
- (a) Principle 1 "Ethics, Transparency and Accountability".
 - (b) Principle 6 "Protection and Restoration of Environment".
 - (c) Principle 4 "Respect for Stakeholders' Interests and Responsiveness".
 - (d) Principle 9 "Provide Value to the Consumers in a Responsible Manner".

Case Scenario I [MCQ 4-8]

RK & Associates, a Chartered Accountant firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Perfact Industries Ltd., an unlisted public company, for the financial year 2024–25.

Mr. Rajat is the engagement partner for the audit assignment of Perfact Industries Ltd. The engagement team, before starting the assignment, was required to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.

Mr. Rajat referred to the engagement letter signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of the following circumstances in the company during F.Y. 2024–25:

- Two senior whole-time directors of the company have retired out of a total of five directors.
- 40% stake in the company was held by promoters, which was reduced by 5% by selling shares to the general public.
- Management has requested the auditor to cover 90% of the transactions with respect to each revenue line item, instead of 60% of the transactions as set out in the audit plan, considering materiality and other factors.

The following data is presented from the audited financial statements of Perfact Industries Ltd. for the financial year 2023–24:

- (i) Paid-up Share Capital – ₹ 9 crore
- (ii) Turnover – ₹ 65 crore
- (iii) Outstanding Borrowings – ₹ 16 crore
- (iv) Outstanding Public Deposits – ₹ 29 crore

Mr. Rajat requested the management of Perfact Industries Ltd. to provide the internal audit report. However, the management responded that since the company's paid-up share capital and turnover are very low, internal audit is not applicable.

While preparing a report under Section 143 of the Companies Act, 2013, Mr. Rajat made a statement with respect to the remuneration paid by Perfact Industries Ltd. to one of its directors, Mr. Amit, stating that it was in excess of the limit laid down under Section 197, and also gave such other details as prescribed.

For additional reporting purposes, while auditing with respect to compliance with CARO, 2020, Mr. Rajat observed the following with respect to statutory dues:

Statutory Dues	Undisputed Amount (₹ in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2023-24	1.80	23 September 2024	27 March 2025
GST	1.40	4 October 2024	5 April 2025
Customs Duty	0.90	21 September 2024	10 April 2025
Provident Fund	0.40	11 October 2024	Not paid till date

Apart from receiving his remuneration as a partner in RK & Associates, Mr. Rajat also received a sum of ₹ 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose.

Based on the above facts, answer the following:

4. Based on the financial data of Perfect Industries Ltd. for F.Y. 2023–24, determine whether internal audit is required for the company:
 - (a) Internal audit is not required since all thresholds are below limits.
 - (b) Internal audit is required because borrowings exceed ₹ 10 crore.
 - (c) Internal audit is required because public deposits exceed ₹ 25 crore.
 - (d) Internal audit is not required since turnover is less than ₹ 100 crore.
5. Under which section of the auditor's report, Mr. Rajat needs to report with respect to the excess remuneration being paid to Mr. Amit?
 - (a) Other Matters Paragraph.
 - (b) Report on Other Legal and Regulatory Requirements.
 - (c) Basis for Qualified Opinion.
 - (d) Auditor's Responsibilities for the Audit of the Financial Statements.
6. Based on the given information, compute the total amount of statutory dues to be reported by Mr. Rajat under Para 3 of CARO 2020.
 - (a) ₹ 3.20 lakh.
 - (b) ₹ 1.80 lakh.
 - (c) ₹ 2.70 lakh.
 - (d) ₹ 0.90 lakh.

7. Whether Mr. Rajat is permitted to hold license as a life insurance agent?
- Yes, general permission has been granted by the Council of the ICAI for the said purpose.
 - Yes, if specific permission has been obtained by Mr. Rajat from the Council for the same.
 - No, it is not permitted for a chartered accountant to do so as per recent decisions of Ethical Standards Board.
 - License as a life insurance agent can be held by CA Rajat for purposes other than earning renewal commission, provided it does not amount to degradation of the profession
8. Based on the facts of the case, which of the following options best reflects the auditor's obligation regarding engagement letter?
- A new engagement letter is mandatory as two out of five whole-time directors have retired.
 - A new engagement letter is mandatory as Promoters' shareholding is reduced by 5%.
 - A new engagement letter is not required, as none of the changes affect the audit engagement terms.
 - The auditor should consider revising the engagement terms since management has requested an increase in audit coverage from 60% to 90% of transactions.

Case Scenario II [MCQ 9-12]

Rajesh & Co. has been appointed as the central statutory auditor of Good Worth Bank Ltd., a private sector bank registered with RBI, for F.Y. 2023–24.

Mr. Rajesh, the engagement partner, while examining the computation of DTL (Demand and Time Liabilities), raised his suspicion regarding the inclusion and exclusion of the following items:

Sr. No.	Particulars of Item	Inclusion/ Exclusion
1	Net credit balance of Branch Adjustment Account	Exclusion
2	Amount received from court receiver	Inclusion
3	Amount received from ECGC by invoking the guarantee	Exclusion
4	Unaccounted inward remittances received on behalf of customers	Inclusion
5	Net Income tax provision.	Inclusion

During the course of audit, Rajesh & Co. also observed that one large advance account of the bank had no recovery of principal or interest for the past 15 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee.

Additionally, Rajesh & Co. was offered Stock audit of a sister concern of Good Worth Bank Ltd. for F.Y. 2023–24, and Branch audit of its Borivali Branch for F.Y. 2023–24 and Dadar Branch for F.Y. 2024–25, respectively.

Based upon above, answer the following questions:

9. Items at which serial number, as aforesaid, have been wrongly included or excluded for the computation of Demand and Time Liabilities?
 - (a) Items at which Sr. No. 1 & 4, respectively.
 - (b) Items at which Sr. No. 2, 3 & 5, respectively.
 - (c) Items at which Sr. No. 1 & 3, respectively.
 - (d) Items at which Sr. No. 1, 2 & 5, respectively.
10. Whether the classification of advance and income recognition by Good Worth Bank Ltd. is correct?
 - (a) The bank is correct in not classifying the advance as NPA for provisioning purposes since the Central Government guarantee has not been repudiated, but interest income should not be recognized unless actually realized.
 - (b) The bank is incorrect in not classifying the advance as NPA and in continuing to recognize interest income, since guarantees do not affect IRAC norms.
 - (c) The bank is correct in both not classifying the advance as NPA and in recognizing interest income on accrual basis due to Central Government guarantee.
 - (d) The bank should classify the advance as NPA only after 90 days of overdue irrespective of whether the guarantee is by Central or State Government.
11. Would the auditor's conclusion change if the advance, which has remained overdue for more than 15 months, was guaranteed by a State Government instead of the Central Government?
 - (a) No, both Central and State Government guarantees are treated identically for asset classification and income recognition under RBI IRAC norms.
 - (b) Yes, but only income recognition norms would change, while asset classification would remain unaffected.

- (c) Yes, since the special exemption from NPA classification is not available for State Government guaranteed advances, and the account would be treated as NPA after 90 days of overdue.
 - (d) No, the account would be classified as NPA only on invocation and repudiation of the State Government guarantee.
12. Whether Rajesh & Co. can accept the stock audit assignments, as aforesaid?
- (a) It can only accept the stock audit assignment of its Dadar Branch and its Borivali Branch.
 - (b) It can only accept the stock audit assignment of its Dadar Branch.
 - (c) It can only accept the stock audit assignment of the sister concern of Good Worth Bank Ltd., its Dadar Branch as well as its Borivali Branch. However, it will require NOC from Good Worth Bank Ltd. for accepting the stock audit assignment of its sister concern.
 - (d) It can only accept the stock audit assignment of the sister concern of Good Worth Bank Ltd.

Case Scenario III [MCQ 13-15]

Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as "Why to worry about a vehicle, when you have steel man". The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of 'Copper Man' and thus, the managerial decision making is left to each version manager. You have assigned the 'Fixed Assets area' to Mr. Mamma Mia and he came out to you with the following points. You need to answer the questions raised by him and go through the notes prepared to reach a reasonable conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):

- The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person's name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company's 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous

conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn't be halted as the restart of operations will cost huge amounts and a month's time to get the Company back to current position.

- The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed.

Based on the above facts, answer the following Questions

13. The audit team has asked you about the Benami Transaction:
- (a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.
 - (b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.
 - (c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO.
 - (d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.
14. The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:
- (a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.

- (b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.
 - (c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.
 - (d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.
15. The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:
- (a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.
 - (b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador.
 - (c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.
 - (d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Ananya has been appointed as the statutory auditor of RST TechBuild Ltd. for the financial year 2024–25. The company operates in two business segments:
- (i) a home appliances division that manufactures washing machines and refrigerators and generates consistent profits; and
 - (ii) an infrastructure division undertaking projects such as highways and public utilities under government contracts, which has incurred losses over the past three years due to delays in project execution and escalation in costs.

While planning the audit, CA Ananya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division. **(5 Marks)**

- (b) While conducting audit of QWE Limited, a listed company, for the year 2024-25, CA. Deepa the engagement partner, observed that the company had written back certain long outstanding liabilities and recognized the amounts as “Other Income” in the Statement of Profit and Loss. The details in this respect are as under:

S. No.	Particulars	Amount involved
(i)	Outstanding liabilities relating to purchase of components written back on the ground that the materials supplied were not as per agreed specifications	₹ 4.00 crores
(ii)	Payables relating to installation services of production equipment written back due to alleged unsatisfactory performance by vendors	₹ 2.50 crores

The management is of the opinion that these dues are no longer payable and, therefore, retaining these liabilities in the financial statements would result in overstatement of liabilities. Considering it as normal trade practice, the company has written back such outstanding amounts as “Other Income”. The Company also discontinued dealing with concerned vendors. The auditor proposed to send external confirmation requests to these vendors. However, management informed her that sending such requests may be used by vendors as proof of existence of

liability. CA Deepa is considering whether the matter should be disclosed as a Key Audit Matter (KAM) in the auditor's report. Analyse the situation with reference to relevant Standards on Auditing. **(5 Marks)**

- (c) Loyal & Co., a Chartered Accountant firm, has recently experienced significant growth and started auditing several large corporate entities. During a periodic internal assessment of the firm's quality control system, the following observations were made:

- Loyal & Co. often accept new audit engagements based on referrals from existing clients, without conducting a proper evaluation of the client's reputation, integrity of management, or potential risks associated with the engagement.
- The firm is following the same quality control policies for several years without updating them for recent changes in professional standards and regulatory requirements.

Identify the elements of the system of quality control under SQC 1 that are affected in the above situation and briefly explain how these elements contribute to ensuring quality in audit engagements performed by the firm. **(4 Marks)**

2. (a) SKY Hospital is a very renowned hospital for Orthopedic Surgeries in Pune having sophisticated infrastructure. SKY Hospital has recently implemented a comprehensive information system, developed and managed by CT Contractors, which is used for maintaining complete and integrated records of indoor patients. This system captures and processes details relating to patients' diagnosis, treatment plans, medications administered, as well as billing and corresponding receipt transactions, thereby supporting both clinical and financial reporting functions of the hospital. CA Yash is the statutory auditor of SKY Hospital. During the course of audit, he became aware that the hospital is using a system developed and managed by CT Contractors. Since the hospital relies on this system for maintaining patient and billing records, CA Yash is concerned whether the controls implemented at CT Contractors are operating effectively or not. For this purpose, CA Yash requested CT Contractors to provide an assurance report issued by a practicing chartered accountant, containing an opinion on the description of the CT Contractor's system and the effectiveness of the controls in place. Which type of report should be obtained by CA Yash in terms of relevant Standard on Auditing? What aspects are to be considered by CA Yash in using such assurance report as audit evidence that controls at CT Contractors are operating effectively? **(5 Marks)**

- (b) CA Ritu has been appointed as the statutory auditor of the consolidated financial statements of Orion Limited for the financial year 2024–25. The consolidated financial statements include the financial statements and information of 8 subsidiaries, all of which have been audited by other auditors. The management of Orion Limited has provided CA Ritu with the audited financial statements, financial information, and audit reports of these subsidiaries.

The following summary information pertains to these subsidiaries for the financial year 2024–25:

Particulars	Amount
Total Assets	₹ 1,900 crore
Total Revenue	₹ 1,300 crore
Net Cash Outflows	₹ 35 crore

Four [4] out of the eight [8] subsidiaries are located outside India. Their financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) of their respective countries and audited in accordance with the auditing standards applicable in those jurisdictions.

How should CA Ritu report this matter in the Independent Auditor's Report on the consolidated financial statements of Orion Limited for the year 2024–25, in accordance with the applicable Standards on Auditing? Draft a suitable paragraph to be included in the auditor's report, making any necessary assumptions if required. **(5 Marks)**

- (c) An online retail company operates through a website where thousands of customers place orders daily. One day, hackers carried out a cyber-attack and installed ransomware that encrypted the company's database and critical systems. As a result, employees were unable to access operational data, customers could not place orders, and the website became unavailable. The attackers demanded a large ransom payment in exchange for restoring access.

Further, there was a possibility that customers' personal data had been compromised. The company also incurred costs for investigation and system restoration and faced a decline in customer trust along with potential scrutiny from regulatory authorities.

Identify and explain the indicative areas where the organisation may face the impact of cyber risk in the above situation. **(4 Marks)**

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)**

4. (a) Mr. Rohan, a practicing Chartered Accountant in Rohan Arjun & Associates is an Associate member of the Institute of Chartered Accountants of India (ICAI) but he started using the designation "FCA" on his visiting cards and professional correspondence to create a better professional image.

During scrutiny of certain records, the ICAI sought clarification from Mr. Rohan regarding activities that appeared unrelated to his professional practice. Despite multiple letters and reminders from the Institute, he failed to respond or provide the requested information.

Mr. Arjun, another partner of firm, whose name had been removed from the Register of Members of the Institute, continued to train an articled assistant and also failed to respond to the Institute's letters seeking clarification.

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(5 Marks)**

- (b) During the course of an audit of a state government department, the Office of the Comptroller & Auditor General of India (CAG) observed that the prescribed law in the state defined a "flat" based on the following two criteria in a premises:

- Dwelling units exceeding a threshold limit.
- Buildings with a total area surpassing a threshold limit.

However, it was noted during the audit that the relevant database did not include a column for entering the area of the building. Consequently, a certain number of buildings were identified as flats even though they had fewer dwelling units than the threshold limit. In the absence of data regarding the area, the audit team directed physical verification of these flats. The physical verification confirmed that these buildings were incorrectly classified as flats, resulting in the department under collecting water charges.

Identify type and nature of audit being performed by Office of Comptroller & Auditor General of India, to whom report of such audit was likely to have been submitted. **(5 Marks)**

- (c) Evan & Co, a firm of Chartered Accountants, conducting the audit of a listed company PARI Ltd. for the year ended 31-03-2025 are concerned with the presentation and disclosure of segment information included in Company's Annual Report.

The audit team wants to ensure that methods used by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework.

With reference to the relevant Standards on Auditing, explain the 'examples of matters' that the auditors should consider while obtaining an understanding of the methods used by management in determining and presenting segment information in the financial statements. **(4 Marks)**

5. (a) Pandey & Co., Chartered Accountants, have been appointed as the Statutory Auditors of Suchi Ltd. for the financial year 2024–25. The audit work has been completed, and the audit team is preparing the audit report. The management has also prepared a draft annual report to be circulated to shareholders.

While reviewing the draft Annual Report, the audit in-charge observed that the company has included an item in its Annual Report indicating a downward trend in market prices of key commodities/raw material as compared to previous year. However, the audited financial statements indicate that the company's profit margin has actually declined during the year.

The matter was brought to the attention of the Audit Manager, who discussed it with the Engagement Partner. The partner opined that such disclosures form part of management's reporting and fall outside the scope of the auditor's responsibility, and therefore no further action is required from the auditor's side.

Do you agree with the view expressed by the Engagement Partner? Discuss the Auditor's duties with regard to reporting with reference to relevant Standard on Auditing. **(5 Marks)**

- (b) During the audit of Rishabh Ltd., a company engaged in manufacturing home appliances, the auditor noted several significant developments in the current financial year. The company implemented a new integrated information system to replace its old accounting software. It also entered into two new foreign markets to expand its sales and hired several new employees in the finance and IT departments to manage the increased operations.

Further, the company introduced innovative smart appliances incorporating advanced technology and experienced substantial growth in its production and sales volumes. In addition, the management changed some of the accounting policies to comply with updated requirements of the applicable financial reporting framework.

While performing the audit, the auditor is evaluating whether these developments could affect the reliability of financial reporting and the effectiveness of internal control within the company.

As an auditor, identify the circumstances in the above situation that may give rise to risks affecting the preparation of financial statements and briefly discuss how such changes may impact the entity's internal control and financial reporting process. **(5 Marks)**

- (c) Mr. Venkat who passed his CA examination of ICAI on 18th July, 2025 and started his practice from August 15, 2025. On 16th August 2025, one female candidate approached him for articleship. In addition to monthly stipend, Mr. Venkat also offered her 0.5% profits of his CA firm. She agreed to take both 0.5% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. Venkat objecting the payment of 0.5% profits. Mr. Venkat replies to the ICAI stating that he is paying 0.5% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. Venkat liable to professional misconduct? **(4 Marks)**

6. (a) SAE 3400 explains that prospective financial information can take the form of a forecast, a projection or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400. **(5 Marks)**

- (b) M/s LMN & Co., Chartered Accountants, has been appointed as the statutory auditors of Integrity Bank Ltd. for the financial year 2024–25. While reviewing the loans and advances portfolio of one of the major branches of the bank, the audit team examined certain credit files and operational records.

During the course of audit, the following observations were made:

- (i) A cash credit facility of ₹ 12 crore was granted to Bright Metals Pvt. Ltd. mainly on the recommendation of the branch credit officer. The credit file did not contain adequate evidence regarding appraisal of the borrower's creditworthiness or approval of the competent sanctioning authority.

- (ii) In another borrower account of Rajul Enterprises, the loan amount was disbursed before execution of certain loan documents such as the demand promissory note and letter of hypothecation.
- (iii) Certain pledged securities requiring registration were not registered in the name of the bank and the documents supporting the bank's title were also not found on record.
- (iv) In addition to the pledged securities mentioned in (iii), certain other pledged securities were found to be kept in the custody of a single officer instead of being maintained under joint custody of two responsible officers.
- (v) In certain cash credit accounts secured by inventory, the branch had not maintained the prescribed margin against securities as per the credit policy aligned with the directives of Reserve Bank of India.

Identify the audit lapses evident from the above case in respect of loans and advances of the bank. **(5 Marks)**

- (c) Mr. Arpit, a newly qualified Chartered Accountant, started his practice and sought clients through telephone calls from his family and friends, almost all of them employed in one or the other retail trade business. One of his friends Mr. Raja gave him an idea to start online services and give stock certifications to traders with Cash Credit Limits in Banks. Mr. Arpit started a website with colorful, eye-catching designs and shared the website address on all his social media posts and stories. He also tagged 30 traders of his local community with the caption "Easy Online Stock Certification Services". Discuss if the actions of Mr. Arpit are valid in the light of the Professional Ethics and various pronouncements and guidelines issued by ICAI. **(4 Marks)**

OR

- (c) Grow Ltd. has prepared and presented summary financial statements for the financial year ended 31st March 2025 for circulation among stakeholders. The summary statements are not accompanied by the audited financial statements. Instead, a note has been included stating that the audited financial statements are available at the company's registered office. As the statutory auditor of a company, explain the procedures you would perform to form an opinion on summary financial statements in accordance with relevant Standards on Auditing.

(4 Marks)