Mock Test Paper - Series I: September, 2026

Date of Paper: 15th September, 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.

Case Scenario I [MCQ 1-5]

Vistara Lifesciences Ltd., a listed company engaged in the research, manufacture and sale of specialised pharmaceutical products, has appointed M/s Kavish & Co., Chartered Accountants, as its statutory auditors for the financial year 2025-26.

The company has recently undertaken substantial expenditure on research and development of a new drug. During the year, it capitalised ₹ 96 crore relating to development expenditure, stating that the technical feasibility of the product had been established and that the remaining regulatory approvals were expected shortly.

During the audit planning process, the engagement team noted that the company operates in a highly regulated industry and that the accounting treatment of development expenditure involves significant management judgement. However, none of the members of the engagement team possessed specialised knowledge of pharmaceutical development or regulatory approval processes. The Finance Director informed the audit team that all necessary technical assessments had already been carried out by the company's internal scientific team and, therefore, no further technical evaluation was necessary from the auditor's side.

Further, the audit team observed that supporting documents relating to clinical trials and regulatory submissions were provided almost six weeks after being requested. The engagement partner initially decided not to communicate the delay to those charged with governance since the documents were eventually received before completion of the audit.

As part of the firm's quality control system, an engagement quality review is required for the audit of Vistara Lifesciences Ltd. The review is assigned to CA Nitin, a senior partner of the firm. CA Nitin is not a member of the engagement team and has not participated in any audit decision relating to the company.

During the year, CA Nitin also assisted the firm in preparing its own GST returns. This internal assignment had no connection with Vistara Lifesciences Ltd. or its audit.

The audit team also identified a ₹ 50 lakh payment to a newly incorporated consultancy entity two days before the year-end. The invoice merely stated, "consultancy services". The registered address of the consultant was the residential address of an employee of the finance department. The CFO stated that the consultant was genuine and that the payment was made for legitimate services.

Based on the above facts, answer the following MCQs:

1. With regard to the capitalisation of development expenditure, which of the following is the most appropriate course of action for Kavish & Co.?

   (A) The auditor may rely on management's assertion regarding technical feasibility, as it is exclusively management's responsibility.

   (B) The auditor should assess the team's competence and, where necessary, involve an appropriate expert rather than rely solely on management.

   (C) The auditor must appoint an external expert in every audit involving research and development expenditure.

   (D) Since the expenditure has been approved by the Board, no further audit procedures are necessary. **(1 Mark)**

2. The six-week delay in providing significant audit documentation should be viewed by the auditor as:

   (A) Irrelevant once the documents have ultimately been received.

   (B) Communicable only if the delay results in a modified audit opinion.

   (C) A significant difficulty encountered during the audit that may require communication to those charged with governance.

   (D) A matter concerning management only and therefore outside the auditor's communication responsibilities. **(1 Mark)**

3. Which of the following best reflects the professional scepticism required when evaluating the ₹ 50 lakh consultancy payment?

   (A) The CFO's confirmation is sufficient because he is responsible for the company's financial affairs.

   (B) No additional procedures are necessary because the amount is below the materiality threshold.

   (C) The transaction should automatically be treated as fraudulent.

   (D) The auditor should maintain a questioning mind and critically evaluate the unusual characteristics of the transaction. **(1 Mark)**

4. The fact that the consultancy vendor's registered address is the residential address of a finance employee should primarily prompt the auditor to:

   (A) Consider a possible related-party relationship, fictitious vendor or other unusual relationship and perform appropriate further procedures.

   (B) Ignore the matter because an employee's residential address cannot by itself establish fraud.

   (C) Immediately qualify the audit opinion based on the unusual address.

   (D) Obtain only a written representation from the CFO regarding the transaction.

   (1 Mark)

5. In relation to CA Nitin's role as engagement quality reviewer, which statement is most appropriate?

   (A) He is automatically disqualified because he performs any other professional work within the firm.

   (B) His unrelated GST work does not automatically disqualify him; his eligibility and objectivity must be evaluated for the engagement.

   (C) Only an engagement partner can perform an engagement quality review.

   (D) An engagement quality reviewer cannot perform any other function within the firm during the entire financial year. **(1 Mark)**

Case Scenario II [MCQ 6-9]

CA Hitesh, a practicing Chartered Accountant, intends to fill out the Multi-purpose Empanelment Form (MEF) to be included in the panel for the statutory audit of bank branches for the financial year 2025-26, as hosted by the Professional Development Committee (PDC) of ICAI. The application process requires the submission of XML files of personal income tax returns along with the computation of income. During the relevant financial year for which the information is sought, CA Hitesh had engaged in currency and commodity derivatives transactions, declaring the resulting income under “Business Income” in his tax return.

Additionally, Pitch Private Limited approached CA Hitesh to digitally sign and upload a resignation form related to Mr. Mohit, one of its directors, on the Registrar of Companies (ROC) portal. However, the signature of Mr. Mohit had been copied and pasted by another director of the company. Without verifying the authenticity of the resignation letter, CA Hitesh digitally signed the form, which was then uploaded to the ROC portal.

Subsequently, CA Hitesh's actions were brought under scrutiny when the Director (Discipline) of the Institute of Chartered Accountants of India (ICAI) received complaints regarding alleged misconduct. Upon investigation, he was found guilty of misconduct, and the competent authority imposed the appropriate penalty in accordance with the provisions of the Chartered Accountants Act, 1949.

Based on the above facts, answer the following MCQs:

6 Whether CA Hitesh will be held guilty for reflecting income from currency and commodity derivatives as "Business Income". If yes, under which clause?

(A) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income" under Clause (11) of Part I of the First Schedule of the Chartered Accountants Act, 1949.

(B) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income” under Clause (6) of Part I of the First Schedule of the Chartered Accountants Act, 1949.

(C) No, CA Hitesh will not be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income” under the Chartered Accountants Act, 1949.

(D) Yes, CA Hitesh will be held guilty for professional misconduct for reflecting income from currency and commodity derivatives as "Business Income” under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

(2 Marks)

7. Whether CA Hitesh will be held liable for misconduct for uploading the digitally signed resignation letter. If yes, under which clause of the Chartered Accountants Act, 1949?

(A) Yes, CA Hitesh will be liable for misconduct under Clause (2) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

(B) Yes, CA Hitesh will be liable for misconduct under Clause (7) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

(C) Yes, CA Hitesh will be liable for misconduct under Clause (5) of Part I of the First Schedule of the Chartered Accountants Act, 1949.

(D) Yes, CA Hitesh will be liable for misconduct under Clause (7) of Part I of the First Schedule of the Chartered Accountants Act, 1949. **(2 Marks)**

8. Before which authority would CA Hitesh's misconduct case be placed for disciplinary proceedings?

(A) The High Court.

(B) The Board of Discipline.

(C) The Disciplinary Committee.

(D) The Appellate Authority. **(1 Mark)**

9. What is the minimum punishment that could have been imposed on CA Hitesh under the Chartered Accountants Act, 1949?

(A) Reprimand the member.

(B) Removal of name from the register of members permanently or for a specified period and fine up to ₹ 5,00,000.

(C) Suspension of practice for up to 3 months.

(D) Warning and fine up to ₹ 50,000. **(1 Mark)**

Case Scenario III [MCQ 10-14]

Campaign Textiles Ltd. is an unlisted textile exporter having operations across three states and exporting mainly to customers in Europe and the Middle East. Kaveri & Associates have been appointed as the statutory auditors of the Company for the financial year 2025-26.

During the audit of trade receivables, the audit team selected 40 of the Company's largest customers for external confirmation and sent positive confirmation requests directly to them. Responses confirming the balances were received directly from 25 customers. In respect of the remaining 15 customers, as the responses were not received close to the reporting deadline, CA Rishu, the audit senior forwarded the list of outstanding confirmations to the Company's accounts team and requested them to follow up with the customers and communicate any responses received to the audit team, on the grounds that the Company had a better relationship with these customers.

During the overall review of audit differences, the engagement team identified three uncorrected misstatements: ₹ 35 lakh relating to a classification error between revenue and expenses, and ₹ 20 lakh and ₹ 18 lakh respectively arising from the verification of two different expense heads. Each misstatement had been assessed as individually immaterial when identified and, accordingly, had not been included in the summary of uncorrected misstatements maintained by the audit team. The performance materiality for the audit had been determined at ₹ 70 lakh.

Subsequent to the balance sheet date but before the date of the auditor's report, the Company was informed that one of its major customers, representing approximately 15% of outstanding trade receivables, had filed for insolvency. The insolvency was attributable to a prolonged liquidity crisis at the customer, which had already existed for several months before the reporting date. Management refused to make any additional provision for the receivable, contending that the insolvency filing occurred after year-end and should therefore be considered only in the subsequent financial year. The engagement partner, however, disagreed with management's view and requested management to reconsider the adequacy of the provision, considering that the condition giving rise to the insolvency existed at the reporting date.

Based on the above facts, answer the following MCQs:

10. Regarding the confirmation process for the 15 non-responding customers, is CA Rishu's approach of routing follow-up through the client's accounts team acceptable under SA 505?

    (A) Yes, since SA 505 governs only the initial request; follow-up may be freely delegated.

    (B) Yes, since the client's stronger customer relationships justify routing through them.

    (C) No, SA 505 requires the auditor to control the confirmation process; routing follow-up through the client compromises the reliability of the evidence.

    (D) No, as SA 505 does not permit more than 25% of confirmation requests to be followed up by the client. **(1 Mark)**

11. What should the auditor do in respect of the 15 customer balances where the confirmation process was not appropriately controlled?

    (A) Perform alternative audit procedures, such as examining subsequent receipts, relevant shipping documents and sales invoices, to obtain sufficient appropriate audit evidence.

    (B) Consider the balances confirmed if responses are subsequently received through the Company's accounts team.

(C) Make an additional provision for doubtful debts in respect of the balances for which confirmations were not received.

(D) Exclude these balances from the audit sample and base the audit conclusion only on the 25 confirmations received directly. **(1 Mark)**

12. How should the audit team deal with the three uncorrected misstatements of ₹ 35 lakh, ₹ 20 lakh and ₹ 18 lakh identified during the audit?

(A) No further action is required as each of the misstatements was individually assessed as immaterial when identified.

(B) The misstatements should be accumulated, unless they are clearly trivial, and evaluated individually and in aggregate.

(C) The misstatements need to be accumulated only if they relate to the same account balance or class of transactions.

(D) The misstatements need not be considered in aggregate as they were identified from different audit procedures and relate to different expense heads. **(2 Marks)**

13. How should the insolvency of the major customer be considered under SA 560, and what should be the auditor's response to management's refusal to make an adjustment?

(A) A non-adjusting event, since insolvency filings always relate to conditions arising after year-end.

(B) A non-adjusting event requiring only disclosure in the notes.

(C) An adjusting event, but the auditor has no responsibility to request adjustment.

(D) An adjusting event, since the liquidity crisis existed at year-end; management should adjust the provision, not rely merely on the filing date. **(1 Mark)**

14. If management refuses to make the required adjustment and the auditor concludes that the resulting misstatement is material but not pervasive to the financial statements, which type of audit opinion should be expressed?

(A) Qualified opinion, as the misstatement is material but not pervasive to the financial statements.

(B) Adverse opinion, as management has refused to correct a material misstatement.

(C) Disclaimer of opinion, as the auditor is unable to determine the customer's financial position independently.

(D) Unmodified opinion with an Emphasis of Matter paragraph, as the matter has been communicated to management. **(1 Mark)**

Case Scenario IV [MCQ 15-19]

Vertex Consumer Holdings Ltd. is a listed financial services group with a wholly-owned NBFC subsidiary, Vertex Capital Pvt. Ltd. Devraj & Co., Chartered Accountants, are the statutory auditors of the group for the financial year 2025-26, with the engagement led by CA Kabir.

During substantive testing of inventory at one of Vertex's operating subsidiaries, the engagement team identifies a pattern of indicators — including inventory count sheets with suspicious alterations, a senior operations manager who was unusually insistent on personally supervising the year-end physical count at a specific warehouse, and a spike in reported closing stock in the final week of the financial year unsupported by corresponding purchase or production records — suggesting that the manager may have deliberately inflated inventory quantities to boost the subsidiary's reported profitability ahead of a planned internal performance review. On being briefed on these indicators, the Board of Vertex Consumer Holdings Ltd. decides to commission an independent forensic accountant to conduct a focused investigation exclusively into this allegation, running as a parallel but separate exercise alongside Devraj & Co.'s ongoing statutory audit of the FY 2025-26 financial statements.

As part of its statutory disclosures, Vertex Consumer Holdings Ltd. publishes a Business Responsibility and Sustainability Report (BRSR) in which it represents, under Principle 5 (Human Rights) of the National Guidelines on Responsible Business Conduct, that all loan proposals processed by the company are screened under a self-declared 'responsible lending' policy that excludes financing to any borrower business found to be involved in child labour practices, and that this screening is embedded as a mandatory step in the loan sanctioning workflow. However, during a review of internal audit records for the year, the engagement team discovers that this screening step has, in practice, not been applied to any loan proposal processed over the past six months, because the compliance officer position responsible for conducting the screening has remained vacant since a resignation, with no interim arrangement made to cover this control activity.

During one of several remote/digital audit sessions conducted over video call with Vertex's CFO to walk through the group's management information system, a member of the audit team, without seeking or obtaining prior authorization from the CFO or anyone else at Vertex, takes a screenshot of a confidential internal MIS dashboard displayed on screen, including granular, entity-wise profitability and cash-flow projections not otherwise shared with the audit team in documented form. The team member subsequently saves this screenshot on his personal laptop, intending to refer to it later while preparing his working papers, rather than uploading it to the firm's secured audit documentation system.

During the consolidation process for the Consolidated Financial Statements, the engagement team notes that intra-group loan balances outstanding between Vertex Consumer Holdings Ltd. (the parent) and Vertex Capital Pvt. Ltd. (its wholly-owned NBFC subsidiary), comprising a loan of ₹ 15 crore extended by the parent to the subsidiary during the year, have not been eliminated on consolidation, resulting in an overstatement of both consolidated assets and consolidated liabilities by ₹ 15 crore. The engagement team assesses this misstatement as material to the Consolidated Financial Statements, though not pervasive. When the matter is raised with the CFO for correction, management refuses to pass the elimination entry, arguing that since the loan appears as both a receivable and a payable within the group, 'it nets off in aggregate group profitability anyway.'

Separately, and unrelated to the audit fieldwork itself, it comes to the attention of the firm's ethics committee that a senior partner of Devraj & Co., not part of the Vertex engagement team, has accepted a referral fee from an investment bank in consideration for recommending Vertex Consumer Holdings Ltd. to the bank as a potential client for a prospective equity fundraising mandate the bank was seeking to pitch for. This arrangement was never disclosed to Vertex's Audit Committee or to the engagement partner, CA Kabir, and came to light only when the investment bank referenced the 'introduction fee arrangement' in an unrelated email later forwarded internally within Devraj & Co.

Based on the above facts, answer the following MCQs:

15. Which of the following correctly distinguishes the objective of the forensic accountant's investigation into the alleged inventory inflation from that of the statutory audit?

    (A) Both share the identical objective of opining on the financial statements as a whole.

    (B) The statutory audit is limited to spotting fraud indicators, never establishing facts.

    (C) The forensic investigation replaces the need for further SA 240 procedures this year.

    (D) The forensic review targets the specific fraud allegation's facts, while the audit's objective remains overall reasonable assurance under SA 240. **(1 Mark)**

16. In evaluating the inconsistency between Vertex's BRSR 'responsible lending' disclosure and the actual lapse in screening, what is most relevant for the statutory auditor to consider while completing the audit of the financial statements?

    (A) Nothing, since BRSR/ESG disclosures are entirely outside the scope of a financial statement audit.

    (B) Evaluate the inconsistency as an 'Other Information' matter under SA 720, and separately assess the screening lapse as a possible SA 250 compliance/control issue with financial statement effects.

(C) Immediately modify the opinion, since any BRSR inconsistency is automatically a material misstatement.

(D) Emphasis of Matter paragraph fully discharges the responsibility. **(1 Mark)**

17. What are the correct data protection/confidentiality concerns and appropriate safeguards regarding the unauthorised screenshot and its storage on a personal laptop?

(A) Unauthorized screenshots and storage outside the firm's secured systems breach confidentiality and data-protection principles for remote audits.

(B) No specific concerns, anything visible on an audit video call may be freely captured and stored.

(C) Only the storage location is a concern; capturing the screenshot itself needs no authorization.

(D) Only the lack of authorization matters; a password-protected personal laptop is fine. **(2 Marks)**

18. What is the appropriate course of action and reporting implication for the auditor regarding the unresolved intra-group elimination in the Consolidated Financial Statements?

(A) No adjustment needed, since netting off doesn't affect aggregate reported profit.

(B) Issue a disclaimer of opinion, since this always represents a scope limitation.

(C) The unmade elimination is a material but not pervasive misstatement, the auditor should issue a qualified opinion under SA 705, regardless of management's disagreement.

(D) The auditor should adjust the statements directly on management's behalf.

(2 Marks)

19. A senior partner of Devraj & Co. accepts a referral fee from an investment bank for recommending Vertex Consumer Holdings Ltd. as a potential client for a future fundraising mandate, without disclosing this arrangement to Vertex's Audit Committee. Which of the following is in compliance with the Chartered Accountants Act and Code of Ethics?

(A) Permissible, since referral fees are a purely commercial matter outside the Code of Ethics.

(B) Raises a self-interest threat given the lack of disclosure to the Audit Committee, and breaches the Code of Ethics' restrictions on commission-based arrangements; disclosure, safeguards, or declining are required.

(C) Permissible, provided the referral fee is under 10% of the audit fee.

(D) Impermissible only because a senior partner, rather than a manager, accepted it.

(1 Mark)

20. During an audit of a State Government department, the CAG audit team observed that, under the applicable State law, a premises was classified as a flat, if it either contained dwelling units exceeding a prescribed limit or had a total building area exceeding the prescribed limit. The department's database, however, did not capture the building area. As a result, some buildings were incorrectly classified as flats. The audit team directed physical verification, which confirmed the misclassification and consequent short-collection of water charges.

    Which of the following correctly identifies the type of audit conducted and the authority to whom its report would be submitted?

    (A) Propriety Audit — Report to be submitted to the State Legislature.

    (B) Performance Audit — Report to be submitted to the Central Government.

    (C) Compliance Audit — Report to be submitted to the Central Government.

    (D) Compliance Audit — Report to be submitted to the State Legislature. **(2 Marks)**

21. SHN & Associates are the statutory auditors of LMN Ltd. for FY 2025–26. During the audit, CA Neha, the engagement partner, observes the following:

    - Significant payments towards fines and penalties.
    - Several unusual cash payments.
    - Payments to government employees without supporting documents.
    - Notices received from various regulatory authorities.
    - Substantial payments made to legal counsels.

    Based on these observations, which of the following should CA Neha primarily consider?

    (A) There may be weaknesses in the internal controls of LMN Ltd. requiring further evaluation and audit procedures.

    (B) There may be instances of non-compliance with applicable laws and regulations by LMN Ltd. requiring further investigation.

    (C) There may be deficiencies in the accounting system of LMN Ltd. affecting the reliability of its financial records.

(D) There may be circumstances casting doubt on the going concern assumption of LMN Ltd. requiring further assessment. **(2 Marks)**

22. Karan & Associates are the statutory auditors of XYZ Ltd. for the FY 2025-26. The company has a strong internal audit team. During the audit, CA Karan, the engagement partner, found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Karan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Rishabh, the Chief Internal Auditor of XYZ Ltd., to provide him with a report on the wages expenses across all factories.

Which of the following requirements as per SA 610 are required to be fulfilled by CA Karan prior to using the direct assistance of the Internal Audit Team of the company?

(A) CA Karan should obtain written agreement from the management of XYZ Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.

(B) CA Karan should obtain written agreement from Mr. Rishabh that his team will keep the matters confidential.

(C) Both (A) and (B).

(D) CA Karan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required.

(1 Mark)

23. During the audit of Continental Foods Ltd., the engagement team initially determines overall materiality at ₹ 40 lakh based on budgeted revenue. Midway through the audit, actual revenue for the year turns out to be substantially lower than budgeted, following the termination of a major customer contract mid-year. The engagement team continues to use the original materiality of ₹ 40 lakh for the remainder of the audit, without reassessing it, reasoning that materiality had already been communicated within the engagement team as part of the audit plan. Which of the following correctly reflects the position under SA 320?

(A) The team's approach is correct, since materiality determined during planning need not be revised once it has been documented and communicated within the engagement team.

(B) The team's approach is incorrect. SA 320 requires materiality to be revised as the audit progresses if the auditor becomes aware of information that would have caused the auditor to determine a different amount initially, such as a significant change in circumstances.

(C) The team's approach is correct, provided the original materiality was based on a reasonable benchmark at the time it was determined, regardless of subsequent developments.

(D) The team's approach is incorrect, but only because materiality must always be based on actual, and never on budgeted, figures from the outset, making the original determination itself invalid. **(1 Mark)**

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) Nest & Co., Chartered Accountants, while conducting an internal review of its system of quality control, identified certain deficiencies in its monitoring process. The firm had not carried out any periodic inspection of completed audit engagements for the past two years, as the managing partner considered such inspections unnecessary in the absence of any major audit failure. Further, despite several amendments to professional standards and regulatory requirements during the year, the firm had not evaluated whether its quality control policies and procedures required modification.

The responsibility for monitoring the system had been assigned to an inexperienced staff member who lacked sufficient authority to initiate corrective action. In addition, two complaints alleging non-compliance with professional standards were received during the year but were not formally investigated. In another engagement, a deficiency identified during a review was merely communicated to the personnel concerned, without taking remedial action or performing any follow-up.

With reference to SQC 1, examine whether the firm's monitoring process is appropriate. Discuss the relevant requirements that the firm should consider.

(5 Marks)

(b) Suryodaya Industries Ltd., a listed company, is engaged in manufacturing and distribution of consumer products. During the audit of its financial statements for the year ended 31 March 2026, the auditor, M/s Mehta & Co., Chartered Accountants, identified the following two matters:

(i) The company has significant goodwill arising from an earlier acquisition. During the year, management performed an impairment assessment of the goodwill involving significant assumptions relating to projected cash flows, growth rates and discount rates. The assessment involved a high degree of management judgment and was considered by the auditor to involve a higher risk of material misstatement. The audit team devoted considerable time to evaluate the assumptions and methodology used by management and also involved an auditor's expert to assist in evaluating the valuation methodology and certain significant assumptions. The matter was extensively discussed with those charged with governance.

(ii) On 15th April 2026, a major fire occurred at one of the company's warehouses, resulting in substantial damage to inventory and property. Since the fire occurred after the reporting date, no adjustment was required to the financial statements for the year ended 31st March 2026. The company has, however, appropriately disclosed the nature and estimated financial effect of the event in the notes to the financial statements. The auditor has no disagreement with management regarding the accounting or disclosure of the event and there is no material uncertainty concerning the matter. Nevertheless, considering the magnitude of the fire and its potential impact on the company, the auditor believes that the matter is fundamental to users' understanding of the financial statements.

Distinguish, with reasons, how each matter should be addressed in the auditor's report. **(5 Marks)**

(c) M/s RST & Co. are the statutory auditors of LMN Ltd., a listed entity. The auditor's report on the financial statements for the year ended 31st March 2026 was dated 20th May 2026. CA Rituraj, the auditor, had read all the other information that was expected to be included in the annual report and had not identified any material misstatement therein as at that date.

The annual report was subsequently finalised and published on 30th June, 2026. On 5th July, 2026, the auditor became aware that the published annual report contained a statement that the company had successfully commissioned a new manufacturing plant in April, 2026 and that the plant had contributed significantly to the company's revenue for the year ended 31st March 2026.

The auditor notes that the statement is factually incorrect. The plant was actually commissioned only in April 2026, and therefore it could not have contributed to revenue for the year ended 31st March 2026. With reference to SA 720 (Revised), explain the responsibilities of M/s RST & Co. in this situation. **(4 Marks)**

2. (a) M/s Aarav & Associates, a firm of Chartered Accountants, has three partners, CA Aarav, CA Bhavna and CA Chirag. During the year 2026-27, the partners accepted and signed the following tax audit assignments:

Particulars	CA Aarav	CA Bhavna	CA Chirag
Tax audit assignments signed in individual capacity under section 44AB(a)/(b)	20	22	12
Tax audit assignments signed as partner of M/s Aarav & Associates under section 44AB(a)/(b)	42	30	45
Tax audits relating to persons covered under section 44AE	4	3	5
Tax audits relating to persons covered under section 44AD	3	2	4
Revised tax audit reports issued during the year	2	3	1

CA Aarav contends that since the firm has three partners, the limit of 60 tax audits can be shared among the partners and, therefore, he can accept additional tax audit assignments. CA Bhavna, on the other hand, argues that the tax audits under sections 44AE and 44AD should also be included while determining the limit of 60.

With reference to Chapter VI of the Council General Guidelines, 2008, examine the above contentions and determine whether CA Aarav, CA Bhavna and CA Chirag have complied with the prescribed limit of tax audit assignments. Also state whether the revised tax audit reports are to be considered for this purpose.

(5 Marks)

(b) Estage Logistics Ltd. has experienced a significant decline in freight volumes during the year. The company is also in breach of a debt covenant requiring it to maintain a minimum debt-service coverage ratio. In response, the bankers have given a notice to the company stating that they reserve the right to recall the loan facility, although no formal recall notice has been issued so far.

Management has prepared a plan to address the situation, which includes the proposed sale of a non-core division and renegotiation of the existing loan terms. However, the sale has not yet been contracted and discussions with the bankers regarding revised loan terms are still at a preliminary stage.

Based on the above circumstances, explain how the auditor should evaluate management's assessment of going concern, including management's plan to mitigate the identified conditions and discuss the implications for the auditor's report under SA 570. **(5 Marks)**

(c) Moby Manufacturing Ltd. has substantially automated its accounting and production processes. During the audit of the financial year 2026–27, CA Neha observed the following:

- ❖ The company's IT team made certain changes to the payroll application directly in the live environment without following the prescribed approval and testing procedures.
- ❖ The company has recently upgraded its inventory software, but certain branches continue to use the older version, resulting in errors while transferring inventory data between systems.
- ❖ In certain situations where the automated system could not process transactions, employees were permitted to override system-generated entries manually without independent review or proper documentation.
- ❖ The company experienced a ransomware incident in which certain financial and customer data became inaccessible and some files were found to be corrupted. The backup arrangements were also found to be inadequate.

Based on the above observations, identify and briefly explain the four risks arising from the use of IT that CA Neha should consider while planning the audit of Moby Manufacturing Ltd. **(4 Marks)**

3. (a) M/s Grand Pharmaceuticals Ltd., a pharmaceutical manufacturing company, has appointed CA Rohan as its internal auditor. During his review of the internal control system, he noted the following:

(i) The Sales Manager has been handling the same group of major customers for the last eight years. He is also authorised to approve credit limits and recommend write-off of long-outstanding balances. Due to his long association with the customers, management has not considered rotation necessary.

(ii) The Stores Supervisor is responsible both for maintaining records of receipts and issues of inventory and for having physical custody of the stores. No independent physical verification of inventory has been carried out for the last three years.

(iii) The Finance Manager prepares payment instructions as well as gives final approval for payments. There is no independent review of payment instructions before funds are released.

Based on the above observations, examine the principles of internal check that have not been adequately followed. Also explain the underlying inherent risks associated with the relevant activities and how the identified deficiencies may affect the auditor's assessment of control risk. **(5 Marks)**

(b) During the year 2026-27, the management of following three NBFCs approached their statutory auditor for advice regarding their registration status under the amended RBI framework.

(i) Alpha Finance Ltd. does not avail public funds and does not have any customer interface. Its latest audited balance sheet shows total assets of ₹ 850 crore. The company intends to continue with the same business model in the long term.

(ii) Beta Holdings Ltd. also does not avail public funds and does not have any customer interface. However, its latest audited balance sheet shows total assets of exactly ₹ 1,000 crore. The management contends that since the threshold is stated as ₹ 1,000 crore, it should also qualify for exemption from registration.

(iii) Gamma Finance Ltd. has assets of only ₹ 300 crore. It neither has a large balance sheet nor accepts deposits. However, it has access to public funds through its group structure and also has a customer interface.

The managements of all three entities seek your advice on whether they are required to obtain or continue holding a Certificate of Registration from the RBI under the Registration Amendment Directions, 2026, effective from 1st July 2026.

Advise the managements regarding the applicability of registration requirements to the three NBFCs under the amended framework. Also explain the broad classification into Unregistered Type I NBFC, Type I NBFC and Type II NBFC.

(5 Marks)

(c) Jam Ltd. is a company engaged in the manufacture of stainless steel items. The company operates through 5 business units and has 40 branches across India. Krishiv & Associates are being appointed as the principal auditor of the company. While accepting the audit assignment as the principal auditor, what will be the points of consideration for the principal auditor of the company? **(4 Marks)**

4. (a) Star Textiles Ltd. has adopted an ESG framework for its operations. The Company has recently appointed a new contractor for its manufacturing facility. The contractor offered significantly lower costs than the existing contractor. During the due diligence process, the Company became aware that the contractor had previously faced allegations relating to unsafe working conditions and non-payment of statutory benefits to workers.

The management nevertheless decided to appoint the contractor, stating that the contractor was an independent entity and that the lower cost would improve the Company's profitability. The Company did not undertake any further assessment of the contractor's labour practices or require the contractor to comply with its ESG requirements.

Subsequently, the Company learnt that the contractor had engaged a number of workers through informal arrangements without adequate documentation of their employment terms. The management continued to maintain that such matters were the contractor's responsibility and need not be considered by the Company for its ESG reporting.

(i) Identify the ESG Pillar primarily involved in the above situation. **(1 Mark)**

(ii) Explain the relevance of the identified Pillar to the Company's decision. **(2 Marks)**

(iii) State two ESG-related concerns arising from the Company's approach. **(2 Marks)**

(b) CA Sameer, a Chartered Accountant in practice, has been appointed as the statutory auditor of XYZ Ltd. for the financial year 2025-26. While finalising the terms of his professional engagement, he proposes to charge a fixed statutory audit fee of ₹ 8 lakh. In addition, he proposes to charge a further fee equivalent to 2% of the amount by which the profit of XYZ Ltd. increases as a result of audit adjustments made during the course of the audit.

The management of XYZ Ltd. agrees to the proposal, stating that the additional amount would become payable only if the audit results in an increase in the reported profit.

Separately, CA Sameer is engaged by ABC Ltd., which is not his audit client, to provide litigation-support services in connection with a commercial dispute. For this assignment, he proposes to charge a fee which would become payable only upon the successful outcome of the litigation.

With reference to the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988, examine the permissibility of the above fee arrangements. **(5 Marks)**

(c) Sky Infrastructure Pvt. Ltd. is bidding for a long-term government project involving construction of smart highways. As part of the bidding documents, the company is required to present Prospective Financial Information (PFI) for the next five years to demonstrate its financial viability. CA Jigar has been engaged to examine the Prospective Financial Information. While examining the PFI, CA Jigar observes that the Management has assumed zero increase in construction material costs over five years, even though industry reports predict a steady 6-8% annual increase due to inflation. Further, the company has based its revenue projections on the assumption that it will win two additional large contracts, even though bids are yet to be submitted. Elaborate on the duties of CA Jigar while examining the Prospective Financial Information. **(4 Marks)**

5. (a) During the audit of Solstice Textiles Ltd., the auditor, while obtaining external confirmation of bank balances, received a confirmation directly from the bank showing a Fixed Deposit of ₹ 2 crore in the name of the company. However, the Fixed Deposit was not recorded in the books of account of Solstice Textiles Ltd. and was also not appearing in the bank reconciliation statement prepared by the company.

When questioned, the Finance Manager explained that the Fixed Deposit actually belonged to another group entity and that the group entity had inadvertently used Solstice Textiles Ltd.'s PAN while opening the account. He further stated that the Fixed Deposit had no impact on the financial statements of Solstice Textiles Ltd.

The auditor is considering whether the management's explanation can be accepted without carrying out any further procedures.

You are required to advise the auditor regarding the appropriate course of action in the above circumstances with reference to the relevant Standards on Auditing. Also state the related considerations that the auditor should evaluate before concluding on the matter. **(5 Marks)**

(b) Vega Insurance Brokers Ltd. is preparing its financial statements for the year ended 31st March 2026. The company has recognised a material provision for incurred-but-not-reported (IBNR) insurance claims, which involves significant estimation uncertainty and actuarial judgement.

Management engaged an independent actuary to determine the IBNR claims reserve. The actuary provided a report containing the amount of the reserve along with the actuarial assumptions and methodology used.

During the audit, the engagement team decided to rely on the amount certified by the actuary and incorporated it into the audit working papers without evaluating the actuary's competence, capabilities and objectivity. The team also did not obtain an understanding of the work performed by the actuary or evaluate the reasonableness of the significant actuarial assumptions, citing the tight reporting deadline.

As the audit partner, you are required to advise the engagement team regarding the requirements to be complied with before relying upon the actuary's work as audit evidence. **(5 Marks)**

(c) CA Rudra, a Chartered Accountant in practice, was approached by Jin Ltd. to assist the company in improving its internal operations. The company requested him to review its existing organisational structure, prepare job descriptions for various positions, evaluate the workload of employees and design an appropriate employee incentive scheme. CA Rudra agreed to provide these services for a professional fee. He was not appointed as the statutory auditor or internal auditor of Jin Ltd.

Examine whether acceptance of such assignment by CA Rudra amounts to professional misconduct. **(4 Marks)**

6. (a) CA Rig, a recently qualified practicing Chartered Accountant, got his first audit assignment of KaM (P) Ltd. for the financial year 2025-26. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA. Rig failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 230 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

Relying merely on the management’s affirmation that there were no receipts or further credits during the year, CA Rig excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been audited by the predecessor auditor. Comment on the appropriateness of CA Rig’s approach. **(5 Marks)**

(b) Comet Logistics Ltd. outsources its entire payroll processing function to an external service organisation, ProPay Solutions, which maintains payroll records, computes salaries and processes statutory deductions on behalf of Comet Logistics Ltd. The auditor of Comet Logistics Ltd. needs to evaluate the design and operating effectiveness of controls at ProPay Solutions relevant to payroll processing.

Discuss the auditor's considerations under SA 402, including the relevance of a Type 1 and Type 2 report obtained from the auditor of service organisation.

(5 Marks)

(c) Mr. Chetan qualified as a Chartered Accountant on 18 July 2026 and commenced practice on 15 August 2026. On 16 August 2026, a candidate approached him for engagement as an articled assistant. While agreeing to pay the stipend prescribed by the ICAI, Mr. Chetan also offered the candidate 1% of the profits of his CA firm as an additional payment. The candidate accepted both the prescribed stipend and the 1% share of profits. Subsequently, the ICAI objected to the payment of 1% of the firm's profits. Mr. Chetan replied that the additional payment was being made only to financially support the articled assistant, whose financial position was weak.

Is Mr. Chetan liable to professional misconduct? **(4 Marks)**

OR

(c) Kinlab Ltd. is a manufacturing company planning to expand its business over the next few years. The management has approached an investigator to assess the future maintainable turnover of the company for valuation purposes.

During the investigation, the investigator observed that the company's sales have increased steadily during the last three years but have fluctuated in certain product segments. The company is also planning to enter new domestic and international markets. At the same time, changes in Government policies and emerging economic conditions may affect the demand for its products. Further, new competitors are expected to enter the market, and some competing products are likely to be available at lower prices.

Based on the above facts, state the factors that the investigator should consider while assessing the future maintainable turnover of Kinlab Ltd. **(4 Marks)**