Mock Test Paper - Series II: August, 2025

Date of Paper: 6th August, 2025

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. Mr. Suraj reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Alpha Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the statutory auditor is required with reference to the position of the Company as at 31st March and not based on each month's position. Kindly guide Mr. Suraj with respect to the requirement under Master Direction.

   (a) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.

   (b) Every NBFC shall submit a certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as at 31st March.

   (c) Only NBFC-MFI shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company throughout the financial year.

   (d) Every NBFC shall submit a Certificate from its statutory auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the company as at the end of each month.

2. Navya & Associates are the statutory auditors of MNO Ltd. for the financial year 2024-25. While conducting the audit, CA Nemi, the engagement partner noticed the following:

    - Investigations by regulatory organisations and government departments or payment of fines or penalties.
    - Payments for unspecified services or loans to consultants, related parties, employees or government employees.
    - Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
    - Unusual payments towards legal and retainership fees.
    - Unusual transactions with companies registered in tax havens.
    - Payments without proper exchange control documentation.

    CA Nemi should consider the above as indicative of:

    (a) Doubt on the accounting system of MNO Ltd.

    (b) Doubt on Internal Controls of MNO Ltd.

    (c) Doubt on the going concern assumption of MNO Ltd.

    (d) Doubt of non-compliance to laws by MNO Ltd.

3. DPT bank had an NPA account of M/s Sahil and Sons showing recoverable amount of ₹ 40 lakh in the books. It sold the NPA for ₹ 45 lakh. Please select as to which of the following options is the correct accounting:

    (a) Let the amount remain in M/s Sahil and Sons account.

    (b) Credit the excess of ₹ 5 lakh to profit on sale of assets.

    (c) Credit the excess of ₹ 5 lakh to provision for loss on sale of NPAs.

    (d) Return ₹ 5 lakh to the party purchasing the NPA.

Case Scenario I [MCQ 4-7]

Supriya is a practicing Chartered Accountant and a partner in SPR Associates, a CA firm engaged in various assignments across audit, advisory, compliance, and management consultancy for clients in the banking, education, co-operative, and public sectors. Recently, the firm received the following engagement request:

- Supriya, who is the statutory auditor of one of her major clients, Cosy Textiles Ltd., has been requested by the management to assist in compilation of financial information into a proper format for presentation to prospective investors in accordance with SRS 4410.
- She was approached by a hospitality chain for conducting a mystery audit at their 17 branches to evaluate service quality and compliance with SOPs for fee of ₹ 85,000.
- Supriya holds the position of Director Simplicitor in Fair Private Limited. The Company is now requesting her to digitally sign ROC forms due to her professional qualification.
- Additionally, to expand her practice, she is planning to use a messaging application to inform business groups about her firm's services and highlight the specialised areas and expertise.

Based on the above facts, answer the following:

4. Which of the following is correct with regards to CA Supriya approached by a hospitality client for conducting mystery audit?

   (a) She cannot accept the assignment, as it falls outside the scope of audit services.

   (b) She can accept the assignment since mystery audit is a permitted service.

   (c) She can accept the assignment only if the client is not an existing audit client.

   (d) She can accept the assignment only if approved by ICAI in writing.

5. What should CA Supriya do in case of Cosy Textiles Ltd.?

   (a) Accept the assignment, as compilation is not an assurance service.

   (b) Decline the assignment, as auditors cannot perform compilation engagements for audit clients under SRS 4410.

   (c) Accept the engagement after disclosing it in the audit report.

   (d) Accept the engagement if permitted by the audit committee.

6. Can CA Supriya digitally sign the ROC Forms for Fair Private Limited?

   (a) Yes, she may sign since she is a qualified Chartered Accountant.

   (b) Yes, she may sign if she does not receive any remuneration.

   (c) Yes, she may sign if she is not the auditor of the company.

   (d) No, she cannot sign, as it creates a conflict with the auditor's role.

7. Does CA Supriya is correct in using a messaging application?

   (a) Yes, it is permitted as long as the recipients are known contacts.

(b) Yes, it is permissible with a disclaimer.

(c) No, it is not permissible as it amounts to solicitation.

(d) Yes, it is permissible if only educational content is shared.

Case Scenario II [MCQ 8-12]

While auditing consolidated financial statements of Kissan Industries Limited for the year 2024-25, a manufacturing company whose financial statements are required to be prepared in accordance with Division II of Schedule III of the Companies Act, 2013, CA Kartik notices that:

(A) The notes to accounts in respect of consolidated financial statements disclose additional information pertaining to the holding company and its subsidiaries. It provides disclosure regarding percentages of consolidated net assets; consolidated profit and loss; and total comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries.

(B) The financial statements of one foreign subsidiary included in consolidated financial statements are drawn up to 31st December, 2024 in accordance with legal requirements in US. He feels it to be weird and is of the view that consolidated financial statements of group could present a distorted picture. The management, in turn, informs him that it is not practicable to draw the financial statements of foreign subsidiary to 31st March, 2025.

(C) During the year 2024-25, goodwill of ₹ 60 crore had arisen on account of the acquisition of a subsidiary during the year and there is no impairment loss as on the balance sheet date. Besides, adjustments have been made in consolidated financial statements with respect to intra-group indebtedness and those related to harmonizing different accounting policies being adopted by parent and its subsidiaries.

(D) It is noticed by him that one subsidiary was acquired on 21.06.24. He is in a dilemma as regards to the correctness of consolidation of its financial statements in group financial statements.

Besides, he is also in the process of finalising audit report including matters to be reported under CARO, 2020 in respect of consolidated financial statements. However, he is in a fix in respect of manner of reporting under CARO, 2020 relating to consolidated financial statements.

Based on the above facts, answer the following:

8. Considering disclosure of additional information in consolidated financial statements as stated in para (A) of case study, which of the following statements is correct?

   (a) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

(b) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.

(c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.

(d) The said disclosure is proper.

9. What should be auditor's proper course of action pursuant to situation highlighted in para (B) relating to financial statements of a foreign subsidiary?

(a) The auditor should insist for drawing up of financial statements of foreign subsidiary to 31St March, 2025. The reason for impracticality is a mere excuse. In case of failure to redraw, he can modify his opinion in accordance with SA 705.

(b) The auditor can accept management's version.

(c) The auditor should modify his opinion by quantifying the financial effects of such an inconsistency.

(d) The auditor can accept management's version. However, it is his duty to verify adjustments made for effects of significant transactions or events occurring between 1st January 2025 and 31st March, 2025.

10. Which of the following statements is correct in respect of goodwill and other matters described in the case scenario?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

(c) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current-period consolidation adjustments.

11. Which of the following statements is most appropriate regarding consolidation of financial statements of a subsidiary acquired on 21.06.24?

    (a) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.

    (b) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the preceding reporting date.

    (c) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements for the complete financial year and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

    (d) The auditor should verify that income and expenses of subsidiary are included in consolidated financial statements from the date it gains control of subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognized in consolidated financial statements at the acquisition date.

12. As regards reporting under reporting CARO, 2020 in respect of consolidated financial statements, which of the following is in accordance with requirements of law?

    (a) A separate report providing Clause by Clause reporting under CARO, 2020 is required in respect of specified matters pertaining to parent and all subsidiaries incorporated in India.

    (b) It would be sufficient if report under CARO, 2020 in respect of standalone financial statements is supplemented with additional information in respect of all subsidiaries incorporated in India.

    (c) A separate report under CARO, 2020 in respect of all subsidiaries incorporated in India together is required. It should be annexed with report under CARO, 2020 in respect of standalone financial statements.

    (d) Reporting of details of subsidiaries together with paragraph numbers of reports under CARO, 2020 of auditors of such companies incorporated in India containing qualifications or adverse remarks would serve the purpose.

Case Scenario III [MCQ 13-15]

ADM & Associates, a medium-sized audit firm, has recently been appointed as the statutory auditor of Muonic Ltd., a listed pharmaceutical company involved in complex global operations and intensive R&D activities.

The audit is being led by CA Rajul, an engagement partner. The company was previously audited by a Big 4 firm, which withdrew citing limitations in audit scope. During planning, CA Rajul observes that while her team has good experience with standard manufacturing audits, they lack exposure to pharmaceutical sector audits, especially in relation to R&D accounting and global regulatory requirements.

Despite this concern, the Managing Partner insists that the team follow their standard procedures to ensure the audit is completed on time, especially due to the company's obligations under listing regulations. CA Rajul is concerned about whether the firm possesses the capability and competence to deliver a high-quality audit in line with professional standards.

Based on the above facts, answer the following:

13. As per SQC 1, what is the most appropriate action for CA Rajul to take after assessing that her audit team lacks experience in pharma R&D?

    (a) Proceed with the audit using standard checklists and procedures.

    (b) Raise a concern internally and consider involving external experts or specialists.

    (c) Ignore the concern as the client expects timely reporting.

    (d) Delegate responsibility to junior staff familiar with manufacturing audits.

14. The fact that the previous Big 4 auditor resigned due to scope limitations should prompt which of the following actions by ADM & Associates?

    (a) Assume the limitations are resolved as the client appointed a new auditor.

    (b) Proceed after understanding the nature of scope limitations and documenting the evaluation.

    (c) Consider it irrelevant since resignation is a common occurrence.

    (d) Use the previous auditor's work to complete current year audit.

15. Under SA 220, what is CA Rajul's responsibility as the engagement partner regarding audit quality?

    (a) To ensure only documentation is maintained

    (b) To ensure appropriate direction, supervision, and review of the audit work.

    (c) To delegate all key decisions to the audit manager.

    (d) To report only to the audit committee.

PART II – Descriptive Question (70 Marks)

Question No.1 is compulsory.

Attempt any four questions from the rest.

1. (a) CA Pawan has been appointed as the statutory auditor of Vij Pvt. Ltd. for the financial year 2024–25. During the course of the audit, he obtained sufficient and appropriate audit evidence for items shown in the Statement of Profit and Loss. However, while auditing the Balance Sheet items, he left obtaining appropriate audit evidence, say, external confirmations, for outstanding accounts receivable amounting to ₹ 135 lakhs.

He continued as it is from last year, on the affirmation of management that there are no receipts and further credits during the year. CA Pawan, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor.

What measures need to be taken by the auditor CA Pawan? Also, suggest the correct audit procedure in this regard. **(5 Marks)**

(b) CA Prashant is appointed as statutory auditor of Sober Pvt. Ltd. under the Companies Act 2013 for the first time. The company is preparing its accounts, considering the applicable requirements of Division I of Schedule III of the Companies Act, 2013. On scrutinising, the company's financial statements for an audit, it was noticed that notes to accounts show the ageing of trade payables as per amended requirements of the Schedule III of the Companies Act, 2013.

The ageing schedule forming part of the notes is as under: -

Outstanding for following periods from the due date of payment (In ₹ crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2	4	3	1	10
Disputed dues-MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues-others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the key financial ratios are in red.

There is no other relevant information concerning above in notes to accounts.

Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in month of March 2025. On inquiry, he came to know that the company's stock audit was conducted in January,2025 and stock auditors have commented vide their report dated 25.2.2025 that the company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in the cash credit account since March 2025.

Further, upon inquiry with the management, it was identified that management did not have any major future contracts to boost their revenue and financial position.

There is no information in this respect in financial statements and notes to accounts.

Discuss how CA Prashant should deal with above for reporting in his audit report under the Companies Act, 2013. **(5 Marks)**

(c) Mohan Ltd. having a net worth of ₹ 1,750 crore, is mandatorily required to comply with Ind AS. The company had various complex derivative contracts – options such as forward contracts, interest rate swaps etc. which were required to be fair valued as per IND AS 109 and for which company got the fair valuation done through an external third party. Considering the complex nature of these valuations, the statutory auditor CA Paras decided to involve an auditor's expert to assess the appropriateness and accuracy of the valuation methodology and results.

CA Paras engaged expert Mr. Sohan as an auditor's expert for valuation of derivatives. CA Paras and Mr. Sohan were new to each other i.e., they were working for the first time together but developed a good bonding during the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(4 Marks)**

2. (a) CA Chirag is the statutory auditor of Electric Corporation Limited, a Government Company for the year ended on 31st March 2025. The turnover of the Company for the period was ₹ 10,000 crores from sales of electricity. During the audit, Chirag found that the Company had procured spares for Transmitters for ₹ 700 crores from abroad through a Corporation by name PCDC India Limited which is also owned and controlled by Government of India. The Financial

Statements of the Electric Corporation Limited, prepared in compliance with Ind AS for the year ended on 31st March, 2025 did not contain any additional disclosure regarding the procurement of spares as referred to above. Chirag had query as to whether any disclosure regarding Related Party Transaction would be required, the Management of the Corporation replied that no such disclosure would be necessary for transactions between State Controlled Enterprises.

Analyse this issue faced during finalising the Audit Report. **(5 Marks)**

(b) While planning the audit of a company that heavily relies on automated processes, the auditor notices that several key financial reports used for decision-making are system-generated, and data is transferred across multiple IT applications through automated interfaces. Given this scenario, how do such IT dependencies arising from system-generated reports and interfaces develop within an entity's operations? Why is it important for the auditor to identify and understand these IT dependencies in order to design an effective and efficient audit approach? **(5 Marks)**

(c) TP and Associates were statutory auditors of Deepa Ltd. The audit for the financial years 2023-24 and 2024-25 is still pending due to a dispute between the auditor and the company regarding certain remarks proposed to be included in the audit report for the financial year 2023-24. Subsequently, in a shareholders' meeting held on 06.05.2024, the company removed TP and Associates as auditors after complying with all applicable legal formalities. TP and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. Deepa Ltd. complained to ICAI against TP and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

3. (a) The Comptroller & Auditor General (C&AG) appointed Rajni & Associates, a chartered accountant firm, to conduct Performance audit of LBC Ltd., a public sector undertaking under the Government of India. The firm carried out the audit to examine whether the expenses incurred by the unit were in conformity with the public interest and publicly accepted customs. However, the audit report submitted by audit firm was rejected by C&AG. Give your opinion on the action of C&AG. **(5 Marks)**

(b) CA Vardhman is the statutory auditor of a listed company and is also required to carry out a quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with the business of the company and has a deep understanding of the company. Discuss any of the five procedures by which he can update his understanding of the company for carrying out quarterly review. **(5 Marks)**

(c) CA Ajay is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaign promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period. Comment on the action of CA Ajay with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

4. (a) Mr. Dharam has been appointed as the statutory auditor of Great Ltd., a listed company. As per the terms of acceptance of audit, the whole audit fee shall be payable in four installments of ₹ 1.5 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting of every quarter. Full and final payment shall be done after the yearly financial statements and Audit Reports are released. The firm received first two payments on time while third payment which was supposed to be received in the month of January was received on March 21st, 2025, along with the remaining part of the Audit Fee.

Comment on the validity of this fee structure and the terms of payment with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the guidelines issued by ICAI. **(5 Marks)**

(b) CA Purva is working as Credit manager in branch of ADC Bank Limited. A company has approached the branch for a request to sanction credit facilities worth ₹12 crore for meeting usual business requirements. As part of the appraisal process, CA Purva undertakes a comprehensive review which includes:

- Examining the past history of the company and background check of its promoters and directors.
- Review of the shareholding structure and understanding the nature of company's business.
- Analysis of the company's past financial statements along with its future financial projections.
- SWOT analysis to evaluate the company's internal and external position.
- Assessing the net worth of the directors, reviewing their CIBIL scores, and verifying if their names appear in the RBI's defaulter list.
- Discreet inquiries from existing clients of the branch engaged in a similar line of business to assess the creditworthiness of the company its promoters and directors.

(i) What is the nature of the activity being performed by CA Purva? Discuss its nature.

(ii) Would your answer be different if the same activity was performed by a person not qualified as a Chartered Accountant? Can a non-CA perform such activity? State reason.

(iii) Name any three other areas where identified activity can be undertaken.

(5 Marks)

(c) CA Subhadra, an engagement partner in SRT & Associates, is conducting the statutory audit of MBI Ltd., an unlisted manufacturing company with 96 production and sales units spread across the country. These units are audited by different branch auditors. In respect of one major unit audited by a branch auditor, there were significant inventory valuation errors and misstatements in cost allocations, which were not reported by the branch auditor. The branch auditor submitted a NIL report without suggesting any modifications.

During overall review of financial statements of Company by statutory auditor, the above said errors did not come into light. The statutory auditor had also called soft copies of internal inspection reports etc. of above branch as part of overall review procedures. However, these reports did not point towards any concern or irregularities in the inventory or costing practices. Would the statutory auditor of the Company be liable for above lapses? What precautions have to be taken by him while expressing opinion considering possibilities of such situations?

(4 Marks)

5. (a) Clim Limited is enjoying cash credit facility sanctioned from Ludhiana branch of DDL Bank for ₹ 300 crore. However, for practical considerations, various sub-limits have been fixed for the borrower company for operation at Amritsar, Patiala and Rajpura branches of the same bank.

The manager of the Amritsar branch notices that there are no credit transactions in sub-limit account being operated at the Amritsar branch for more than 90 days as on 31st March,2025.

Discuss the approach of CA Krish, statutory branch auditor of Ludhiana branch of DDL Bank, in the matter of asset classification of the above borrower account. Also discuss considerations for classifying said account at the Amritsar branch.

(5 Marks)

(b) Gamma Ltd is engaged in the Construction business since year 2014. The auditor understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of accounting estimates included in the prior period financial statements and their subsequent re-estimation for the purpose of current period. The management refused to provide the information to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current financial year. With reference to the relevant SA, comment on whether the contention of management is correct or not. **(5 Marks)**

(c) Echo Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires Echo Limited to make disclosures on their performance against the various principles of the "National Guidelines on Responsible Business Conduct". One of the principles emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle. **(4 Marks)**

6. (a) CA Shreyansh is carrying out an audit of restated financial statements of MBC Limited for past 3 financial years i.e. 2024-25, 2023-24, and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA Shreyansh is planning to issue an Audit Report on 5th August, 2025 covering these restated financial statements. Before issuing the audit report, CA Shreyansh requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2025 covering the period of financial year 2024-25 only as they were not in position to provide for the financial year 2023-24 and 2022-23 because they were not in place during that period.

How would CA Shreyansh deal with the above situation as per relevant Standard on Auditing? **(5 Marks)**

(b) CA Deepali is a practicing Chartered Accountant having office in Surat. She is owner of creative.net. In order to generate additional revenue CA Deepali sold this domain name to GRIP Limited for earning royalty of ₹ 3,50,000. One of the directors of GRIP Limited contended that CA Deepali has violated the Code of Conduct. CA Deepali responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. Comment on the action of CA Deepali with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

(5 Marks)

(c) ROPE Ltd. is a manufacturing and trading Company of leather goods since last 12 years. You are the internal auditor of the company for the year 2024-25. In order to review internal controls of the company, you visited the departments and noticed:

(i) The store manager, Mr. Abhishek, who is responsible for maintaining the inventory, also keeps the inventory records.

(ii) The company's staff has been working in the same roles for over seven years without any rotation. The finance manager, Mr. Krishna, in particular, has never had his duties rotated since joining the company.

(iii) The head of procurement, Mr. Sumit, has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any other person in the company.

Do you think that general conditions pertaining to the internal check system are violated in the given situation? Comment. **(4 Marks)**

Or

(c) CA Ajeet is appointed as a statutory auditor of Shravasti Ltd. Shravasti Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Sambhav as its internal auditor. The external auditor CA Ajeet asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. Discuss whether CA Ajeet, statutory auditor, can ask direct assistance from Mr. Sambhav, internal auditor as stated above in view of auditing standards. **(4 Marks)**

Mock Test Paper - Series II: August, 2025

Date of Paper: 6th August, 2025

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

Part I: MULTIPLE CHOICE QUESTION

1. (b)
2. (d)
3. (c)
4. (b)
5. (b)
6. (d)
7. (c)
8. (a)
9. (d)
10. (b)
11. (d)
12. (d)
13. (b)
14. (b)
15. (b)

Part II - DESCRIPTIVE QUESTION

1. (a) As per SA 510, "Initial Audit Engagements – Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether -

(i) Opening balances contain misstatements that materially affect the current period's financial statements; and

(ii) 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.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable, (like external confirmations) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

In addition, according to SA 505, "External confirmations" the auditor can use external confirmation procedures to obtain audit evidence.

Further, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of Vij Pvt. Ltd. has restrained CA Pawan, its auditor, from obtaining appropriate audit evidence for balances of accounts receivable outstanding as it is from the preceding year. CA Pawan, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA Pawan should have requested the management to provide written representation for their views and expressions and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme.

(b) In the given case, following factors are indicator of material uncertainty that may cast significant doubt on the company's ability to continue as a going concern:

- The ageing schedule of the company reflects that company is not able to pay its creditors on time. Outstanding creditors for a period of 1 year or more account for 80% of total creditors of the company.
- Most of key financial ratios are adverse.
- Bankers have refused further debits in cash credit accounts due to negative drawing power from March, 2025.
- Cash credit loans are repayable on demand.
- There is no other information available on how the company plans to run its business without bank finance.

Also, upon inquiry with the management, it was identified that management did not have any major future contracts to boost their revenue and financial position.

All the above factors indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and appropriate disclosure of this fact is also not made in financial statements.

Therefore, it is a situation where material uncertainty exists, which has cast significant doubt on company's ability to continue as going concern in accordance with SA 570, "Going Concern".

Considering above the fact that although a material uncertainty exists casting significant doubt on the ability of the company to continue as going concern, adequate disclosure of material uncertainty is not made in financial statements. Thus, CA Prashant shall give qualified or adverse opinion in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

(c) As per SA 620, "Using the work of an Auditor's Expert", the nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert.

In certain situations, the need for a detailed agreement in writing is required like -

- The auditor's expert will have access to sensitive or confidential entity information.

- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

In the given case, Mohan Ltd. is mandatorily required to comply with Ind AS as it had complex derivative contracts requiring fair valuation under Ind AS 109. The company obtained valuations from a third party, and statutory auditor CA Paras engaged Mr. Sohan as an auditor's expert to assess their appropriateness and accuracy of the valuation methodology and results. Though it was their first time that they were working together and developed good bonding, no formal written agreement was made with the expert.

Thus, as per SA 620 considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him.

2. (a) As per Ind AS 24, "Related Party Disclosures", a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (i) a government that has control or joint control of, or significant influence over, the reporting entity; and (ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

If a reporting entity applies the above exemption, it shall disclose the following about the transactions and related outstanding balances referred to:

(1) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);

(2) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Further, as per SA 550, "Related Parties", in forming an opinion on the financial statements in accordance with SA 700, the auditor shall evaluate whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

In the instant case, Electric Corporation Limited, a Government Company has procured spares for transmitters for ₹ 700 crore from abroad through a corporation namely PCDC India Limited which is also owned and controlled by Government of India. Even after applying the exemption of Ind AS 24, Electric Corporation Limited has to disclose the matters specified above (i.e.name of Government, nature of its relationship with reporting entity, the nature and amount of transaction etc.). Contention of Management of Corporation regarding no requirement of disclosure for transactions between State Controlled Enterprise is not tenable.

(b) IT dependencies are created when IT is used to initiate, authorize, record, process, or report transactions or other financial data for inclusion in the financial statements.

System generated reports are the information generated by the IT systems. These reports are often used in an entity's execution of a manual control, including business performance reviews, or may be the source of entity information used by us when selecting items for the testing, performing substantive tests of details or performing a substantive analytical procedure. e.g. (Vendor master report, customer ageing report).

Interfaces are programmed logic that transfer the data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll subledger to the general ledger.

In this manner, IT dependencies arise due to "system generated reports" and "interfaces".

Identifying and documenting the entity's IT dependencies in a consistent, clear manner helps to identify the entity's reliance upon IT, understand how IT is integrated into the entity's business model, identify potential risks arising from the use of IT, identify related IT General Controls and enables us to develop an effective and efficient audit approach.

(c) Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment.

In the given situation, TP & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. TP & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same. Thus, the concerned responsible partner of TP & Associates, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for voluntary disclosure made by him.

3. (a) In the given scenario, C&AG appointed Rajni & Associates, a chartered accountant firm, to conduct Performance Audit of LBC Ltd., a PSU of Government of India. The firm conducted audit with a view to check all the expenses of the unit are in conformity to the public interest and publicly accepted customs which is not Performance Audit.

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government 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.

Performance audit in PSUs is conducted by the C&AG (Supreme Audit Institutions) through various subordinate offices of Indian Audit and Accounts Department (IAAD). In conducting performance audit, the subordinate offices are guided by manual and auditing standards prescribed by C&AG.

Therefore, the objectives of performance auditing are evaluation of economy, efficiency, and effectiveness of policy, programmes, organisation and management. It also promotes accountability by assisting those charged with governance and oversight responsibilities to improve performance; and transparency by affording taxpayers, those targeted by government policies and other stakeholders an insight into the management and outcomes of different government activities.

Performance auditing focuses on areas in which it can add value which have the greatest potential for development. It provides constructive incentives for the responsible parties to take appropriate action.

Regulations on Audit and Accounts issued by C&AG lay down that the responsibility for the development of measurable objectives and performance indicators as also the systems of measurement rests with the Government departments or Heads of entities. They are also required to define intermediate and final outputs and outcomes in measurable and monitorable terms, standardise the unit cost of delivery and benchmark quality of outputs and outcomes.

Thus, rejection of audit report (submitted by audit firm) by C&AG is in order as audit with a view to mere check all the expenses of the unit are in conformity to the public interest and publicly accepted customs done by audit firm is not performance audit in all aspects.

(b) As per SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.

- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by the management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

(c) This aspect is covered under 'Other Misconduct' which has been defined in Part IV of the First Schedule and Part III of the Second Schedule. These provisions empower the Council even if it does not arise out of his professional work. This is considered necessary because a Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action.

Further, when a Chartered Accountant uses the services of his Articled Assistant for purposes other than professional practice, it tantamount to 'Other Misconduct'.

In the given case, CA Ajay has engaged his Articled Assistant for his election campaigning for the Central Council elections of ICAI. Hence, CA Ajay is guilty of 'Other Misconduct'.

4. (a) As per Chapter X of Council General Guidelines, 2008 a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 1,00,000/-.

Under section 141(3) of the Companies Act, 2013 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person shall be disqualified to be appointed as auditor if he or his relative or his partner is indebted in excess of rupees five lakh to the company or its subsidiary or its holding company or its associate company or a subsidiary of such holding company.

However, the Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of engagement of auditor by a client, the auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job, he cannot be said to be indebted to the company at any stage.

Conclusion: In the instant case, Mr. Dharam is appointed to conduct statutory audit of Great Ltd., a listed entity and it was decided in the terms of acceptance of audit, that the whole audit fee shall be payable in four installments of ₹ 1.5 lakh each and shall be paid after every limited review done on quarterly basis and conclusion of audit committee meeting every quarter. He has received the audit fees of ₹ 1.5 lakh in respect of two quarters, but for third and fourth quarter the payment of fees was received on March 21st, 2025, for the year ended 31.3.2025 which is on progressive basis. Therefore, Mr. Dharam will not be held guilty of misconduct.

(b) (i) The activity described in the situation is Due diligence. Due diligence is a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measured by any absolute standard but depending upon the relative facts of the case. It involves a careful study of financial and non-financial possibilities. It implies a general duty to take care in any transaction.

Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans.

Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit.

(ii) There would be no difference in answer if above activity was to be performed by a person who is not a Chartered Accountant. The activity would remain due diligence. Due diligence can be performed by any person. It is not necessary that due diligence can only be carried out by a Chartered Accountant. As due diligence involves exercise of prudence and general duty to take care in any transaction, it can be undertaken by any person.

(iii) The areas where due diligence may be undertaken are: -

- Corporate restructuring
- Venture capital financing
- Public offerings

(c) SA 600 states that the principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors. When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/ subsidiaries or other components audited by other auditors.

In the given situation, nothing has come to light of statutory auditor which would arouse his suspicion about reliability of work performed by branch auditor. Therefore, he would not be responsible for work performed by branch auditor.

Further, it should be clearly stated in the report that 96 production and sales units of company have been audited by branch auditors.

5. **(a)** Sometimes, a customer is sanctioned a cash credit limit at one branch but is authorised to utilise such overall limit at several other branches also, for each of which a sub-limit is fixed.

In such a case, the determination of status of the account as NPA or otherwise should be determined at the limit-sanctioning branch with reference to the overall sanctioned limit/drawing power and not by each of the other branches where a sub-limit has been fixed.

The auditor of the limit-sanctioning branch should examine whether it receives particulars of all transactions in the account at sub-limit branches and whether status of the account has been determined considering the total position of operation of the account at all concerned branches. The standalone matter of no credit transactions for more than 90 days as on 31st March, 2025 at Amritsar branch is irrelevant.

Hence, keeping in view above, CA Krish should consider asset classification considering the total position of operation of the account at all concerned branches.

Regarding sub-limits at branches, the classification adopted by the limit-sanctioning branch should be followed. Hence, the Amritsar branch has to follow asset classification made by the limit-sanctioning branch.

(b) As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.
- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.

- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures. However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time.

In the given case, the contention of management is not correct in refusing the relevant information to the auditor.

(c) **Principle 1 – Ethics, Transparency and Accountability:** The first principle emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties.

The essence of the core elements associated with the first principle are:

(i) The entities' governing structure should develop policies, procedures, and practices for their offices, factories, and work areas, ensuring that ethics is not compromised.

(ii) The information relating to the policies, procedures, and practices along with the performance should be made available to the stakeholders.

(iii) In case of adverse effects, more care has to be taken for transparent disclosures.

(iv) The entities in the value chain should be encouraged to adopt these principles by the governance structure.

(v) The entities should proactively respond to the outside entities that violate the nine principles of the BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers that may engage with the business concern.

6. **(a)** In the given situation, CA Shreyansh is carrying out an audit of restated financial statements of MBC Limited for past 3 financial years i.e., 2024-25, 2023-24 and 2022-23 so he requested Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2024-25 as they were not in place during that period.

As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

As per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management was not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580, CA Shreyansh should take written representation letter from management of MBC Limited for the financial year 2023-24 and 2022-23 also.

In case the management of MBC Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

(b) As per Clause (11) of Part I of Schedule I to the Chartered Accountants Act, 1949, a member in practice is deemed to be guilty if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage. Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being a managing director or a whole-time director) unless he or any of his partners is interested in such company as an auditor.

As per Regulation 190A, a chartered accountant in practice not to engage in any other business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the Council.

In the given case, CA Deepali is a practicing chartered accountant having office in Surat. CA Deepali is owner of creative.net. In order to generate additional revenue, CA Deepali sold this domain name for earning royalty of ₹ 3,50,000 to GRIP Limited. One of the directors of GRIP Limited contended that CA Deepali has violated the Code of Conduct. CA Deepali responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. As per Regulation 190A, the activity of selling domain name for earning Royalty would amount to "other business/occupation" without approval is prohibited.

Hence, CA Deepali is guilty of professional misconduct under Clause 11 of Part I of Schedule I to the Chartered Accountants Act, 1949 for selling domain name for a royalty.

(c) Yes, in the given situation general conditions pertaining to the internal check system are violated as follows:

(i) Allowing Mr. Abhishek, the store manager, to maintain inventory records while also having custody of the inventory violates the principle that those with physical custody of assets should not have access to accounting records.

(ii) The lack of staff rotation for over seven years violates the principle that staff duties should be rotated periodically to prevent any single person from performing the same function for too long.

(iii) The head of procurement, Mr. Sumit, having complete control over the procurement process without oversight violates the principle that no single person should control any important aspect of the business operation.

OR

(c) As per SA 610, "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that Involve making significant judgments in the audit.

Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement.

Significant judgments include the following:

- Assessing the risks of material misstatement;
- Evaluating the sufficiency of tests performed;
- Evaluating the appropriateness of management's use of the going concern assumption;
- Evaluating significant accounting estimates; and
- Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

In view of the above, CA Ajeet cannot ask for direct assistance from internal auditors regarding evaluating significant accounting estimates and assessing the risk of material misstatements.