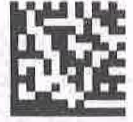


Roll No.



Total No. of Questions – 6

Total No. of Printed Pages – 16

Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

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

PART – II**70 Marks**

1. Question paper comprises 6 questions. Answer Question No. 1, which is compulsory, and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

(2)

NHA2

PART – II

SECTION – A

1. (a) DEF Apparels Ltd. is a manufacturing company with its business having a global outreach. The company appoints CA Y as the statutory auditor for the F.Y. 2024-25. During the audit, CA Y encountered the following issues :

- (1) The company has a large manufacturing facility with Fixed Assets of the value of ₹ 250 crores, which constitutes 60% of the total assets. The facility was significantly damaged in flash floods during the year. Management refused to allow an independent valuer to assess the damage, claiming internal estimates are sufficient. The company has not made any provision for impairment despite visible damage to machinery and buildings. Insurance claims are pending with disputes regarding coverage.
- (2) The company has entered into multiple transactions with related parties totaling ₹ 120 crores during the year. However, the management has refused to provide complete documentation regarding these transactions, citing confidentiality agreements. The audit team was denied access to board meeting minutes discussing these transactions and could not verify the commercial rationale or arm's length nature of these deals.

In view of the observations made, what kind of opinion should CA Y give in the Audit Report ? Justify your answer citing the above scenarios. On the basis of opinion decided by CA Y, you are required to draft the Opinion and Basis of Opinion paragraph to be given in the Independent Audit Report.

NHA2

(3)

NHA2

(b) AXO Automobiles Limited, a leading manufacturer of electric vehicles, 5
appoints WYZ & Co. Chartered Accountants as the statutory auditors for
the financial year ended March 31, 2025. CA W, the engagement partner,
during the course of audit identifies the following misstatements :

- An amount of ₹ 4 lakhs of rent income has not been recorded due to oversight.
- An expense of ₹ 6 lakhs pertaining to F.Y. 2023-24 has been charged to Profit and Loss Account in F.Y. 2024-25.
- In a sample testing of warranty provisions, projected misstatement in the population is ₹ 10 lakhs.

CA W is of the opinion that the above misstatements need to be rectified to portray the correct financial results of the company. The management of AXO Automobiles Ltd. refused to make the necessary corrections on the contention that these amounts were not material in relation to the company's turnover of ₹ 250 crores.

With reference to the relevant Standards on Auditing analyze the circumstances faced by CA W and guide him how he should evaluate the effect of these misstatements which are not corrected by the management. What communication requirements are applicable for the auditor in this situation ?

NHA2

P.T.O.

(4)

NHA2

(c) XYZ & Co., a mid-sized audit firm, has recently expanded its operations and taken on several large clients. To manage the growing workload, the firm's CEO has delegated operational responsibilities for the firm's quality control system to two senior partners. However, certain concerns have been raised :

4

- (1) One of the partners, though commercially successful in bringing in new clients, has limited experience in audit quality oversight.
- (2) The firm's new incentive system heavily rewards partners and staff based on revenue generation and client acquisition, with little emphasis on audit quality or compliance with professional standards.
- (3) Due to rapid expansion, the firm has allocated most of its resources towards marketing and client development.

The aforesaid concerns reflect on which element of quality control within the firm as per SQC1 ? What are the considerations one should exercise to achieve quality in all the engagements that the firm performs ?

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

5

NHA2

(5)

NHA2

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

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

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

- (b) You have been appointed as internal auditor of a Company 5 manufacturing and trading in Chemicals. You have asked your team to review the internal controls and get the first hand information of each department and their heads and note their respective roles in the company's procurement and inventory processes.

NHA2

P.T.O.

(6)

NHA2

Your team has observed that—

- (i) The Head of Purchase department, a relative of the promoter, has for several years been in-charge of purchasing and sanctioning payments, without allowing anybody to question him.
- (ii) There has been no rotation of duties for several years of most of the employees, in particular, the Chief Accountant who has a good rapport with majority customers.
- (iii) The Storekeeper also has not kept adequate stock records since he joined the company without carrying out physical verification of the assets.

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

- (c) M/s RSP & Associates, a firm of Chartered Accountants, has been engaged to conduct a review of the financial statements of AR Pvt. Ltd. for the quarter ended 30th September 2025.

During the review, the engagement partner, CA R, explained to the audit team that unlike a full-scope audit, a review primarily relies on inquiries and analytical procedures to obtain limited assurance about whether the financial statements are prepared in accordance with the applicable financial reporting framework.

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

NHA2

(7)

NHA2

3. (a) The Comptroller and Auditor General of India (C&AG) appointed M/s. VR & Associates, a firm of Chartered Accountants, to conduct the audit of Sunshine Ltd., a Public Sector Undertaking (PSU) under the Government of India and intimated to the auditors about the following concerns in respect of the PSU. 5

Sunshine Ltd. proposed to set up a solar panel manufacturing project in North Gujarat with an estimated cost of ₹ 5,750 crores, which included ₹ 2,000 crores earmarked for Research and Development (R&D). While all approvals, documentation, and statutory requirements were duly complied with, the C&AG expressed concern that the proposed R&D expenditure appeared wasteful and lacking justification on the tests of public interest, as several established companies were already engaged in similar activities in that region.

Identify the type of audit that the C&AG expects M/s. VR & Associates to conduct in this context. Also, explain the principles of this audit.

- (b) CA Amit, the auditor of KRT Pvt. Ltd, also undertakes statutory compliances related to Income Tax, GST and MCA for the client. For carrying out the compliances within the time limits KRT Pvt. Ltd. transfers ₹ 3,00,000 to CA Amit with an email that clearly earmarks the utilization of the said amount : 5

- (1) ₹ 1,20,000 is paid as an advance towards professional fees for ongoing audit and taxation work.
- (2) ₹ 1,80,000 is to be utilized to make statutory payments of TDS, GST, MCA filings and DIN renewals falling due within 1 month.

CA Amit receives the above amount of ₹ 3,00,000 in his regular savings account.

NHA2

P.T.O.

(8)

NHA2

From the amount of ₹ 1,80,000, he deposits ₹ 50,000 towards TDS payable and ₹ 60,000 against GST liability on the due dates that fall within 1 month from the date of receiving the money from the client.

The balance ₹ 70,000 pertaining to MCA filings and DIN renewals was deposited after 3 months due to portal issues. In between, CA Amit paid his office rent of ₹ 40,000 from this amount and deposited it back in that account within 2 weeks.

Analyse the actions of CA Amit and comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

- (c) Everfresh Beverages Limited has recently implemented Robotic Process Automation (RPA) across various business processes to enhance operational efficiency and reduce manual errors. The company has deployed RPA bots in key areas, namely, invoice processing, payroll generation and purchase order processing. This has resulted in significant time saving and improved accuracy in routine processes.

4

As the statutory auditor of Everfresh Beverages Limited discuss the key audit implications and the common risks associated with RPA.

4. (a) CA Rohan is the engagement partner for the audit of Horizon Ltd.'s complete set of financial statements for the year ended March 31, 2025. During the audit, he identified a material misstatement concerning the valuation of a specific class of inventory. As a result, CA Rohan concluded that it was necessary to express a qualified opinion on the complete set of financial statements.

5

NHA2

(9)

NHA2

Subsequently, Horizon Ltd. prepared summary financial statements derived from these audited financial statements and requested CA Rohan to issue a report on them. After performing the required procedures, CA Rohan is satisfied that the summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

- (i) Based on the requirements of relevant SA, advise CA Rohan on the specific additional disclosures he must include in auditor's report on the summary financial statements, considering the qualified opinion on the audited financial statements.
 - (ii) In the above case if the auditor's report on the audited financial statements contains an adverse report, then which additional elements are required to be disclosed in the auditor's report on the summary financial statement ?
- (b) M/s. Arora & Taneja, a firm of Chartered Accountants with four partners, 5 has recently been recognized for its strong commitment to professional development and community service. During the F.Y. 2024-25, the following instances came to light during a peer review :

- (1) Support to ICAI Programme Organizing Unit (PoU) :

The firm contributed funds to the "*Financial Reporting Update Seminar*" organized by one Program Organising Unit of the ICAI. The event had prior approval from the CPE Directorate, and the firm's name was included among the sponsors in the official ICAI circular and event signage.

NHA2

P.T.O.

NHA2**(2) CSR Activity by Partner :**

One of the partners, CA Anjali Taneja, personally financed a *Clean Water Drive* under her company's CSR initiative. The posters and banners displayed the following :

"An initiative supported by CA Anjali Taneja (Partner, Arora & Taneja)" [Firm's logo was displayed at the bottom corner of the banner]

Analyse the professional and ethical implications of the above situations in light of the ICAI Code of Ethics.

- (c) Global Techno Systems Limited is among the top 1000 listed companies in the country. The company is preparing and presenting its Integrated Report in line with the internationally recognized Integrated Reporting Framework. The company continues to align its BRSR disclosures with its Integrated Report to demonstrate how it creates value over the short, medium, and long term through effective use of the six capitals. 4

Following further information is provided in respect of the above company :

- (i) The company has implemented a structured leadership development programme for its employees across all divisions. This initiative focuses on enhancing professional skills, innovation capabilities, and ethical decision-making, resulting in improved employee engagement and alignment with the organization's long-term strategy.

NHA2

NHA2

- (ii) The company has commissioned a new, fully automated production line equipped with modern machinery and smart control systems. This has significantly improved production efficiency, reduced wastage, and enhanced product quality, leading to overall improvement in operational performance.

Discussing the above information, identify and explain which of the capitals of Integrated Reporting are being referred to at (i) and (ii) respectively.

5. (a) You have been appointed as the statutory auditor of KYM Pvt. Ltd. for the F.Y. 2024-25. The company has a Paid-up capital and Reserves & Surplus of ₹ 2 Cr; total borrowings of ₹ 9 Cr; total revenue ₹ 9 Cr. (excluding revenue of ₹ 2 Cr. from discontinuing operations) during F.Y. 2024-25. 5

You are required to state additional matters specified, as may be applicable, besides the report u/s 143 of the Companies Act, 2013 with regard to the following aspects :

- (i) The company has incurred cash losses of ₹ 50 Lakh during F.Y. 2024-25 and ₹ 75 Lakh during F.Y. 2023-24 with negative working capital. The suppliers have reduced credit period while some customers have delayed payments beyond the credit period. A few customers have been declared insolvent.
- (ii) The company has been continuously in profits since inception. Because of the losses incurred during the last two F.Y.s, the management suspected certain financial irregularities. Subsequently, a fraud was discovered through proper mechanism and was being addressed by the management on certain complaints filed with them. You have been informed of such a case.

NHA2**P.T.O.**

(12)

NHA2

(iii) The company has been awarded certain projects during F.Y. 2023-24 of Metrolines, Monorail and Coastal Roads for which the company had borrowed funds ₹ 4 Cr. from Bank. Metrolines and Monorail were ongoing projects but the Coastal Road project was yet to commence to-date and the amount unspent is ₹ 4 Cr. sanctioned for this project.

(iv) In the case of ongoing projects of Metrolines and Monorail, there was an unspent amount of ₹ 2 Cr. as on 31-03-2025.

Is there any reporting responsibility cast on you regarding the above matters of KYM Pvt. Ltd. under CARO 2020 for F.Y. 2024-25 ? If no, where and how the above matters would be dealt with in your audit report for F.Y. 2024-25 ?

(b) As the senior audit manager for “Alpha Tech Ltd.”, a listed technology company with significant debt financing, you are planning the audit for the financial year ending March 31, 2025. Your previous two audits resulted in an unmodified opinion. However, the company has recently been in the media spotlight due to allegations of manipulating share prices and not disclosing all related party transactions. The company is under intense pressure from external stakeholders to meet aggressive earnings targets. 5

NHA2

During your preliminary risk assessment, you identify that :

- A significant portion of the senior management's compensation is tied to achieving unrealistic profitability targets.
- The company's financial results show rapid, unusual profitability compared to its competitors.
- A number of significant, complex, and unusual transactions occurred very close to the year-end.
- You also notice that there has been a high turnover of senior management and legal counsel in the past year.

Based on the above facts and with reference to relevant SA, you are required to identify and explain the specific fraud risk factors present in the scenario that suggest a heightened risk of material misstatement due to fraudulent financial reporting.

- (c) A practicing Chartered Accountant, Mr. P, is approached by a prominent retail chain to conduct "Mystery Audits" at their stores. The goal of the audit is to evaluate compliance with internal policies and service standards. Mr. P accepts the assignment and structures his professional fees to be contingent upon the number of operational lapses and non-compliances he identifies, with a higher fee for more significant findings. 4

Discuss whether Mr. P is guilty of professional misconduct under the Chartered Accountants Act, 1949, with specific reference to the relevant schedules.

6. (a) M/s. AKP & Co., Chartered Accountants, have been engaged by Tech Systems Ltd. (TSL), a listed company engaged in cloud computing solutions and enterprise software services, to conduct a Due Diligence Review in connection with its proposed acquisition of a 70% stake in Code Technologies Pvt. Ltd. (CTPL), a fast-growing start-up specializing in artificial intelligence (AI) and data analytics. 5

The management of TSL believes that CTPL's proprietary AI models and client portfolio could provide significant strategic advantage, but its finance and legal teams have expressed concerns regarding revenue projections, compliance with data protection laws, cybersecurity regulations, and corporate filings.

You are the senior audit manager at M/s. AKP & Co. and are responsible for planning and conducting the due diligence engagement. The audit staff is new to this kind of work. You are required to explain the steps involved in conducting due diligence to the audit team.

- (b) SDI Bank Ltd. is finalizing its financial statements for the year ended 31st March, 2025. PAM & Associates, Chartered Accountants are appointed statutory auditors of SDI Bank Ltd. for the financial year 2024-25. CA M is the engagement partner for conducting the audit. 5

During the course of audit, the audit team seeks guidance of CA M, the engagement partner for the following observations made while conducting the audit of investments :

- (i) The bank holds ₹ 450 crores in government securities, ₹ 250 crores in debentures, ₹ 95 crores in shares and ₹ 75 crores in bonds. During the audit, it is noticed that the investment team comprising of 4 staff members, is responsible for all investment functions.

(15)

NHA2

- (ii) There are 5 Bank Receipts (BRs) with other banks totaling ₹ 35 crores at the year end. Out of these 3 BRs have been outstanding for more than 8 months.
- (iii) The audit team observes during the course of audit that during the year the Bank has re-classified ₹ 80 crores of investments from AFS (available for sale) to HTM (held to maturity) on the basis of a resolution passed by Asset Liability Committee, but without explicit approval from the Board of Directors.

Outline the audit procedures that CA M, the engagement partner will advise the audit team to be undertaken to address each of these observations.

- (c) RBR 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 J has been engaged to examine the Prospective Financial Information. While examining the PFI, CA J 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 J while examining the Prospective Financial Information.

OR

NHA2

P.T.O.

- (c) PMP Industries Ltd. is a listed manufacturing company. CA F is the statutory auditor for the F.Y. 2024-25. During the course of audit CA F and his audit team made the following observations :

- Fictitious sales of ₹ 20 crores through fake invoices
- Missing inventory worth ₹ 8 crores with forged records

On communicating the observations with the Management and those charged with governance they refused to take corrective action. Instead of making the corrections, the Managing Director threatened legal action if disclosures are made in the Audit Report. The Board of Directors is divided, with promoter directors supporting the Managing Directors and others agreeing to the auditor's contention.

Since the fraud is material to the financial statements, CA F finds it difficult to continue the audit engagement due to these exceptional circumstances. State with reference to the relevant Standard on Auditing the course of action CA F will take.