

**FINAL COURSE – FAST (Full)
Detailed Test Series – Paper 1**

Total No. of Questions in Part I – 15

Total No. of Questions in Part II – 6

Total No. of Pages - 25

**Paper – 3: Advanced Auditing,
Assurance and Professional Ethics**

Maximum Marks – 30

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 type 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 Institute.
5. Answers to MCQs in Part I are to be mentioned in the first page of your answer copy. Students need to only mention their choice of correct option like (a) or (b) or so. No explanations or reasonings are required for MCQs.
6. Answers to descriptive questions in Part 2 should be given from the next page of your answer sheet
7. **Student should mention their Name, Batch, Course (CA Inter / Final), Subject Name, Date of Test and Test Code as given on top of this sheet on the first page before answering the MCQs.**
8. Once the test is complete, student need to scan the answer sheet and make single pdf file for all the pages and email it to faststudentcare@gmail.com and fasttestseries@gmail.com with **Subject Line – Answers Sheet for Test (Code) and Your Name.**
9. Duration of the examination is 1.5 hours. You will be required to upload the answer sheets on the same date / time of test as defined in your live class else the answer sheet will not be evaluated. In such case you should do a self-evaluation using the suggested answer which will be posted in the same folder after one day of the date of test.
10. The FAST examiner team will check the copy and give the marks alongwith feedbacks for your improvements. We take utmost care in checking however being subjective in nature the checking may differ from examiner to examiner.
11. Candidate are advised not to cheat and have self-discipline as these tests are preparing you better for your real exams and hence realistic assessment will help you take corrective actions at the right time.
12. FAST reserves the right to display any answers or answer sheets or share with other students for your benefits without any prior written or express consent.
13. Your suggestions on the test paper or evaluation or else can be shared at casj@fast-india.com

PART I**MULTIPLE CHOICE QUESTIONS****CASE STUDY-1**

M/s Polar & Associates (referred to as 'auditor') have been appointed as one of the statutory central auditors of FDHC Bank., (referred to as 'Bank') for the Financial Year 24-25.

During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank.

The engagement partner, Mr. A, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.

- Amount of interest accrued and not due on deposits amounting to ₹ 95,50,000/-.
- The balance of Interest rate swaps amounting to ₹ 84,95,000/-. Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements.

The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under:

Interest Income: ₹ 25,97,000/-.

Interest Expense: ₹ 15,45,220/-.

Total advances: ₹ 5,00,20,000/-.

Total deposits: ₹ 4,22,00,000/.

The auditors also discussed the following with the audit staff and the bank management during the course of the audit:

- Computation of Demand and Time Liabilities.
- Computation of Tier I & Tier II capital of the Bank.

Based on the above facts, answer the following (Q 1 to 5):-

1. The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate: **2**
 - (a) The exchange rate prevailing on the Balance sheet date.
 - (b) The average of opening and closing exchange rates during the year.
 - (c) The exchange rate as prescribed by Reserve Bank of India.
 - (d) The exchange rates applicable on the respective dates of transaction in the account.
2. What should be the treatment of Interest on deposits accrued but not due amounting to ₹ 95,50,000/- appearing in the financial statements of FDHC Bank. **2**
 - (a) The amount should be included in deposits amount.
 - (b) The amount should not be included in amount of deposits.
 - (c) The amount should be shown under the head other liabilities and provisions.
 - (d) Both b & c.
3. The amount of Interest Rate Swaps amounting to ₹ 84,95,000/- should appear as in the financial statements of the bank :- **2**
 - (a) Contingent Liabilities.
 - (b) Other Liabilities and provisions.
 - (c) Current Liabilities.
 - (d) Deposits.

4. Which of the following is correct statement related to the requirement laid down by the RBI for Polar & Associates while verifying the compliance with the SLR requirements of the bank? 2
- (a) M/s Polar & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit.
 - (b) M/s Polar & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays.
 - (c) M/s Polar & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays.
 - (d) M/s Polar & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.
5. While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities: 2
- (a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
 - (b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.
 - (c) Net credit balance in branch adjustment accounts including these relating to foreign branches.
 - (d) Margins held and kept in sundry deposits for funded facilities.

CASE STUDY-2

ABC Limited is a public company listed on the National Stock Exchange, having its registered office in Delhi. The company is primarily engaged in the manufacturing of pharmaceutical products. During the preceding financial year, the company recorded a remarkable turnover of ₹ 5000 crores, accompanied by a net profit of ₹ 805 crores. Additionally, the company has secured a loan facility from the State Bank of India amounting to ₹ 1000 crores.

PQR & Co., a firm of chartered accountants based in Delhi, has been appointed as a joint auditor along with PK & Co. and XYZ & Co., an esteemed chartered accountant's firm in the same location i.e. Delhi. ABC Limited has already completed the appointment-related formalities as well as they have also signed engagement letters. The engagement letter contains the details on the objective and scope of the audit, responsibilities of the auditors, management, and identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 50 Crore as the materiality threshold, calculated at 1% of turnover.

Now, during the audit, PK & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 201 Lakhs.

Additionally, as a part of the audit procedure, the auditor has also sent confirmation requests to 100 suppliers to confirm the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, in this regard the confirmation responses were received only from 37 Suppliers.

Moreover, as a part of the audit procedure, auditors of the ABC Limited also wants external confirmation from the 37 Debtors to confirm the year end balance, however

in this process, the management refuses auditors to allow to send the confirmation and after asking the reason for such refusal, auditors came to the conclusion that, such refusal is unreasonable and the auditor is also unable to obtain relevant and reliable audit evidence from alternative audit procedures.

In addition, while forming an opinion, PQR & Co. had a different opinion on the valuation of inventories, but PK & Co. and XYZ & Co. had the same opinion and accordingly, given their majority stance, both PK & Co. and XYZ & Co. assert that PQR & Co. must endorse a Common audit report aligned with their opinion.

Apart from this, XY Private Limited, an associate enterprise of ABC Limited, the company XY Private Limited appoint ZMR & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor of XY Private Limited for the first time for the current financial year. The financial statement of XY Private Limited was audited by its predecessor auditor in the previous financial year. During the audit for the current financial year, ZMR & Co. came across a material misstatement in the opening balance, that affects the current year financial statement. In this regard, the auditor also discusses the said facts with the management. However, the management does not accurately pay attention to the same and does not either adequately account during the year or disclose or present the same in the financial statement of current year.

The Other Important financial information of XY Private Limited is as below:

(₹ in Crores)

Sr. No.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	2.00	2.00
2.	Credit Balance of Profit & Loss Account	1.75	0.75
3.	Turnover	35.00	25.00
4.	Borrowing from Banks and Financial Institution	3.50	2.50

On the basis of the above-mentioned facts, you are required to answer the following MCQs (Q6 to 8):-

6. In the above given case, what should be the next course of action on the part of auditors of ABC Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable and auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures,? 2
- (a) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.
- (b) Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.
- (c) Auditor shall communicate the matter with TCWG and also determine the implications for the Audit and Auditor's opinion in accordance with SA 705.
- (d) Auditor should have included the reason for refusal by the management and fact of inability to obtain the relevant and reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.
7. Whether PQR & Co. should adhere to the opinion formulated by PK & Co. and XYZ & Co. or explore alternative options. 2
- (a) PQR & Co. will have to go with the opinion framed by the majority of auditors.
- (b) PQR & Co. has the option to incorporate a distinct audit opinion

paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.

- (c) PQR & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by PQR & Co. should be prominently highlighted within the emphasis of the matter paragraph.
- (d) PQR & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'

8. In the above given case, what should be the course of the action on the part of ZMR & Co., when they found material misstatement which has not been accurately accounted or presented or disclosed in the financial statement of current year? 2

- (a) ZMR & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.
- (b) ZMR & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).
- (c) ZMR & Co. should take such matter in the written representation received from the management and no need to report such fact in audit report.
- (d) ZMR & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.

CASE STUDY- 3

The UNCO Bank Ltd. was having 145 branches all over India by the year ending 31st March 2024. Twelve branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2024-25.

- (i) Udaipur branch which deals in treasury functions like investments and interbank borrowings but not in bill re-discounting.
- (ii) Varanasi branch which started foreign exchange business from February 2025.
- (iii) Chandigarh branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Star and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for four branches for year 2023 -24. The Bank's management appointed and fixed the remuneration of Star and Associates, Chartered Accountants as the statutory auditors also for the year 2023-24, for the same five branches for which they were given the assignment of stock audit.

At the Kolkata branch of the bank there were high value cash deposits in one of the current accounts during April 2024. Your firm has been appointed as the concurrent auditors for the Kolkata branch for the year 2024-25. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2024 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.

On the basis of the above mentioned facts, you are required to answer the following MCQs (9 to 11):-

9. Star and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the four branches, so whether Star and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following: 2
- (a) Star and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.
 - (b) Star and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.
 - (c) Star and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.
 - (d) Star and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.
10. Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following: 2
- (a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.

- (b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.
- (c) Star and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.
- (d) Star and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.

11. How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kolkata branch of the bank should be dealt by the concurrent auditor in his audit report? Select the correct option from the following: 2

- (a) The auditor should report the matter as a major irregularity in his audit report to the management.
- (b) The auditor should verify the details from e-mail sent to currency chest and close the matter.
- (c) As it is a minor irregularity the auditor can ignore the same.
- (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.

12. CA Sunita is in the midst of performing audit procedures in the month of March 2025 for conducting a statutory audit of Tess Products Private Limited engaged in manufacturing of footwear products for the year 2024-25. The turnover of the company as per profit and loss account for the immediately preceding financial year is ₹ 35 crores. In the last week of March 2025, she gathered that the turnover of the company during the year 2024-25 would also be just nearing ₹ 35 crores. The company is also registered as a Small Enterprise under the Micro, Small and Medium Enterprises Development Act, 2006.
- Its present paid-up share capital is ₹ 3.50 crores, which has remained unchanged for the past few years. Besides, it is availing and utilizing a working capital credit facility of ₹2 crores from a bank during all these years, including the year 2024-25. The company has acquired all shares of a company based in Hong Kong during the year 2024-25. She wants to be sure about the applicability or otherwise of CARO 2020 for suitably planning and directing her audit procedures for year 2024-25. Identify likely correct statement in this regard:
- Reporting under CARO, 2020 would not be applicable as it is a small company.
 - Reporting under CARO, 2020 would not be applicable as it is registered as a small enterprise under Micro, Small and Medium Enterprises Act, 2006.
 - Reporting under CARO, 2020 would be applicable as it is not a small company.
 - Reporting under CARO, 2020 would not be applicable as it meets certain threshold criteria prescribed for private companies.

13. CA P, as part of a statutory audit exercise, is testing a company's internal controls over purchase orders it places for acquiring capital assets. The company places huge orders for the acquisition of capital assets every year, keeping in view the nature of its business and corresponding requirements. While testing controls in a sample of purchase orders for the acquisition of capital assets, he failed to notice a lack of adherence to certain established parameters for placing such orders. The above situation is indicative of ____ 2
- (a) Sampling risk (b) Non-sampling risk
(c) Control risk (d) Inherent risk
14. Sukhi & Co. was one of the joint auditors of Tam-Tam Insurance Co. Ltd. Mr. Moolchand, one of the engagement team members, of the said joint auditor, was examining the expenses included in different accounts. 2
- While verifying the expenses incurred in relation to employees, Mr. Moolchand made a list of the same as follows, which he was going to discuss with his senior: -

Particulars	₹	Included in which account?
Payment of Salaries to employees	95 lakh	Employees' Remuneration and Welfare Benefits Account
Reimbursement of premium in respect of employees' health cover	15 lakh	Employees' Remuneration and Welfare Benefits Account
Training and non-training expenses incurred for employees	28 lakh	Employees' Remuneration and Welfare Benefits Account
Expenses incurred towards medical treatment of employees not having	12 lakh	Employees' Remuneration and Welfare Benefits

health cover		Account
Incentives paid to employees of the company who have solicited insurance policies	36 lakh	Commission account

Whether it can be said that Tam-Tam Insurance Co. Ltd. has properly accounted for the expenses incurred in relation to employees?

- (a) No, training and non-training expenses incurred for employees should be bifurcated and shown separately and expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account.
- (b) No, reimbursement of premium in respect of employees' health cover should be included in 'Others' account and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- (c) No, expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account and non-training expenses have to be shown separately.
- (d) No, non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.

15. Strong Steels Ltd. was engaged in the business of manufacturing and selling steel products. The company was having sales offices at different locations in and outside India. The company decided to have a sales office at Kanpur on their own land. A managing committee of some officers from the company was formed in order to Get a building constructed at land in Kanpur. Budget of ₹35 crores was approved by the company for the same and it was proposed

2

to complete the construction within two years. ₹ 32 crores were already released by the company within a year of start of the project and the managing committee raised a demand for ₹ 5 crores for further payments to vendors.

The management of yellow steels wants to get the verification done of all the expenses incurred on site and identify the reasons for increase in construction cost. Which of the following will suffice the purpose of management?

- (a) The management should go for operational audit, as it will evaluate the effectiveness, efficiency and economy of operations done at the construction site.
- (b) The management should get a Forensic Audit done in order to rule out any possibility of fraud or any other financial crime.
- (c) A Financial Due Diligence is required to be done as no fraud has been reported and the management just wants to analyse the books of accounts and other financial matters pertaining to financial matters at site.
- (d) A management audit should be done to ensure that the increase in cost of construction is not due to any discrepancies in the formulation of objectives, plans and policies of the top management.

PART II

DESCRIPTIVE QUESTIONS

1. Question paper comprises 6 questions. Answer to Question No. 1 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.

Maximum Marks 70

Q.1

(A) Blackboard & Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2024-25. The company is into the business of Health Club, Fitness Centre and gym costumes. CA M is the Engagement Partner for the audit assignment. CA M observed the following points while auditing:

5

- (i) Customer's base is reducing continuously due to tough competition and discount war existing in the market.
- (ii) Payments of creditors are delayed and made with overdue interest.
- (iii) Company has not been able to pay the salaries of staff and trainers on time.
- (iv) Key financial ratios of the company, like current ratio, debt-service coverage ratio, are in the red and have deteriorated considerably as compared to last year.
- (v) The company has requested its bankers to provide it with additional working capital credit facilities of ₹ 1.5 Crores, but bankers are not considering the company's proposal favorably.

What audit procedures should be followed by CA M considering the above circumstances as per SA 570-"Going Concern"? How auditor should deal if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made in the financial statements?

Q.1

- (B) Chai Ltd., FMCG Company having its tea gardens in north eastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in Sri Lanka and Kenya. M/s GN & Associates are the statutory auditors of the company for the financial year 2024-25. During the course of audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statement being Joint venture investment in Kalki Ltd. representing over 90% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Kalki Ltd. is carried at ₹ 100 crores in the group's consolidated balance sheet. Draft the opinion paragraph and basis of opinion paragraph to be included in the Independent Auditor's report. **5**

Q.1

- (C) OP & Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2025 got completed on May 1, 2025. The auditor's report was dated May 12, **4**

2025. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2025. Engagement partner had completed his reviews in entirety by May 10, 2025 and signed the report on May 12, 2025. Comment.

Q.2

- (A) CA K have been doing audit of branch of LUD Bank Ltd. The principal business of the branch is lending advances to large corporates. Since last one year, many large accounts have become Non-Performing Asset (NPA) as per guidelines. The Management of the Bank decided to sell one of the NPA account and consequently one NPA namely DEF Ltd. amounting to 10.00 Crores was sold to Asset Reconstruction Company. What audit points CA K should keep in mind while doing audit of this transaction? **5**

Q.2

- (B) AKB Associates, a renowned audit firm in the field of CA practice for past two decades. The firm was appointed to conduct statutory audit of Rohini Ltd. an unlisted company, which is engaged in the business of paper manufacturing. It decided to commence the audit for the recently concluded financial year. Once after making significant progress in the audit, the auditors made the following observations: **5**

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material. You are required to advise, whether AKB Associates should report Observation 1 and 2 in its audit report? If so, under which heading should it be reported?

Q.2

(C) You are engaged by M/s Voice Limited to examine and report on prospective financial information which the management of the company has prepared for presentation at an Investor meet program organized by a State Government to attract investment in their state. **4**

The company in its vision document described various plans and proposals of the company with projected financial goals and means to achieve the same and various benefits accruing to the economic development of the State. What important matters will be considered by you while determining the nature, timing, and extent of examination procedure to be applied in the review of the same?

OR

Q.2

(C) Sunshine Ltd. is a dealer in electronic appliances. The Company has a centralised warehouse at the outskirts of Mumbai. The Auditors of the company M/s JK Associates normally attend the physical verification of stocks carried out by the Management at the end of the financial year. However, on account of certain disturbances in the region, the physical inventory counting could not be carried out at the year end. The stock taking **4**

is decided to be done by management at some other date subsequently, after a month. In the light of the above facts:

Enumerate the audit procedures to be considered by M/s JK Associates, if physical inventory counting is conducted at a date other than the date of the financial statements with reference to the relevant Standard on Auditing.

Q.3

- (A) You have been appointed to compile the financial statements of the Quiz & Company (a partnership firm) for tax purposes. During the course of your work, you discover that the inventory is grossly understated, and the company has failed to apply applicable standards on accounting. On pointing out the same, the partners of the Quiz & Co., inform you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment. **5**

Q.3

- (B) H Limited is an Investment Company preparing its Financial Statements in accordance with Ind AS. The Company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the Company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the Company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of H Limited in accordance with section 129(3) of the Companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views. **5**

Q.3

- (C) M/S PQR & Co. is a partnership firm of 3 partners P, Q and R. All partners are exclusively associated with the firm in practice and are not doing practice in individual capacity. For the year ended 31st March, 2025, the partners have undertaken audits and signed audit reports under section 44AB/ 44AD of the Income Tax Act, 1961 as under:

4

	Under Section 44AB	Under Section 44AD
P	10	15
Q	60	5
R	100	5

Discuss whether there is any professional misconduct by the firm in regard to the aforesaid audits.

Q.4

- (A) TP Limited is a listed company engaged in the business of manufacturing of kids garments under the brand name of MM. M/s. R & Associates, firm of chartered accountants, are appointed as a Statutory Auditor of the Company for the year 2024-25. CA R is looking after the audit of the Company. During audit, CA R observed that there are number of notices received from GST Department and Income Tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". According to CA R, the provisions of SA 250 and the provisions of NOCLAR (Non- Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same. Do you agree? If not, give your comments.

5

Q.4

- (B) LOL & Associates have been the statutory auditors of the listed company "Big and Small Ltd.," operating in the petrochemical industry, for the past three years. CA. K, the engagement partner, had designed certain substantive procedures on some selected assertions in response to the assessed risk of material misstatements for the year under audit. These particular assertions were not examined by him in previous years due to materiality or risk considerations. **5**

Mr. X leads the internal audit department of the company and reports to the company's audit committee. During the course of audit, a senior member of the engagement team decides to engage Mr. X for providing direct assistance in performing the above substantive procedures. Comment with respect to the relevant Standards on Auditing.

Also, indicate the activities to be performed by the statutory auditor prior to using internal auditor for providing direct assistance of IA.

Q.4

- (C) CA Ketan, an auditor assigned to conduct a remote audit of Jackson Limited. **4**
The audit will be conducted virtually using online platforms, with the client sharing documents and participating in video conferences. What key considerations should CA Ketan address to ensure the effectiveness and security of the remote audit?

Q.5

- (A) Discuss the reporting responsibilities of statutory auditor in the following **5**
situations for year 2024-25 under CARO, 2020:

- (i) In the financial year 2024-2025, Sandalwood Ltd. decided to upgrade its registered office, located at a prime spot in Bangalore. As a part of this upgrade, the company sought to acquire an adjacent plot of land owned by Mr. Sunny, who is also a director of Sandalwood Ltd. Initially hesitant to sell, Mr. Sunny was persuaded to transfer his property to the company in exchange for a larger plot owned by Sandalwood Ltd. This plot, located on a nearby street, is double the size of Mr. Sunny's land.

Satisfied with the exchange, Mr. Sunny agreed to transfer the property, and the exchange was formalised in a deed executed by the company's authorised representatives and Mr. Sunny. The registration of the properties was completed by December 31, 2024.

- (ii) On 15th May, 2024, a TDS survey was carried out in premises of SSO Industries Limited in accordance with the provisions of the Income Tax Act, 1961. The survey team pointed out certain lapses regarding non-deduction of tax at source and subsequently Deputy Commissioner of Income Tax (TDS) raised a demand of ₹ 25 lacs on the company treating it as "assessee in default". The company has not deposited demand raised and filed appeal against impugned order on 1st March, 2025 under e-appeals scheme with JCIT (Appeals).

Q.5

- (B) The management of Beta Limited is concerned with the reporting requirement cast through Rule 11 of the Companies (Audit and Auditors) Rules, 2014 for the financial year 2024-25 with regard to the Audit Trail (edit log). Audit trails may be enabled at the accounting software level depending on the

5

features available in such software or same may be captured directly in the database underlying such accounting software. Consequently, the management of the company approached CA J and asked him to suggest them list of internal controls which may be required to be implemented and operated to demonstrate that the Audit trail (or Edit Log) feature was functional, operated and was not disabled. Help CA J.

Q.5

(C) Mimi Finance Limited is a NBFC-ML as per revised categorisation of NBFC done by RBI. YAK & Associates, firm of chartered accountants, are appointed as Statutory Auditors of the Company for the year 2024-25. The audit team consist of CA Y, 1 Audit Manager and 3 junior assistants. The Audit Manager is recently appointed, who is not having much exposure in the field of Auditing of NBFCs. During the engagement team meeting, the Audit Manager asked CA Y, regarding the audit procedures to be undertaken to verify whether the aforesaid Company has followed Engagement partner suggest any four Prudential Norms? As a procedures to the Audit Manager.

4**Q.6**

(A) CA Suraj, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Suraj accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Vishal informed him that now he cannot retain full time certificate of practice,

5

thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

Q.6

- (B) During the audit of Gol-Mol limited, CA Pintu observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Gol-Mol Limited used a service organisation to record transactions and process related data. What factors should CA Pintu consider regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk. Discuss with reference to the relevant Standards on Auditing. **5**

Q.6

- (C) Mr. Mohan, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics? **4**