

GENERAL INSTRUCTIONS TO CANDIDATES



- The question paper comprises two parts, Part I and Part II.
- Part I comprises Multiple Choice Questions (MCQs).
- Part II comprises questions which require descriptive answers.
- 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.
- Answers to Questions of Part I are to be marked on the OMR answer sheet 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.
- 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.
- The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
- 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.
- 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.
- The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer books A and B.
- 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 - I

30 marks

- Answer all MCQs.
- Use HB pencil only to darken the circles for MCQ answers in the answer sheet.
- After each MCQ, four options have been given. **Choose the correct or most appropriate option** and darken the corresponding circle against the question number in the OMR Answer Sheet, completely, as shown below, with HB pencil.

Marking the Answers	
<p>Example : For Question No. 12, if the candidate considers the correct answer to be C, he is to mark as shown below (Correct Method)</p> <p>12 (A) (B) (C) (D)</p>	<p>Not as shown below (Wrong method) :</p> <p>12 (A) (B) (C) (D)</p> <p>12 (A) (B) (C) (D)</p> <p>12 (A) (B) (C) (D)</p> <p>12 (A) (B) (C) (D)</p> <p>12 (A) (B) (C) (D)</p>

- Any answer to MCQ marked inside descriptive answer book will not be considered and no marks will be awarded.
- If a candidate wants to change the option already darkened, he should erase it completely, with good quality eraser and ensure that no mark is visible after erasing.
- No mark will be awarded if no circle is darkened or more than one circle is darkened for a particular MCQ. There is no negative marking for a wrong answer.
- Rough work, if any, must be done on the pages, specified as SPACE FOR ROUGH WORK only and nowhere else in the question paper booklet or in the answer sheet.
- Before commencement of the exam, please fill up the necessary information in the space provided below and also in the answer sheet.

Total No. of Printed Pages : 16

Maximum Marks : 30

Roll No.

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Question Paper Booklet Code

N	H	A	1
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Name of the Candidate

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Signature of the Candidate

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This booklet is the property of the Examination Body. Any unauthorized and illegal circulation of its contents in part or in full in any manner whatsoever is strictly prohibited. Candidates involved in such unauthorized and illegal acts are liable to be prosecuted besides being disqualified to appear in any further examinations of the Examination Body.

- (1) After each MCQ, four options have been given. Choose the correct or most appropriate option and darken the corresponding circle against the MCQ number in the OMR answer sheet.*
- (2) Answer to MCQs, if written inside the descriptive answer book shall not be awarded any mark.*
- (3) Please ensure to write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.*
- (4) Please write your Roll No. and name on the topmost page of the MCQ booklet at the specified place without fail.*

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PART – I

SECTION – A

Integrated Case Scenario – I

AT Solutions Ltd. (ATS) is a rapidly growing, unlisted tech company specializing in providing cloud-based software services. The company was founded five years ago by two visionary co-founders, Mr. RV (CEO) and Mr. AG (CTO), who also serve as the key members of Those Charged with Governance (TCWG).

CA RM is the Engagement Partner for the audit of ATS for the financial year ending March 31, 2025. Your firm, RM & Associates, has been the statutory auditors for the last three years.

During the audit, your team encounters the following key issues and observations :

- ATS earns revenue primarily through subscription services. A new policy was implemented in the current year, effective from April 1st, 2024, to recognize revenue from multi-year contracts on an accelerated basis in the initial year, deviating from the previous practice of straight-line recognition over the contract period. This change was not communicated to your firm beforehand and resulted in a significant overstatement of current year revenue by ₹ 4 crores, which is both material and pervasive amount to the financial statements. The company's previous policy was in line with applicable accounting standards. When you raise this matter with the management, they insist that the new policy better reflects the value derived from the initial customer onboarding efforts. The management refuses to revert to the previous policy.

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- ATS holds a small amount of physical inventory, consisting of specialized server components. The physical verification was conducted by the company's internal team on March 31, 2025. However, the auditor was not able to observe the stock count due to a last-minute travel restriction on the audit team. Upon inquiry, the management provides a signed stock count sheet and a video recording of the count. Your team performs alternative procedures, including inspecting subsequent sales invoices and conducting a review of the inventory movement records. The inventory balance is ₹ 24 lakhs, which is not material to the financial statements.
- Your team identified a significant transaction where ATS provided a loan of ₹ 20 crores to a subsidiary company, "ABC Solutions Pvt. Ltd.", which is a related party. The transaction was approved by the board but was not adequately disclosed in the draft financial statements. When confronted, the management explained that since both the companies have common ownership and control, they did not deem it necessary to disclose the transaction, believing it was an internal matter.
- A former employee has filed a significant lawsuit against ATS, claiming intellectual property theft. The claim amount is ₹ 6 crores, and the legal counsel has advised the company that the outcome is highly uncertain, but a potential liability cannot be ruled out. The management has provided a contingent liability note in the draft financial statements, but it only mentions the lawsuit without quantifying the potential financial impact or detailing the nature of the claim, stating that they do not want to alarm potential investors.

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• Your firm recently hired a new articled assistant, Mr. A, who is a close relative of the CFO of ATS. Mr. A was initially assigned to the audit engagement. This relationship was not disclosed by the audit firm, and the firm's quality control procedures failed to identify this potential threat to independence. The engagement partner, CA RM, only became aware of this fact during the final review meeting. The audit fieldwork is complete. However, CA RM has applied the appropriate safeguards.

Based on the above facts, answer the following Q. Nos. 1 to 6 by choosing the most appropriate option :

1. Based on the auditor's observation regarding the new revenue recognition policy, what type of audit opinion should CA RM issue on the financial statements of ATS ?

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- (A) Unmodified opinion, as the change is management's discretion.
- (B) Qualified opinion, because the financial statements are materially misstated due to the non-adherence to the previous accounting policy.
- (C) Adverse opinion, because the material misstatement from the change in revenue recognition policy is pervasive.
- (D) Disclaimer of opinion, due to the management's refusal to correct the misstatement.

2. Considering the issue with the physical verification of inventory, what is the most appropriate course of action for the auditor ?

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- (A) Issue a Qualified opinion as the inventory balance is not material, and alternative procedures were performed.
- (B) Issue a Disclaimer of opinion since the auditor could not observe the physical count.

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- (C) Include the matter relating to inventory in Emphasis of Matter paragraph.
- (D) Since the inventory is not material, the auditor should consider the audit to be complete without any modification to the opinion.
3. In the context of the related party loan transaction with ABC Solutions Ltd., what is the auditor's primary responsibility ? 2
- (A) To issue a Qualified opinion with respect to related party transaction.
- (B) To report the matter to the Serious Fraud Investigation Office (SFIO) under Section 143(12) of the Companies Act, 2013.
- (C) To assess if the non-disclosure constitutes a material misstatement and, if so, to request management to disclose it.
- (D) To issue an Unmodified opinion with an Emphasis of Matter paragraph to draw users' attention to the non-disclosure.
4. What should be the auditor's conclusion if the management refuses to disclose the pending litigation ? 2
- (A) The auditor should include in Other Matter Paragraph regarding the uncertainty of the pending litigation.
- (B) The auditor should issue a Disclaimer of opinion since the outcome is uncertain.
- (C) The auditor should include an Emphasis of Matter paragraph in the audit report to highlight the uncertainty regarding the pending litigation.
- (D) The auditor should express an Unmodified opinion as the management has provided a note on the contingent liability.

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5. What is the most appropriate safeguard that CA RM should apply upon discovering the relationship between the articled assistant and the CFO ? **2**
- (A) The audit report should be qualified due to a lack of auditor independence.
- (B) The articled assistant should be immediately removed from the audit team, and the work performed by him should be re-evaluated and re-performed if necessary.
- (C) The firm must resign from the engagement immediately as the independence is impaired.
- (D) The firm should inform TCWG of the situation, and an Unmodified opinion can be issued if the work performed by the articled assistant is not material.
6. Which out of the following is not the auditor's responsibility concerning the internal control system of ATS in respect of related party transaction ? **2**
- (A) The auditor is required to report on the internal financial controls over financial reporting (ICFR) as per the Companies Act, 2013.
- (B) The auditor should report a material weakness in internal control related to revenue recognition and related party transactions.
- (C) The auditor should communicate the significant deficiencies in the internal control system, to TCWG in writing.
- (D) The auditor should report under clause (xiii) of CARO 2020.

Integrated Case Scenario – II

LMN & Associates, Chartered Accountants, a leading firm in providing assurance services, is in the course of finalizing various audit assignments. The audit team has 5 audit assistants in addition to the engagement partners.

They are appointed as statutory auditors of DEF Finance Limited for the F.Y. 2024-25. This is an Investment and Credit Company (ICC) incorporated in March 2020. The company has total assets of ₹ 1,200 crores as on 31st March, 2024, with financial assets constituting 65% of total assets (netted off by intangible assets). The company's income from financial assets is 58% of its gross income. The company applied for RBI registration in April 2024 and currently has Net Owned Funds (NOF) of ₹ 8 crores. The company has been operating without RBI registration since inception.

LMN & Associates are also the statutory auditor for the F.Y. 2024-25 of SH Finance Limited; a Non-Banking Finance company registered with RBI under the Middle Layer category. The company is primarily engaged in providing loans and advances to small and medium enterprises (SMEs) and individuals. During the course of audit CA L, the engagement partner observed that the company has classified a demand loan of ₹ 3.8 crores to RR Traders as NPA. This loan became NPA on 1st September, 2023. The estimated realizable value of security is ₹ 2.2 crores and the company has made a provision of ₹ 1.6 crores (₹ 1.6 crores = 100% of unsecured portion). He also observed that the company has invested in approved liquid assets worth ₹ 45 crores and held them in safe custody at its own premises.

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During the audit process of the above companies, the engagement partners have assigned the responsibility of various areas to the audit assistants including signing of documents on behalf of the firm where need arises keeping in view the clarifications issued by the Council as envisaged in the provisions of Chartered Accountants Act 1949. One of the audit assistants has signed the following documents and conducted under mentioned jobs during audit of DEF Finance Ltd :

- (i) Issued the notes to accounts and cash flow statement ultimately finalized for onward submission.
- (ii) Asking for information or issue of questionnaire.
- (iii) Acknowledging and carrying routine correspondence with clients.
- (iv) Issued non-financial report expressing professional authentication.

CA N, the engagement partner of MT Industries Limited, while conducting a comprehensive review of the audit trail functionality and related controls, observed that multiple employees use common User IDs for processing routine transactions to improve efficiency. Changes made to the audit trail configurations in the past are not formally documented or authorized through a defined approval process.

During the course of audit of Global Reach Ltd, an Indian parent company, CA L prepares the consolidated financial statements for the year ended 31st March, 2025. In his opinion the following informations given in the notes to the separate financial statement need not be included in the consolidated financial statement under IND AS 110 :

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- (i) Source from which bonus shares are issued (e.g., capitalization of profits or reserves or from securities premium account).
- (ii) Disclosure required under Micro, Small and Medium Enterprises Development Act, 2006
- (iii) Disclosure of all utilized monies out of the issue indicating the form in which utilized funds have been invested.
- (iv) Earnings in foreign exchange classified as export of goods not calculated on F.O.B. basis.

Based on the above facts, answer the following Q. Nos 7 to 12 by choosing the right option :

7. What is the minimum NOF requirement that DEF Finance Limited must achieve by 31st March, 2027 ?

2

- (A) 2 crores
- (B) 7 crores
- (C) 10 crores
- (D) 8 crores

8. For the loan of ₹ 3.8 crores to RR Traders, what should be the correct asset classification and minimum total provisioning required for F.Y. 2024-25 ?

2

- (A) Sub-standard Asset with provision of ₹ 1.98 crores
- (B) Doubtful Asset with provision of ₹ 2.26 crores.
- (C) Doubtful Asset with provision of ₹ 2.04 crores
- (D) Loss Asset with provision of ₹ 3.8 crores



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9. During the audit of DEF Finance Ltd, which actions of the audit assistant regarding signing of documents and conducting of jobs should be approved by the engagement partner as correct ? 2
- (A) (i) & (ii)
- (B) (ii) & (iii)
- (C) (iii) & (iv)
- (D) (i) & (iv)
-
10. Which of the following are most specific IT controls for MT Industries Limited to implement and operate to demonstrate that the audit trail feature is functional, operated and not disabled ? 2
- (i) Controls to ensure that User IDs are assigned to each individual employee and that User IDs are not shared among multiple users.
- (ii) Controls to ensure that the audit trail data is encrypted using advanced cryptographic algorithms.
- (iii) Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- (iv) Controls to ensure that all audit trail reports are printed and physically stored in fire-proof cabinets.

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Choose the correct option from below :

- (A) (i) & (ii)
- (B) (ii) & (iii)
- (C) (i) & (iii)
- (D) (iii) & (iv)

11. Which of the following informations given in the notes to the separate financial statement need not be included in Global Reach Ltd.'s consolidated financial statements under IND AS 110 ?

2

- (A) (i) & (ii)
- (B) (ii) & (iii)
- (C) (iii) & (iv)
- (D) (i) & (iv)

12. What should be CA L's observation regarding the custody arrangement of investment made in approved liquid assets held by SH Finance Limited ?

2

- (A) The arrangement is acceptable as approved liquid assets can be held in company's own custody.
- (B) The company should lodge in safe custody these liquid assets with a designated scheduled commercial bank as required by the NBFC Acceptance of Public Deposits Directions and also should obtain certificate from RBI to that effect.
- (C) Safe custody arrangement is not relevant for audit purposes.
- (D) Approved liquid assets need not be lodged with banks as they are risk-free assets.

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13. Mr. Verma, the CTO of a mid-sized technology firm, has received an urgent alert from his network monitoring dashboard: the company's customer portal is responding extremely slowly and, within minutes, becomes completely inaccessible. The alert appears to originate from the firm's own IT systems and even displays familiar company branding and language in the notification. Concerned about a potential server malfunction, Mr. Verma contacts the operations team – but they report no hardware failures or software errors. Meanwhile, customers flood the support line, complaining that they cannot log in or place orders. Real-time charts on the dashboard show an enormous surge of traffic – far beyond normal usage patterns.

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Based on the above scenario, which type of cyber-attack is faced by the firm ?

- (A) IoT-Based Attack (B) Spoofing Attack
(C) Denial-of-Service Attack (D) Identity-Based Attack
14. ABC Manufacturing Ltd. operates a large factory employing 1,200 workers. Over the past year, management has introduced new shift schedules to meet rising demand. However, production targets have pushed some line supervisors to require employees to work extended hours, routinely exceeding 12-hour shifts with only 15-minute breaks. Several workers have complained of chronic fatigue, frequent musculoskeletal injuries and lack of time for rest or family commitments. A small group attempted to form a workers' committee to discuss these issues, but were told by management that any "collective gathering" would hamper productivity and could lead to disciplinary action.

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ABC Manufacturing Ltd.'s board of directors has engaged you, to conduct the social impact assessment and whether the company policies are aligned with Corporate Social Responsibility (CSR) guidelines.

Based on the above scenario, which principle is not being adhered to by the Company ?

2

- (A) Principle 5 – Respect and Promote Human Rights
- (B) Principle 8 – Promote inclusive growth and equitable development
- (C) Principle 3 – Promote well-being of all Employees including those in the Value Chain.
- (D) Principle 4 – Respect for stakeholders' Interests and Responsiveness.

15. CA H, with an experience of 3 years in practice, has recently joined as a partner with JP & Associates, Chartered Accountants. He is making efforts to increase his professional income by taking up various assignments. Some of the areas where he has engaged himself are as under :

- (i) He is a part time faculty for the Live Virtual Classes run under the aegis of the Institute for CA Students.
- (ii) He is also a lecturer of Management Accounting in one Private University in his locality.
- (iii) He is providing tutorship to Class XII Commerce students of Good Edu Public School run by G H Educational Society.
- (iv) He is providing consultation for recovery of loans and advances portfolio of MM Bank Limited.



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The senior partner of his firm is of the view that all these assignments which CA H has taken up require specific and prior approval of the Council and that CA H will be deemed to be guilty of professional misconduct as he has not taken such approval.

Based on the above, which amongst the four activities require specific and prior approval of the Council ?

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- (A) (i) & (ii)
 - (B) (ii) & (iii)
 - (C) (iii) & (iv)
 - (D) (ii) & (iv)
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SPACE FOR ROUGH WORK

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**CHARTERED ACCOUNTANTS FINAL JANUARY 2026 EXAM
PAPER 3 : ADVANCED AUDITING, ASSURANCE &
PROFESSIONAL ETHICS
CODE : NHA1**

Set-A	CORRECT OPTION
1	C
2	D
3	A OR C
4	C
5	B
6	D
7	C
8	C
9	B
10	C
11	A
12	B
13	C
14	C
15	B

*Arund Kumar
Chartered
HOD(Ea)*