

(3)

BZY1

✓ PART - I

- ✓. Mr. Saurabh, a Chartered Accountant, has been appointed as the Statutory Auditor of GM Bank, a nationalized bank, for the financial year 2024-25. Before commencing the audit, Mr. Saurabh conducted an orientation session for his audit team, to familiarize them with the Long Form Audit Report (LFAR) – its applicability, contents, and submission requirements.

Which of the following statements are correct in respect of the Long Form Audit Report (LFAR) ?

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- I. Besides the audit report, as per the statutory requirements, the terms of appointment of auditors of public sector banks, private sector banks and foreign banks including their branches, require the auditors to also furnish a long form audit report.
- II. The matters which the banks require their auditors to deal with in the long form audit report have been specified by RBI.
- III. The Statutory Central Auditors are required to submit the LFAR to the banks at the latest by 31st July every year.
- IV. The format of LFAR mandatorily requires an executive summary to be given, where members must provide the same to bring out the key observations from the whole document.

(A) I, IV

(B) I, II, III, IV

(C) I, II

(D) III, IV

- ✓. During the audit of EF Limited for the financial year 2024-25, Mr. Uday, an articled clerk was assigned the task of preparing additional information to be disclosed relating to Crypto Currency or Virtual Currency transactions in the financial statements, in accordance with the Companies Act, 2013.

As a senior auditor, help Mr. Uday to identify which of the points, out of the options given, should be included in the additional information to be disclosed relating to Crypto Currency or Virtual Currency.

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- I. Profit or loss on transactions involving Crypto currency or Virtual Currency. ✓
- II. Maximum amount of currency held during the financial year.
- III. Market value of crypto currency at the end of the financial year.
- IV. Amount of currency held as at the reporting date. ✓
- V. Deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency. -

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(A) I, III, V

(B) I, II, III, V

(C) I, II, IV

(D) I, IV, V

3. During the audit of ABC Ltd. CA P found that some of the inventories of the company are lying with third parties. Which of the following are not considered audit risks in this situation ?

- I. There is a risk that company will lose competitive advantage if third party delays production.
- II. There is a risk that inventory will not be insured properly by the third party.
- III. There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties.
- IV. There is a risk that sufficient and appropriate evidence would not be available for quality control in respect of inventories lying with the third parties.

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(A) I, II & III

(B) III

(C) II & IV

(D) I, II & IV.

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Case Scenario – I :

Skill Edge Learning Pvt. Ltd. is a fast growing company providing online learning and digital testing solutions to schools and colleges. The company conducts computer-based exams and offers interactive e-learning content.

For the financial year 2024-25, Skill Edge decided to appoint M/s T & Associates as its new statutory auditor, replacing the previous auditor, CA S. As per the professional requirement M/s T & Associates sent a formal communication to CA S before accepting the engagement. However, CA S did not respond to the communication.

During the audit planning phase, the engagement partner CA T fixed the tolerable misstatement limit at ₹ 1,00,000 for verifying the company's revenue from online courses. Later, after reassessing the overall materiality, the partner increased the limit to ₹ 2,00,000. A newly joined audit assistant was unsure how this change will affect the sample size for testing revenue transactions.

While examining "Intangible Assets" in Skill Edge's books, the auditor reviewed the following expenditures :

- (i) ₹ 6 lakhs spent on in-house research to create a unique student performance database intended to enhance marketing effectiveness.
- (ii) ₹ 5 lakhs paid for software integrated with a computerized learning device – the device cannot function without this software.
- (iii) ₹ 3 lakh spent on standalone accounting software used by the finance department.

The auditor had to evaluate whether the accounting treatment of these items complied with AS-26-Intangible Assets.

Meanwhile, the promoters of Skill Edge set up a new venture, Smart Trade LLP, to trade in refurbished computers and digital devices sourced from Skill Edge's old test centres. Before registration, they consulted CA S to understand the difference between a traditional partnership, an LLP, and a private Ltd company. He explained that an LLP provides limited liability to its partners, functions as a separate legal entity, and must be registered under the Limited Liability Partnership Act, 2008 with the appropriate authority.

In August 2025, Mr. Piyush, the partner in-charge of finance at Smart Trade LLP contacted CA S to conduct the audit for FY 2024-25 and complete the statutory filings-unaware about the prescribed due dates for filings.

Based on the above facts, answer the following questions : (4 to 8)

4. Which of the following correctly describes the statutory framework applicable to Smart Trade LLP ?

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- (A) An LLP must have at least two partners, of which one must be designated and it is registered with the Ministry of Corporate Affairs (MCA).
- (B) An LLP must have at least two designated partners who must obtain a Director Identification Number (DIN), and it is registered with the Registrar of firms.
- (C) An LLP must have at least two designated partners who must obtain a Designated Partner Identification Number (DPIN), and it is registered with the Registrar of Companies.
- (D) An LLP must have a minimum of three partners, and only one is required to hold a Designated Partner Identification Number (DPIN) and it is registered with the Registrar of Companies.

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5. If Piyush approaches CA S in August 2025 for the audit and filings of FY 2024-25, which outcome is correct? 2

- (A) Annual Return filing will be delayed as every LLP would be required to file annual return in FORM 11 with ROC within 30 days of closure of financial year.
- (B) Annual Return filing will be delayed as every LLP would be required to file annual return in FORM 11 with ROC within 60 days of closure of financial year.
- (C) Annual Return filing will not be delayed as every LLP would be required to file annual return in FORM 11 with ROC within 6 months of closure of financial year.
- (D) No delay since filings can be done anytime.

6. CA S has failed to respond to incoming auditors. In this regard, choose the most appropriate option 2

- (A) It was unethical on the part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of the principle of professional behaviour governing professional ethics.
- (B) It was unethical on the part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of the principle of objectivity governing professional ethics.
- (C) The outgoing auditor is not required to respond unless the client asks.
- (D) It was unethical on the part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of the principle of professional competence and due care governing professional ethics.

7. In the given case scenario, if the tolerable misstatement is increased to ₹ 2,00,000 how will it affect the audit sample size? 2

- (A) Sample size will decrease.
- (B) Sample size will increase.
- (C) Sample size will remain unchanged.
- (D) No relationship exists between the two.

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✓ 8. Which of the following conclusions about Skill Edge's intangible asset expenditure is most appropriate under AS 26 ?

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- (A) Only items (i) and (iii) qualify as intangible assets.
- (B) All three items should be recognized as intangible assets.
- (C) Item (i) should be expensed, item (ii) treated as part of fixed assets; item (iii) recognized as an intangible asset.
- (D) Item (i) should be expensed; items (ii) and (iii) recognized as intangible assets.

Case Scenario – II :

Fresh Farm Foods Ltd., a reputed food processing company, engaged Ravi & Mehta Chartered Accountants, to provide limited assurance on its Social Responsibility Report for the year ended 31st March 2025.

The report prepared covered the company's initiatives on waste reduction, water conservation and community welfare. As part of the engagement, the assurance team visited multiple factory locations, reviewed internal sustainability data and interviewed employees and local community representatives. The engagement was carried out in accordance with the Standard on Assurance Engagements (SAEs) to evaluate whether the report was free from material misstatement.

While reviewing team behaviour during the engagement, the partner noted concerns regarding ethical and independence compliance, one team member had accepted significant gift and hospitality from the client and another had taken loan from the client. The partner decided to assess these matters in light of the ethical requirements.

Simultaneously, Ravi and Mehta were conducting the statutory audit of Fresh Farm Foods Ltd. for the same year. The company has finalized its financial statements for the year ended 31-03-2025, and in the board meeting held on 15th April 2025, the directors declared a dividend for the financial year 2024-25. During the audit, it was noted that the accountant had recognized the dividend as a liability as at 31st March 2025, on the reasoning that the dividend belongs to the year 2024-25.

The auditor must now determine whether recording such a dividend as a liability in the financial statement for the year ended 31st March 2025 is appropriate.

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Based on the case study, answer the following questions : (9 to 12)

9. Acceptance of significant gift and hospitality from the client and loan taken from the client creates which type of ethical threats ? 2

- (A) Familiarity threats and Self Interest threats respectively.
- (B) Advocacy and self-review threats respectively.
- (C) Intimidation and Advocacy threats respectively.
- (D) Self Interest and Familiarity threats respectively.

10. Which of the following best represents the three party relationship in this assurance engagement ? 2

- (A) Ravi & Mehta, management of Fresh Farm Foods Ltd., and the intended users of the report.
- (B) Ravi & Mehta, internal audit staff and the CSR department.
- (C) Ravi & Mehta, the company's board of directors and its external auditors
- (D) Ravi & Mehta, employees interviewed during site visits and the intended users of the report.

11. Which actions should the Ravi & Mehta engagement partner take as per compliance with professional ethical requirements and independent principles ? 2

- (i) Obtain information from the firm to identify and evaluate the threats.
 - (ii) Evaluate whether the action create threats to independence.
 - (iii) Apply safeguards or eliminate threats to an acceptable level.
 - (iv) Report the issue directly to the client's CSR Committee for their resolution.
 - (v) Consider withdrawal from the engagement if threats remain unacceptable.
- (A) (i), (ii) (iii) and (v) (B) (i), (ii) and (iii) only
(C) (ii), (iii) and (v) only (D) (i), (iv) and (v) only

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✓ Whether the dividend should be recognized as a liability in the financial statements of Fresh Farm Foods Ltd. as at 31st March 2025 ?

- (A) No, the amount should be recognized equally between the two financial years.
- (B) Yes, it must be recognised in the same year irrespective of the date of declaration.
- (C) No, the dividend should not be recognized as a liability, instead the amount of proposed dividend should be appropriately disclosed.
- (D) No, it should neither be recognized nor disclosed.

Case Scenario – III :

MN & Co., a firm of Chartered Accountants, was engaged to conduct the statutory audit of OP Ltd., a manufacturer of ready-made garments, for the financial year 2024-25. The audit was conducted with different team members assigned to specific areas of responsibilities :

- (1) Ms. Nishi was responsible for audit documentation and the assembly of the audit file.
- (2) Mr. Paras was handling the auditor's responsibilities related to the assessment of going concern and he noticed that OP Ltd.'s use of the going concern basis of accounting is appropriate but a material uncertainty exists.
- (3) Mr. Sanjay was focusing on the auditor's responsibilities concerning deficiencies in internal control.

Each team member was tasked with ensuring compliance with applicable auditing standards in their respective areas to facilitate a thorough and effective audit process.

Based on above facts, answer the following questions : (13 to 15)

✓ Which of the following statements are correct regarding audit documentation and the assembly of the final audit file carried out by Ms. Nishi ?

- (i) The auditor shall prepare audit documentation after auditor's report but within 90 days after the date of the auditor's report.
- (ii) Changes of any type can be made to the audit documentation during the final assembly process.

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- (iii) After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
- (iv) The retention period for audit documentation ordinarily is no shorter than seven years from the date of the auditor's report.

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

✓ During the audit of OP Ltd. Mr. Paras concludes that the financial statements do not provide adequate disclosure of a material uncertainty related to going concern. What action should Mr. Paras take in this situation ? 2

- (A) The auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705.
- (B) The auditor shall express an unmodified opinion.
- (C) The auditor shall express a qualified opinion or a disclaimer of opinion in the auditor's report that may be appropriate, in accordance with SA 705.
- (D) Auditor shall disclose the matter in EOM paragraph of the auditor's report.

✓ Mr. Sanjay considers the following as examples of indicators of significant deficiencies in internal control. Which of the following items would actually indicate a significant deficiency ? 2

- I.- Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
- II.- Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
- III.- Evidence of management's inability to oversee the preparation of the financial statements.
- IV. Presence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
- V. Evidence of an effective response to identified significant risks.

- (A) I, II, III, IV (B) I, II, III, IV, V
(C) I, II, III (D) I, II

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BZY2

PART – II

✓ (a) M/s RS & Co. has been appointed as the statutory auditor of Blue Sky Ltd., a listed company, for the financial year 2024-25. CA R is the engagement partner for this assignment. During the audit, the firm decided that an Engagement Quality Control Review (EQCR) is required for Blue Sky Ltd.. 5

CA T appointed as the engagement quality control reviewer raised concerns regarding the adequacy of documentation for related party transactions and inventory valuation.

However, the management is pressuring CA R to issue the auditor's report before the board meeting, even though the EQCR process is not yet complete. There is also a disagreement between CA R and CA T regarding the extent of further audit procedures.

As per SA 220, "Quality Control for an Audit of Financial Statements," discuss the responsibilities of CA R as the engagement partner in relation to overall direction and review of the audit and the specific responsibilities relating the EQCR.

✓ (b) Mr. Praveen, an articled clerk, wants to know the applicable Engagement Standards in the following situations :

(i) An assignment to assist the management of Healthy Foods Ltd. with the preparation and presentation of historical financial information, without obtaining assurance on that information.^{RS} 1

(ii) An assignment to examine the prospective financial information of Digital Future Ltd.^{RS} 1

Further, explain to Mr. Praveen the difference between reasonable assurance engagements and limited assurance engagements. 3

BZY2

✓(e) CA Z, the auditor of Prime Tech Industries Ltd., is conducting the audit for the financial year 2024-25. While reviewing contingent liabilities, he identifies significant litigations and legal claims that may materially affect the financial statements. The management's explanation regarding the progress and possible outcomes of these cases are inadequate and unconvincing. Anticipating that the company's external legal counsel may not respond to a general letter of enquiry. CA Z decides to seek direct communication through a letter of specific inquiry requesting the legal counsel to provide information to the auditor.

You are required to state the matters to be included in such a letter of specific enquiry as per SA 501. 3

Further, explain the auditor's responsibility if the management refuses to permit communication or meeting with the entity's external legal counsel. 1

✓2. ✓(a) You are the Chief Financial Officer (CFO) of Fortune Hotels Ltd., a company operating in the hospitality sector with multiple hotels across India. The company has recently completed its accounting and financial reporting for the financial year 2024-25, which includes preparation of the balance sheet, profit and loss account, and notes to accounts. As a Key Managerial Personnel (KMP), you are required to provide a written representation letter to the statutory auditors. 5

Illustrate the matters you would include in the Written Representation letter (in accordance with SA 580 "Written Representations") relating to the Financial Statements.

BZY2

- (b) MNO & Co, Chartered Accountants, have been auditing Spark Industries Ltd. for the past five years. Recently, there has been a change in the company's ownership and the new management has shown reluctance in providing complete accounting records and other relevant information for verification. The audit team has faced difficulty in obtaining audit evidence and is unsure whether to continue the audit engagement for the next financial year. 5

As an engagement partner, explain the procedures that MNO & Co. should perform before deciding on the continuance of the client relationship and the audit engagement as part of preliminary engagement activities.

- (c) During the audit of Alpha Components Ltd., the management informs the auditor that the company has implemented a sophisticated ERP system that tracks all movements of raw materials and finished goods in real time. Based on this system, they have stopped conducting any physical verification of inventories, claiming that the system itself ensures accuracy and control over stock levels. 4

As the auditor, explain reporting requirement under CARO, 2020.

13. (a) During the audit of STU Ltd., the auditor concludes that the financial statement is true and fair, requiring no modification. However, the notes to accounts disclose that a major fire occurred shortly after year end causing significant effect on entity's financial position. The disclosure is complete and no adjustment is needed, but the auditor believes that user should be specifically alerted to this important matter in his audit report.

Identify the type of paragraph the auditor should include in audit report in this situation. 1

Explain its meaning and state other circumstances in which such a paragraph may be necessary. 4

BZY2

- ✓ (b) Mr. Uttam, an articled clerk at RQP & Associates, is auditing AB Pharma Ltd. and has collected various papers and documents during the course of the audit. However, he is unsure about which of these papers and documents should be maintained as part of audit documentation and which should not be included. Later, AB Pharma Ltd. has also requested certain audit documentation from RQP & Associates. Advise him –

Which items need not to be included in the audit documentation ? 3

Whether RQP & Associates is obliged to provide their audit documentation to the client ? 2

- ✓ (c) You are the statutory auditor of Tec Fab Industries Ltd., a company that has recently shifted from manual accounting system to a fully automated ERP system. The management informs you that all accounting records, vouchers and reports are now generated electronically, and manual books are no longer maintained. 4

As the auditor, explain how you would understand and evaluate the company's automated environment for planning and performing the audit effectively ?

- ✓ 4. ✓ (a) During the audit of Zenith Appliances Ltd. for the year ended 31st March 2025, you observe that expenditure on purchase of machinery parts that enhance the useful life of the machine has been charged to repairs and maintenance in the Profit and Loss Account.

As the statutory auditor, explain whether the above situation constitute misstatements in the financial statements. 1

Explain the meaning of Misstatement along with other examples (Any 3) that may arise in financial statements. 4

(b) The accounts team of Infant Garments Private Ltd., while ascertaining the cost of Property, Plant and Equipment (PPE), included various expenses such as :

- Cost of testing a machine : ₹ 1,80,000
- Cost of inauguration of the new machine : ₹ 1,00,000

As a Senior auditor, guide the team regarding the recognition criteria of PPE and the elements of costs to be included at the time of recognition.

(c) Ms. Shalini, an articled clerk in Namrata & Co. LLP, has the following questions while going through SQC-1. Guide her on the following :

- (i) Can the firm have a mechanism to ensure compliance with independence requirements ? 2
- (ii) Is engagement quality review mandatory for all engagements ? 1
- (iii) Can the firm obtain from Ms. Shalini a written confirmation of compliance with the firm's policies and procedures on independence ? 1

5. (a) You are the auditor of LMN Ltd. The company's financial statements for the year ended 31st March, 2025, along with your audit report, were issued on 30th June, 2025. Two months after the issue of auditor's report, you become aware of a fact that existed as on the date of your audit report but was not known to you at that time. Had this fact been known earlier, it would have required a modification of your audit opinion.

Give the Overview of the Auditor's responsibilities in the given facts and situation in line with SA 560 "Subsequent Events".

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- ✓(b) XYZ Sewa Foundation a registered NGO receives income from various sources such as foreign grants, membership fees, subscription etc. As the audit assistant you are assigned to verify the receipt of income of the NGO for the year. 5

You are required to describe the audit procedures you would perform to verify the receipt of income of an NGO.

- ✓(c) Mr. Nikhil is the engagement partner for Amazing Ltd., an e-commerce company, for the financial year 2024-25.

- (i) Mr. Nikhil plans to hold a discussion with the senior members of the audit team regarding the current assignment. However, Mr. Hardik, a newly joined article clerk, is surprised at the need for the engagement partner to discuss the audit plan with other team members. He questions why such discussions are necessary ? 2
- (ii) Later, Mr. Hardik learns that Ms. Poornima, the audit manager, intends to discuss certain elements of the audit planning with the management of Amazing Ltd. He believes this is unnecessary, as sharing the audit plan with the client would remove the "surprise element" of audit procedures. 2

Guide Mr. Hardik in relation to the above scenarios.

- ✗. (a) CA Mini was appointed as the statutory branch auditor of DFC Bank Ltd., for the financial year 2024-25. While verifying advances, she observed the following cases :

- (i) A term loan to JT Mills Ltd. with an outstanding balance of ₹ 140 lakh and security valued at ₹ 80 lakh was classified by the branch as Doubtful-Category D1 (doubtful upto 1 year) with a provision of ₹ 70 lakh created. 3
- (ii) A Loan to Z Pvt. Ltd. with an outstanding balance of ₹ 65 lakh and realizable security value of ₹ 6 lakh (as per approved valuer) was classified by the branch as a Doubtful Asset and provision for doubtful debts was made accordingly. 2

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You are required to examine whether the asset classification and provisioning made by the branch in both cases are in accordance with the RBI Prudential Norms on Income Recognition, Asset Classification and Provisioning.

- (b) Yamika, an articled clerk, is conducting the audit of Durable Bags Ltd. During the course of the audit, she intends to use the work of the company's internal auditor as per SA 610 "using the work of internal auditor". State the circumstances under which Yamika shall plan to use less of the work of the internal audit function and instead perform more of the audit work directly. 5

- (c) In Audit against Rules & Orders of government expenditure audit, the executive government frames various rules, regulations and orders that are to be observed by sub-ordinate authorities. It is the function of audit to see that these rules, regulations and orders are applied properly by the sub-ordinate authorities. 4

State the important points that an auditor must ensure while carrying out the examination of various rules, regulation and orders issued by the executive authorities.

OR

- (c) Sapphire Stones Ltd. has trade payables and other current liabilities of ₹ 210 crores and ₹ 58 crores respectively at the end of the financial year 2024-25. Mr. Amit, the auditor of the company, wants to ensure that trade payables and other current liabilities reported in the balance sheet have been valued appropriately. State the audit procedures that Mr. Amit should perform to ensure that trade payables and other current liabilities are valued properly. 4