

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 10: Ch. 9 - Audit Services, Ch. 10 - Review of Interim Financial Info.)

Time Allowed- 40 Minutes

Maximum Marks-20

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

Case Scenario I [MCQ 1-2]

Vibrant Retail Traders Pvt. Ltd., operating 38 kiosks across three states, recently revamped its vendor payment cycle after noticing recurring mismatches between supplier invoices and entries in the purchase ledger. To gain clarity over the reconciliation process, the company approaches CA Raghav to carry out a set of predetermined procedures relating to the matching of sampled vendor invoices with the entries appearing in the purchase ledger, along with recalculation of certain discount components.

Management makes it clear that it does not expect an audit, nor does it want an opinion on the reliability of the entire purchase system—only a factual listing of the results of the procedures mutually agreed. It also indicates that the final report will be shared only with the procurement head and internal control team. Before accepting the engagement, CA Raghav evaluates whether he needs to comply with independence requirements and also considers whether the engagement letter must specify all essential terms, including any restrictions on the use of the final report.

During discussions, management insists that the report should remain confidential as the objective is limited to internal improvement. It also provides a tentative list of procedures but suggests that some of these may change based on initial walkthroughs. Raghav must determine the extent of clarity needed in the engagement letter and whether independence is a mandatory condition for accepting this type of assignment.

Based on the above facts, answer the following:

1. While considering acceptance of this engagement, which of the following best reflects the principle regarding independence in such assignments?
 - (a) Independence is mandatory, and absence of it would invalidate the factual findings report; the auditor must also disclose the threat and document safeguards applied.
 - (b) Independence is not inherently required; however, if engagement terms demand independence, the report must mention non-independence where applicable.
 - (c) Independence is required only when financial information pertains to items material to financial statements; otherwise, it is optional and need not be disclosed.
 - (d) Independence is presumed whenever factual findings are issued; therefore, no disclosure is ordinarily required unless specifically requested by third parties.

2. Which of the following sets of elements is most appropriate for inclusion in the engagement letter for this type of assignment?
- (a) A broad description of business risks, internal control gaps identified in prior years, and management's commitment to provide continuous access to ERP records.
 - (b) Clear specification of the procedures to be performed, purpose of the engagement, identification of information to be covered, and restriction on distribution of the final report.
 - (c) Statement that the practitioner will express limited assurance, representation that management will not alter ledger entries, and mandatory requirement for external circulation of the report.
 - (d) Inclusion of analytical review scope, requirement to evaluate fraud risk, and an obligation on the auditor to express an overall conclusion on the reliability of the procurement system.

Case Scenario II [MCQ 3-5]

Navkar Engineering Solutions LLP, a mid-sized entity engaged in manufacturing precision components, is preparing to negotiate a long-term supply contract with a major automobile manufacturer. To support the negotiation process, the management requires preparation and presentation of financial information for the year ended 31 March 2025, based on its internal trial balance, subsidiary ledgers, and valuation workings for inventories. The entity approaches CA Arjun to compile the financial information, specifically requesting that no verification procedures be performed and stressing that they only need assistance in arranging, classifying, and presenting the information in accordance with the applicable financial reporting framework.

The management provides the trial balance, stock sheets, summary of depreciation workings, and a list of pending vendor invoices aggregating to ₹ 42.6 lakh, for which relevant entries are yet to be posted. It informs Arjun that these invoices must be reflected in the compiled financial information as a liability. During preliminary discussions, Arjun notices that the draft financial information prepared internally uses different measurement bases for certain fixed assets depending on their location. When this inconsistency is brought up, management clarifies that the earlier accountant made mistakes but prefers that no adjustments be made, citing urgency of timelines.

The compilation team of Arjun includes two newly admitted assistants who previously worked only on audit assignments. They insist that revenue recognition cut-off testing and certain analytical reviews should be mandatory to ensure the compiled information is not misleading. One team member also raises a concern that the discrepancy in asset valuation could make the financial information materially misstated. Another member questions whether the firm needs to apply quality control requirements similar to those applicable to assurance engagements. While reviewing the draft financial information before issuing the report, Arjun realises that the expenditure of ₹3.8 crore incurred for the development of a new production facility has been incorrectly classified as repairs; the management is reluctant to reclassify it.

Arjun now needs to determine the correct nature of responsibilities in a compilation engagement, the extent to which quality control requirements apply, and how to address inconsistencies or omissions that may materially affect the compiled financial information, while ensuring the engagement is performed strictly within professional guidelines.

Based on the above facts, answer the following:

- 3 Which of the following most appropriately describes the nature of a compilation engagement in the context of Navkar Engineering Solutions LLP?
- (a) It requires the practitioner to conduct evaluation of internal controls, perform analytical reviews, and provide limited assurance on the compiled information to ensure reliability for negotiation purposes.
 - (b) It involves verification of completeness and accuracy of information provided by management, including mandatory examination of pending liabilities and cut-off procedures.
 - (c) It consists of applying accounting expertise to assist management in presenting financial information, without undertaking audit-type procedures or expressing any assurance.
 - (d) It requires the practitioner to confirm balances with vendors and customers wherever material variances exist, as the compiled statements must not contain inconsistencies.
- 4 Which of the following best reflects the quality control requirements applicable to Arjun's firm in this engagement?
- (a) SA-level engagement quality reviews must be performed, including mandatory hot and cold reviews, because the compiled financial information will influence major commercial decisions.
 - (b) Firm-level quality control requirements apply, and the engagement partner must ensure compliance with ethical requirements, supervision of staff, and adherence to relevant policies of the firm.
 - (c) The practitioner need not apply any quality control procedures since the engagement does not involve assurance and does not impact external users.
 - (d) Quality control procedures are limited only to documentation; policies relating to independence, supervision, and acceptance need not be followed.
- 5 How should Arjun deal with management's refusal to correct the misclassification of expenditure relating to the new production facility?
- (a) Accept management's view since compilation does not require evaluating classification; the compiled information should include it as given without raising concerns.
 - (b) Disclose the misclassification in a footnote to the compiled financial information without requesting any amendment, as compilation does not involve questioning management's judgments.
 - (c) Proceed with the engagement but state in the report that the financial information may be misleading due to classification issues, without insisting on corrections.
 - (d) Propose the appropriate amendment, and if management still refuses, withdraw from the engagement as the information would otherwise be materially misstated.

Case Scenario III [MCQ 6-7]

PrimaTech Innovations Pvt. Ltd., a growing software solutions company, is preparing financial statements for the year ended 31 March 2025 to be submitted to a venture capital fund considering a ₹12 crore investment. Since its audit is scheduled only after six months, the fund insists on a review of the financial statements. The company engages CA Rohan for the assignment and provides him with the trial balance, monthly revenue reports, and a summary of deferred revenue contracts amounting to ₹4.3 crore, some of which involve complex milestone-based billing.

During preliminary discussions, management highlights that revenue fluctuates significantly between months due to seasonal project acquisitions. Rohan notes that the gross margin for March 2025 jumps sharply by 18% compared to the monthly average. He plans to design procedures focusing on unusual trends and significant transactions, especially in the deferred revenue schedules. However, the finance manager insists that only basic reconciliations of ledgers should be performed due to time constraints.

As Rohan reviews the records, he observes that the company's impairment testing for software tools developed in-house lacks documented assumptions. Further, certain vendor disputes totalling ₹26 lakh have not been disclosed. Before finalising the engagement, Rohan prepares a list of written representations required from management, including confirmation of completeness of transactions, disclosure of fraud, and confirmation of their responsibility for preparation of the financial statements. Management indicates reluctance to provide representations relating to uncorrected misstatements, stating that such matters can be verbally acknowledged instead.

Rohan must now determine the appropriate procedures to design for the review engagement and evaluate whether management's position on written representations meets professional requirements.

Based on the above facts, answer the following:

- 6 Which of the following most appropriately reflects Rohan's responsibility in designing review procedures for PrimaTech?
- (a) He must design inquiry and analytical procedures targeting material areas, and may include additional procedures such as reviewing major contracts if unusual trends or inconsistencies arise.
 - (b) He is required to perform detailed substantive testing across all significant balances to ensure all fluctuations are reconciled before forming a conclusion.
 - (c) He may limit his procedures to ledger reconciliations if management indicates time constraints, provided no significant anomalies are initially noticed.
 - (d) He must perform extensive verification procedures similar to an audit since the review report will be used by external stakeholders for investment decisions.
- 7 Which of the following correctly identifies the written representation requirements applicable to this engagement?
- (a) Management may provide oral confirmations for uncorrected misstatements, as written representations are supplementary and not mandatory for these items.

- (b) Management must provide written representations confirming responsibility for preparation of financial statements, completeness of transactions, and disclosures of fraud, related parties, and significant events.
- (c) Written representations are required only when material uncertainties exist; otherwise, the practitioner may proceed without such documentation.
- (d) The practitioner may accept management's refusal to provide written confirmations, provided analytical procedures compensate for the missing representation.

Case Scenario IV [MCQ 8-10]

Futura Tech Systems Ltd., a listed company operating in cloud-based infrastructure services, prepares interim financial information for the quarter ended 30 September 2025. Owing to rising volatility in subscription renewals and a recent ransomware incident that disrupted billing for ten days, the Board requests the statutory auditor, CA Neel, to conduct a review of the interim results before submitting the same to the stock exchange. The finance team provides unaudited trial balances of all four locations, a consolidation sheet, and a summary of pending service credits of ₹1.18 crore to be adjusted in customer accounts over the next quarter.

While planning the engagement, Neel evaluates whether this review is appropriate given that the company's annual statutory audit is already conducted by his firm. He also considers whether certain procedures from the previous year's audit—such as testing of controls over revenue recognition—may affect the nature and extent of his review procedures.

During the review, Neel notes a sharp month-end spike in deferred revenue reversal and a 14% sudden improvement in gross margin compared to historical averages. He performs inquiries with the CFO and product managers and begins analytical reviews across regions. The finance team insists that no confirmations or test checks should be carried out as interim reviews do not require audit-level procedures.

As Neel progresses, he learns that the ransomware attack led to delayed billing for about ₹3.6 crore of invoices, but management expects no long-term impact. However, the company has also breached a loan covenant in October 2025, which may trigger early repayment unless renegotiated. Cash flow projections prepared by management assume successful renewal of three major customer contracts worth ₹22 crore annually, though none have been formally agreed upon. Neel now has to assess whether these events cast significant doubt on the entity's ability to continue as a going concern and determine the extent of additional inquiries or procedures required before concluding on the interim financial information.

Based on the above facts, answer the following:

- 8 Which of the following best explains why Neel's engagement falls within the scope applicable to this type of review?
- (a) Because the review is being performed by the entity's statutory auditor on financial information for a period shorter than a full financial year, and the conclusion involves limited assurance based primarily on inquiry and analytical procedures.

- (b) Because interim reviews require auditors to repeat all annual audit procedures, particularly in areas such as controls testing and substantive verification of balances.
 - (c) Because the regulator mandates the review of every management-prepared monthly MIS regardless of whether the auditor audits the annual financial statements.
 - (d) Because the nature of interim reporting requires expressing a reasonable assurance opinion on compliance with the applicable financial reporting framework.
- 9 Which of the following most appropriately reflects Neel's responsibility while collecting evidence during the review of interim financial information?
- (a) He must obtain evidence primarily through extensive test of details, confirmations, and recalculations to achieve assurance comparable to an audit conclusion.
 - (b) He must perform inquiries and analytical procedures, expanding them with other procedures only when matters arise that cause him to believe that the interim financial information may be materially misstated.
 - (c) He may rely solely on management's explanations if prior-year audit work indicates no control deficiencies, thereby eliminating the need for additional analytical reviews.
 - (d) He must perform detailed walkthroughs of all significant revenue and expense streams because interim reports are relied upon by external users.
- 10 Based on the events described, how should Neel evaluate the entity's ability to continue as a going concern?
- (a) He should confirm all future customer renewals directly with customers to validate management's cash flow projections before forming a conclusion.
 - (b) He may ignore going concern implications because interim reviews focus only on current-period variations, not future projections or covenant breaches.
 - (c) He must insist on updating management's going concern assessment but is not required to corroborate management's plans unless clear inconsistencies emerge.
 - (d) He should inquire into management's plans, assess the feasibility of those plans, consider whether disclosures are adequate, and evaluate if events such as covenant breaches cast significant doubt requiring further procedures.

CA Final - Advanced Auditing


MCQ – Mock Test Series 1: Nov. 2025

Detailed Schedule of MCQ Test Series – Nov. 2025

Date	Day	Topic	MCQ Style	Marks
6 Nov.	Wed.	Ch. 19 - Professional Ethics	5 MCQs in the form of Case Studies and General MCQ	10
7 Nov.	Thu.	Ch. 1 - Quality Control		10
8 Nov.	Fri.	Ch. 2 - General Auditing Principles & A.R.		10
10 Nov.	Mon.	Ch. 3 - Audit Planning		10
11 Nov.	Tue.	Ch. 4 - Materiality, Risk Assessment and I.C.		10
12 Nov.	Wed	Ch. 5 - Audit Evidence		10
13 Nov.	Thu.	Ch. 6 - Completion and Review		10
14 Nov.	Fri.	Ch. 7 - Reporting		10
17 Nov.	Mon.	Ch. 8 - Specialised Areas		10
18 Nov.	Tue.	Ch. 9 – Related Services & Ch. 10 – Review of F.I.		10
19 Nov.	Wed	Ch. 11 - Financial info. & Other Assurance		10
20 Nov.	Thu.	Ch. 12 - Digital Auditing and Assurance		10
21 Nov.	Fri.	Ch. 13 - Group Audits		10
24 Nov.	Mon.	Ch. 14 - Audit of Banks and NBFC		10
25 Nov.	Tue.	Ch. 15 - Audit of PSU		10
26 Nov.	Wed	Ch. 16 - Internal Audit		10
27 Nov.	Thu.	Ch. 17 - Investigation, Diligence & Forensic		10
28 Nov.	Fri.	Ch. 18 - SDG and ESG Assurance		10

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WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
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	Ch. 4 - Materiality, Risk Assessment & IC	
WT - 3	Ch. 5 - Audit evidence	03 Dec. 2025
	Ch. 6 - Completion and Review	
	Ch. 7 - Reporting	
WT - 4	Ch. 8 - Specialised Areas	06 Dec. 2025
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	Ch. 10 - Review of Financial Information	
	Ch. 11 - PFI & Other Assurance Services	
WT - 5	Ch. 12 - Digital Auditing and Assurance	10 Dec. 2025
	Ch. 16 - Internal audit	
	Ch. 17 - DD, Investigation & Forensic Accounting	
	Ch. 18 - SDG & ESG Assurance	
WT - 6	Ch. 13 - Group Audits	13 Dec. 2025
	Ch. 14 - Special Features of Audit of Banks and NBFC	
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