

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 11: Ch. 11 – Prospective Financial info. and Other Services)

Time Allowed- 20 Minutes

Maximum Marks-10

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.

1. A listed company is preparing an offer document for a proposed rights issue and includes financial information showing how the acquisition of a small subsidiary would have affected its results had the transaction occurred earlier. The management asks the practitioner whether, while reporting on this information, the focus should be on verifying the accuracy of historical numbers, or on evaluating whether the adjustments made fairly reflect the impact of the acquisition in accordance with the criteria applied. The practitioner wants to clarify what the core responsibility is when reporting on such compiled information.

Which of the following best describes the practitioner's responsibility in this situation?

- (a) The practitioner evaluates whether the compiled information has been prepared using suitable criteria and whether the adjustments appropriately reflect the effects of the transaction, without undertaking an audit or review of the historical financial figures themselves.
- (b) The practitioner verifies the accuracy of all historical information, confirms that past audit evidence remains valid, and ensures that the compiled financial information matches the updated accounting records before assessing the adjustments.
- (c) The practitioner primarily re-computes the projections to confirm that the entity's revised forecasts match the assumptions of the offer document, and expresses an opinion on whether those outcomes are likely to occur as presented.
- (d) The practitioner performs procedures to authenticate the original financial statements on which the compiled information is based and ensures that all future-oriented assumptions are validated before concluding on the compilation.

Case Scenario I [MCQ 2-3]

Trivolt Energy Systems Ltd. (TESL), a mid-sized manufacturer of solar-powered equipment, is planning to expand into hybrid energy storage units. To obtain long-term funding, the management decides to prepare detailed forward-looking financial information covering expected production capacity, projected turnover, estimated margins, and capital expenditure of ₹62 crore on new machinery. The projections include certain numerical assumptions such as a 12% annual growth in demand and an energy-efficiency incentive expected from the State Government.

TESL appoints an external finance consultant to compile the projections. A banker reviewing the proposal insists that the projections be examined by an independent professional accountant. Before engaging one, TESL wants clarity on whether the professional accountant can associate his name with information that includes future estimates, especially since the consultant performing compilation is not part of the finance team.

During internal review, management notices that some assumptions—like government incentives—are hypothetical while others represent best estimates. They also want to confirm whether all such assumptions need to be disclosed separately or only the major ones. Further, the CFO seeks guidance on whether the projected financial information must clearly indicate the date it was prepared and whether the presentation format must mirror the entity's historical reporting framework.

Based on the above facts, answer the following:

- 2** TESL is unsure whether a professional accountant may associate with its forward-looking information when some assumptions are hypothetical. Which of the following best describes the conditions under which such association is permissible?
- (a) The accountant may associate with future-oriented information if he clearly identifies the information as forward-looking, explains the basis of assumptions, and avoids conveying that the projected results will actually occur, regardless of whether assumptions are best-estimate or hypothetical.
 - (b) The accountant may associate with such information only if all assumptions are purely best-estimate, the projections exclude hypothetical elements, and the accountant provides a positive assurance on the achievement of the projected results.
 - (c) The accountant may associate only when the projections are prepared directly by management and do not involve any external consultant, and the accountant verifies each quantitative assumption with historical data.
 - (d) The accountant may associate with future-oriented information only when the entity's statutory auditor is appointed for examination and the projections cover at least one full operating cycle of the business.
- 3** While finalising presentation and disclosure of its forward-looking information, TESL wants to ensure compliance. Which option best describes what must be ensured for appropriate presentation?
- (a) The information must include scenario-based sensitivity ranges, even if not requested, and must reconcile projected figures with future internal budgets approved after the preparation date.
 - (b) The information must clearly disclose the assumptions (distinguishing best-estimate and hypothetical), show that it is prepared on a consistent basis with historical financial statements, and state the preparation date along with sufficient explanatory notes.
 - (c) The information must primarily focus on projected profit figures; disclosure of assumptions is optional provided the accountant performs analytical procedures to verify the numerical calculations.
 - (d) The information must adopt the same line-item format as a bank's loan-assessment template, even if inconsistent with the entity's historical reporting financial framework, so that external users can compare industry submissions.

Case Scenario II [MCQ 4-5]

Globetrix Payment Solutions Pvt. Ltd. provides back-end settlement processing for multiple e-commerce platforms. Its system records over 14 lakh monthly transactions and applies control checks on payment routing, chargeback handling, reconciliation mismatches, and scheduled payout cycles. As part of a vendor evaluation process, ShopVibe Online Retail Ltd. requests a detailed assurance report from Globetrix's service auditor, since the latter's financial statements rely heavily on settlement data generated by the service organisation.

During preliminary discussions, the service auditor identifies certain control deviations noted in internal audit reports—for example, 8 out of 1,200 sampled records showed delayed payout approvals due to system queue congestion. However, the deviations did not affect achievement of control objectives. Globetrix wants to understand whether such deviations, along with sample size and test procedures, would need specific mention in the final report.

Separately, the auditor notes that some control descriptions provided by Globetrix do not match actual workflow logic for reconciliation modules. Management feels the deviations are minor and prefers that the assurance report avoid negative impressions for client presentations. The service auditor, however, is concerned that if the mismatch is material and unresolved, the final opinion may need modification, which Globetrix wants to avoid before its contract renewal cycle.

Based on the above facts, answer the following:

- 4 Globetrix wants clarity on whether deviations noted during testing—such as delayed approvals and related sample details—must be separately reported. Which of the following best describes what **MUST** be included in a Type 2 report as an additional reporting requirement?
- (a) A Type 2 report includes a separate section describing the controls tested, along with sample size and nature of tests, and discloses deviations identified, even if the deviations do not prevent achievement of stated control objectives.
 - (b) Additional reporting is required only when deviations materially affect payout accuracy; otherwise, a general statement that tests were performed is sufficient without specifying sample size or nature of deviations.
 - (c) A Type 2 report requires disclosure of deviations only if the client requests such details in writing; otherwise, such matters remain part of internal working papers and do not enter the assurance report.
 - (d) Such details are excluded unless deviations exceed a pre-defined quantitative threshold, in which case the auditor reports only aggregated deviations without linking them to specific tests.
- 5 Suppose the service auditor concludes that certain control descriptions provided by Globetrix are not fairly presented. Which option best reflects when a modified opinion becomes appropriate?
- (a) A modified opinion is required whenever any control description differs from workflow design, regardless of materiality, since accuracy of every line in the description is mandatory.

- (b) A modified opinion is appropriate when the system description is materially misstated, or controls related to control objectives are not suitably designed or operating effectively, or when sufficient appropriate evidence could not be obtained.
- (c) Modification is necessary if the internal audit report contains any unresolved observation, even if unrelated to controls supporting control objectives in scope.
- (d) Modification arises only when user auditors express concern or request re-testing; otherwise, the service auditor continues with an unmodified report unless there is fraud.

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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

Note: Test Papers and Answer Key will be uploaded on Knowledge Portal of www.altclasses.in

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WT - 3	Ch. 5 - Audit evidence	03 Dec. 2025
	Ch. 6 - Completion and Review	
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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
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	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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WT - 7	Full Syllabus Test 1	17 Dec. 2025
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