

**FINAL COURSE: GROUP I**

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS**

**(MTP 4: Ch. 3 – Audit Planning, Strategy and Execution)**

**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 During analytical procedures, the auditor is evaluating the reasonableness of Interest Income declared by Zilcore Finance Ltd. The company's average loan book during the year is ₹600 crore, and the average yield on loans according to industry benchmarks is 12%. However, the company has reported Interest Income of only ₹58 crore. No significant changes in loan mix or interest waivers have been documented by management. What should the auditor conclude based on SA 520?
- (a) The variance of ₹14 crore between expected (₹72 crore) and actual (₹58 crore) interest income is material and indicates possible misstatement requiring further investigation.
- (b) Since actual income is closer to expected income than previous year, analytical procedures need not be expanded further.
- (c) The difference is within acceptable tolerance as it represents only a minor deviation from expected yield.
- (d) The auditor should conclude that the loan book calculation is incorrect and rely entirely on substantive testing without using analytical procedures.

**Case Scenario [MCQ 4-7]**

Midas MicroFinance & Digital Lending Ltd. ("MMDL") is a prominent digital lending platform that provides AI-based micro-credit to small merchants across India. For the year ended 31 March 2025, the company reported a total digital loan book of ₹ 1,250 crore, representing a growth of nearly 33% over the previous year. Of this amount, ₹ 138 crore constituted loans overdue for more than 90 days, which was a significant increase compared to ₹ 92 crore in the previous year. Historically, the company's default rate over the past five financial years averaged around 9.5%. However, management revised its default probability assumption for the current year to 6.2%, citing "improvement in customer repayment behaviour" as well as "stronger AI-driven customer analytics", though no formal supporting documentation or detailed evidence was provided to substantiate this claim.

During the year, MMDL implemented a major technological upgrade through the introduction of a new machine learning (ML) model for Expected Credit Loss (ECL) computation. This model was recalibrated on 15 December 2024 after mid-year system migration. Immediately following the recalibration, the ECL estimated by management reduced sharply by ₹ 36 crore and resulted in a closing ECL provision of ₹ 78 crore for the year. A review of model documentation by the statutory auditor revealed incomplete version-control logs, insufficient evidence of testing of revised parameters, and lack of documentation supporting the rationale behind the mid-year changes. Furthermore, management used a data science consulting firm to validate the model, paying them a fee of ₹ 40 lakh. The consultant had based conclusions on only four months of data and had not reconciled assumptions with the long-term historical default trend or macroeconomic indicators.

Internal audit at MMDL consists of only two personnel who undertook verification of just 90 loan files out of a total population exceeding 1.2 crore individual loans. Their sample selection was largely influenced by operations staff, and documentation lacked clarity on sampling methodology, risk-based testing approach, or review of system-level controls. Their audit reports did not include evaluation of algorithm logic, data migration accuracy, or controls introduced during recalibration of the ML model. The internal audit function reports to the Head of Operations rather than an independent audit committee, raising questions about their objectivity and independence. Consequently, the statutory auditor, CA Zubin, questioned whether reliance could be placed on the internal audit work.

During his risk assessment, CA Zubin noted increasing estimation uncertainty, inadequate internal control documentation, and evidence of possible management bias. His preliminary recalculation of ECL, based on a conservative re-analysis of default probabilities and actual recovery trends, indicated a provision of approximately ₹ 112 crore. This contrasted starkly with the ₹ 78 crore provision recorded by management. To address the complexity of AI-based modelling and blockchain-backed customer data migration, he engaged an independent auditor's expert specialising in credit-risk analytics. The expert observed that recovery rates during January–March 2025 were overstated owing to incomplete upload of customer repayment data and concluded that the provision shortfall likely ranged between ₹28 crore and ₹42 crore. These findings aligned with the auditor's preliminary recalculations and indicated potential material misstatement in loan impairment.

Considering the significant increase in overdue loans, lack of adequate documentation for model changes, doubts about management's assumptions, questionable internal audit competence, and expert findings, CA Zubin revised the overall audit strategy. He reduced materiality for the loan impairment area, expanded sample sizes, planned additional substantive and recalculation procedures, and communicated these changes to those charged with governance. He also concluded that reliance on the work of internal auditors was not appropriate and that additional engagement with his own expert was required in accordance with the auditing standards. Before forming his final opinion, he evaluated whether sufficient appropriate audit evidence had been obtained and whether disclosures about model recalibration and underlying assumptions were adequate in the financial statements.

**Based on the above facts, answer the following:**

- 2 On observing that the ECL reduced by ₹36 crore immediately after model recalibration and that documentation was incomplete, how should the auditor respond under SA 300?
- (a) Update the overall audit strategy by revising materiality levels, expanding substantive procedures and reconsidering the timing of detailed testing due to unexpected events.
  - (b) Maintain the original audit plan because mid-year recalibration is part of normal business processes in digital lending.
  - (c) Rely on management's expert to validate the adequacy of documentation and proceed with planned audit procedure.
  - (d) Conclude that reliance on analytical procedures alone is sufficient since default rates have historically been stable.
- 3 The internal audit team verified only 90 files out of a population of more than 1.2 crore loans and sample selection was influenced by operations personnel. What should the statutory auditor conclude in line with SA 610?
- (a) Internal audit work can be used for low-risk areas but not for significant estimates such as ECL computation.
  - (b) Internal audit work cannot be relied upon due to insufficient sample size, compromised objectivity and inadequate documentation.
  - (c) Internal auditors should be given responsibility for detailed recalculation of ECL to save statutory audit time.
  - (d) Internal audit work may still be fully relied upon because they have basic operational knowledge of the loan portfolio.
- 4 Management reduced default probability from 9.5% to 6.2% without evidence and used incomplete model data. Auditor's and expert's calculations indicate ECL should be around ₹112 crore. What is the correct approach under SA 540?
- (a) Treat this as a high-risk estimate, evaluate management's assumptions for reasonableness, and assess indicators of possible management bias.
  - (b) Accept management's assumptions because they engaged a professional data science expert.
  - (c) Average the auditor's and management's estimates to arrive at a balanced provision figure.
  - (d) Conclude that the estimate is immaterial compared to total loan book of ₹1,250 crore.
- 5 The auditor's expert concludes that ECL is understated by ₹28–₹42 crore. What is the auditor required to do under SA 620?
- (a) Accept the expert's conclusion automatically since the expert is more knowledgeable in the field.
  - (b) Evaluate the adequacy of the expert's work, corroborate findings with additional evidence and consider implications for audit opinion.
  - (c) Ask management's expert to validate the auditor's expert's work and rely on whichever report is more favourable.
  - (d) Remove ECL from audit scope as experts have conflicting views and focus only on disclosures.

# 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

**Note: Test Papers and Answer Key will be uploaded on Knowledge Portal of [www.altclasses.in](http://www.altclasses.in)**

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S. No.	Chapter No. and Name	Date of Test
WT - 1	Ch. 1 - Quality Control	26 Nov. 2025
	Ch. 19 - Professional Ethics	
WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
	Ch. 3 - Audit Planning, Strategy & Execution	
	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
	Ch. 9 - Audit Related Services	
	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	
	Ch. 15 - Overview of Audit of PSU	
WT - 7	Full Syllabus Test 1	17 Dec. 2025
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