

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 8: Ch. 7 – Reporting)

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.

Case Scenario [MCQ 1-5]

Grandwell Components Ltd. (GCL) is a listed engineering company manufacturing precision valves and pressure-regulating units for the aviation and industrial gas sectors. It operates three manufacturing units in Gujarat and Tamil Nadu. The company recently expanded a new facility near Coimbatore, funded partly through a term loan arrangement with two banks and partly through internal accruals. During the year, the company implemented a new digital workflow system covering production quality checks and inventory measurement. Although the system was intended to improve traceability, the audit team noticed that mid-year several batches were logged manually because of intermittent system downtime. Further, the warehouse staff had not completed physical verification for certain high-value inventory items due to production pressure, stating that shutdown time could not be arranged.

During the final months of the year, the company faced delays in receivables. A major overseas customer withheld acceptance for two shipments, demanding conforming test certificates that were not uploaded to the portal due to the above system issues. The company disclosed this as a trade receivable of ₹82 crores, marked as “pending acceptance”, but no provision or contingent disclosure was made. Management argued that the certificates were available offline and would be uploaded after year-end.

A significant matter arose regarding prior-period comparative numbers. During substantive testing of property, plant and equipment, the audit team discovered that last year’s capitalisation of ₹14.20 crores for a machining line included installation expenses incurred after commissioning. This should have been expensed last year. Management accepted the error but refused to restate comparatives, stating that the error was not material enough to revise past figures. They instead proposed to adjust the current year’s depreciation charge. The engagement partner noted that the error impacted gross block, accumulated depreciation, and the profit of the previous year by around 4.8%, which he believed required proper disclosure in accordance with reporting guidelines relating to comparative information.

The company’s internal audit department submitted a report to management indicating potential manipulation by an accounts officer who appeared to have overridden controls for vendor onboarding. One new vendor was traced to be related to him. Approximately ₹1.35 crores of purchases were routed through this vendor, with possible over-invoicing.

As the matter prima facie involved a potential fraud by an employee responsible for financial reporting processes, the Managing Director initiated an internal investigation but had not communicated anything formally to the statutory auditors until the auditors specifically enquired.

Another issue related to CARO reporting requirements emerged when examining fixed-asset title deeds. A land parcel near the older Ahmedabad facility amounting to ₹9.6 crores was still in the name of the promoter group entity from whom it was purchased eight years ago. The company had paid the entire consideration long ago but had not completed the mutation or updated the title due to litigation relating to land zoning. The company disclosed this in notes but did not present documentary evidence of the mutation process. Similarly, certain inventory items, forming around 11% of total inventory value, were found short in surprise checks conducted by internal audit, but management attributed this to timing differences, without reconciliations.

The banking consortium had imposed certain financial covenants. One covenant required maintaining a current ratio of 1.25. At year-end, the audited figure stood at 1.19. Management explained that negotiations with the lead bank were ongoing and that no penal clause would be invoked. However, the auditor noted that covenant breaches may have implications for the classification of borrowings.

When evaluating Key Audit Matters, the engagement team identified the following areas requiring significant attention: the pending acceptance of export receivables, discrepancies in inventory records due to partial digital system failures, and the possible impact of errors in comparative figures. The audit committee discussed these matters, insisting that clarity be provided in the auditor's report so that users understand the nature of the issues without assuming misstatements where none existed.

During finalisation, the Managing Director informed the auditors that the internal investigation on the suspicious vendor had revealed strong indications of collusive fraud by the employee and vendor. As per law, the matter was reported to the Audit Committee, but the CFO requested the auditors to wait until the board formally approved the reporting process. The auditors reminded management of their statutory duty to report such fraud to the regulatory authorities once they form a reasonable belief.

The auditors also assessed the need for modification of the opinion, the necessity of reporting on other legal requirements including CARO, and appropriate treatment of comparative information, disclosures, and Key Audit Matters. With these complexities involved, the engagement partner prepared to draft the report, ensuring compliance with professional standards relating to modifications, KAM disclosure, fraud reporting requirements, and comparative information.

Based on the above facts, answer the following:

- 1 The prior-period error of ₹14.20 crores was not restated by management, though the auditor believes it materially affects comparatives. What is the most appropriate reporting requirement under SA 710?
 - (a) Include the matter only in Emphasis of Matter, as users can clearly see the numerical impact in current-year notes without needing a qualification.
 - (b) Modify the opinion only if the current year's figures are misstated, but comparative disclosures need no specific attention in the audit report.
 - (c) Consider whether a modification is required because management refused to correct a material misstatement in comparatives, and explain this in the Basis for Modified Opinion section.
 - (d) Simply describe the comparative issue within Key Audit Matters as it involves significant auditor judgement but not a misstatement.

- 2 Which matter is most appropriately included as a Key Audit Matter in this audit?
- (a) The system-induced gaps in inventory recording and physical verification, as they required extensive audit effort and involved significant judgement regarding valuation.
 - (b) The suspicious vendor fraud, since all frauds must mandatorily be disclosed within the KAM section as per law.
 - (c) The covenant breach relating to current ratio, since all financial ratios below sanctioned limits must be treated as key audit matters.
 - (d) The land title deed in the promoter's name, since any asset without updated title should automatically be a KAM.
- 3 Which of the following situations in this case most appropriately triggers a modification to the auditor's opinion?
- (a) Management's refusal to restate comparative figures for a material prior-period error affecting the gross block and profit figures of the previous year.
 - (b) The pending acceptance of receivables, since such disputes are routine and do not affect the auditor's opinion.
 - (c) The internal investigation on employee fraud, since the auditor must always issue an adverse opinion when fraud exists.
 - (d) The inventory shortages identified by internal audit, even though management provided reconciliations after year-end.
- 4 Which reporting requirement under CARO 2020 is most relevant considering the land parcel not transferred in the company's name?
- (a) Reporting whether immovable properties have been revalued during the year and the impact of such revaluation on the financial statements.
 - (b) Reporting on whether the company has maintained proper records of inventories and whether discrepancies were appropriately adjusted.
 - (c) Reporting whether immovable properties disclosed in the financial statements are held in the company's name, including situations where title deeds are not in the company's name.
 - (d) Reporting whether the company has defaulted in repayment of loans or borrowings to banks or financial institutions.
- 5 What is the auditor's responsibility regarding the fraud involving the accounts officer and vendor, once reasonable belief is formed?
- (a) Await the company's internal investigation to conclude and report only after management finalises disciplinary action internally.
 - (b) Report to the shareholders in the auditor's report and include the matter as a mandatory KAM without exception.
 - (c) Report the fraud in the main audit opinion section and qualify the opinion, irrespective of materiality or involvement.
 - (d) Report the matter to the Central Government within prescribed timelines after following the procedural requirements, even if management is already aware.

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

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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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