

INTER COURSE: GROUP II
PAPER-5: AUDITING AND ETHICS

(MTP 8: Ch. 7 – Completion and Review)

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 the audit of Nimbus Aero Components Ltd., the auditor noted that the company has reported profitable results for the current year, but the cash flow statement reveals negative operating cash flows for the third consecutive year. A major long-term loan of ₹48 crore is due for renewal in four months, and correspondence with the bank suggests only a *preliminary willingness* to consider restructuring subject to stringent conditions. Management's cash-flow forecast assumes a 22% growth in export orders, though no binding contracts exist, and past projections have shown consistent over-estimation. Further, minutes of the last board meeting indicate discussion on possible asset disposals, although no formal plan has been approved. The auditor must conclude on whether a material uncertainty exists and the adequacy of related disclosures.
- Which conclusion best reflects the auditor's responsibility under SA 570?
- (a) Management's positive projections and verbal assurance from the bank provide sufficient evidence that no material uncertainty exists, so no specific reporting is required if going concern is considered appropriate.
 - (b) The existence of multiple adverse indicators and unsupported assumptions in management's forecast requires the auditor to conclude that a material uncertainty exists, and if adequately disclosed, report under the "Material Uncertainty Related to Going Concern" section.
 - (c) Since the company is currently profitable, the auditor should not evaluate going concern based on cash flows alone and may rely primarily on management's representation regarding future commitments.
 - (d) The discussion of potential asset disposals indicates that management plans to significantly curtail operations; therefore, the going concern basis must be rejected and an adverse opinion issued.
- 2 During the audit of Zenith Pro Labs Pvt. Ltd., the auditor requests written representations regarding management's responsibilities for preparation of financial statements and completeness of information provided. Management states verbally that all such responsibilities have been fulfilled but hesitates to provide the written representation, arguing that all evidence is already available in the books and earlier discussions. The auditor believes written representations are required irrespective of the sufficiency of other audit evidence.

What should the auditor conclude in this situation as per SA 580?

- (a) Accept management's verbal confirmation since written representations are only supplementary and not mandatory when sufficient evidence exists.
- (b) Treat the refusal to provide written representation as a limitation on scope and evaluate the need for a disclaimer of opinion.
- (c) Proceed with the audit report by including an Emphasis of Matter paragraph to highlight the absence of written representation.
- (d) Request written representation only regarding specific assertions and not about management's overall responsibilities.

Case Scenario [MCQ 3-5]

Arctech Instruments Pvt. Ltd., a manufacturer of optical measurement devices, is in the final stage of audit for FY 2023-24. During an informal discussion on 6 June 2024, a senior production manager informed the auditor that a large batch of sensors supplied to a defence contractor in January 2024 had been recalled by the customer due to calibration slippage noticed during field testing. The customer has verbally indicated that losses arising from this may be recovered from Arctech, but formal communication is still awaited. The financial statements were approved by management on 28 May 2024 and are scheduled for issue shortly.

While reviewing audit documentation, the audit team also noticed that a misclassification of ₹28 lakh relating to tooling repairs capitalised as plant equipment remains uncorrected. Management believes the amount is not material individually and is unwilling to adjust it, although the auditor's cumulative uncorrected misstatements schedule already totals ₹72 lakh, nearing the overall materiality threshold.

During the closing meeting, the auditor communicated certain weaknesses relating to the stores department, such as lack of segregation of duties in goods receipting and inadequate review of high-value issue slips. The CFO responded that these deficiencies were known internally, but no formal process exists to escalate such deficiencies to governance level, and no written action plan has been prepared. The audit partner believes these weaknesses could potentially result in material misstatements if not monitored.

The auditor must now carefully evaluate the effect of the post-balance-sheet information, the uncorrected misstatements, and the internal control deficiencies before concluding on the audit.

Based on the above facts, answer the following:

- 3 The information about the customer recall communicated to the auditor on 6 June 2024 is relevant because it occurred after approval of the financial statements but before their issue. Which action is most appropriate for the auditor to take?
- (a) Discuss the matter with management, assess whether amendment of the financial statements is necessary, and extend procedures up to the date of issuing a revised report if they are amended.
 - (b) Ignore the matter as no written claim has been received and the event occurred after approval of the financial statements.
 - (c) Place reliance on management's belief that the issue is non-financial in nature and proceed to sign the report without additional procedures.
 - (d) Only request a written representation from management since post-report procedures are not required for unconfirmed events.

- 4 Management refuses to adjust the capitalised tooling repairs of ₹28 lakh, although uncorrected misstatements now approach the materiality threshold. What should the auditor do?
- (a) Treat the item as clearly trivial and avoid further evaluation since it is small individually.
 - (b) Reassess materiality, evaluate the aggregated effect of uncorrected items, and communicate the matter to those charged with governance.
 - (c) Withdraw from the engagement because refusal to correct any misstatement indicates lack of integrity.
 - (d) Accept management's view without further review as capitalisation of repairs is a matter of accounting judgment.
- 5 The weaknesses in the stores process described by the auditor relate to internal control deficiencies that may be significant. What is the auditor's responsibility?
- (a) Report the deficiencies only if they have already resulted in a detected misstatement in the current period.
 - (b) Perform extensive retesting of all store-related controls and postpone issuance of the audit report until controls are redesigned.
 - (c) Communicate only orally since the deficiencies were already known to management and no formal response is required.
 - (d) Communicate the deficiencies in writing to the appropriate governance level, describing the implications and recommending timely remedial action.

CA Inter – Auditing and Ethics

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. 1 - Nature, Objective and Scope of Audit | 1 Case Study with 4 MCQ + 1 General MCQ | 10 |
| 7 Nov. | Thu. | Ch. 11 - Ethics and Terms of Audit Engagements | | 10 |
| 8 Nov. | Fri. | Ch. 2 - Audit Strategy, Planning & Programme | | 10 |
| 10 Nov. | Mon. | Ch. 3 - Risk Assessment and Internal Control | | 10 |
| 12 Nov. | Wed | Ch. 4 - Audit Evidence | | 10 |
| 14 Nov. | Fri. | Ch. 6 - Audit Documentation | | 10 |
| 17 Nov. | Mon. | Ch. 5 - Audit of Items of Financial Statements | | 10 |
| 19 Nov. | Wed | Ch. 7 - Completion and Review | | 10 |
| 24 Nov. | Mon. | Ch. 8 - Reporting | | 10 |
| 26 Nov. | Wed | Ch. 9 - Audit of Different Types of Entities | | 10 |
| 28 Nov. | Fri. | Ch. 10 - Audit of Banks | | 10 |

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| 2 | Ch. 2 - Audit strategy, Planning and Programme | 29 Nov. 2025 |
| | Ch. 3 - Risk Assessment and Internal Control | |
| 3 | Ch. 4 - Audit evidence | 03 Dec. 2025 |
| | Ch. 6 - Audit Documentation | |
| 4 | Ch. 5 - Audit of Items of Financial Statements | 06 Dec. 2025 |
| 5 | Ch. 7 - Completion and Review | 10 Dec. 2025 |
| | Ch. 8 - Audit Report | |
| 6 | Ch. 9 - Sp. features of Audit of Different Entities | 13 Dec. 2025 |
| | Ch. 10 - Audit of Banks | |
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