

MTP 3 (Ch. 5 – Audit Evidence & Ch. 6 – Completion & Review)

Marks: 40

Time: 1 Hr. 15 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Case Scenario - 1

Meditech LifeCare Ltd. (MLL) manufactures oncology and critical-care drugs at three units — Ahmedabad, Visakhapatnam, and Haridwar.

The company reported a turnover of ₹ 1,280 crore for FY 2025–26, with ₹190 crore in trade receivables and ₹ 295 crore of closing inventory.

M/s Sanjay & Rao, Chartered Accountants, were appointed as statutory auditors for FY 2025–26 following the mid-year resignation of the previous firm.

The company migrated to a fully integrated ERP system “BioTrack+”, managed by TechSphere Analytics Pvt. Ltd., covering procurement, production, inventory, and finance.

Key Audit Situations:

1. Reliance on Data Prepared by a Specialist

TechSphere, which developed and maintains BioTrack+, also produces year-end reports such as inventory valuation and yield analyses.

Its remuneration includes a performance-linked fee based on “data reliability scores.” Management asserts the reports are “completely automated and free from manual interference.”

2. Physical Verification of Stock

Auditors attended physical counts at Ahmedabad and Haridwar, together covering about 65% of total stock.

The Visakhapatnam unit, holding ₹ 102 crore of inventory, could not be visited due to a chemical spill that restricted entry.

Management provided drone visuals, signed count sheets, and weighbridge logs as supporting evidence.

In April 2026, dispatches worth ₹ 38 crore and new production worth ₹ 22 crore were recorded from that plant.

3. Trade Receivable Confirmations

Requests were sent to 40 customers covering ₹ 150 crore (out of ₹ 190 crore total).

- 29 customers (₹ 115 crore) confirmed balances without variance.
- 3 customers reported mismatches of ₹ 3.5 crore in total.
- 8 customers (₹ 25 crore) did not respond despite reminders.

Management later produced subsequent receipts for six of these eight customers.

4. Transactions Indicating a Possible Undisclosed Relationship

MLL procures laboratory glassware from Astra Scientific Pvt. Ltd., in which R&D head Dr. Neel Sharma holds a 10% stake — duly disclosed.

Separately, ₹ 2.1 crore was paid to Nexon Instruments Pvt. Ltd., a new supplier using a similar email domain and receiving same-day payments.

A whistleblower alleged that Nexon is controlled by Dr. Sharma's relatives.

Management maintains that Nexon is independent and not related.

Based on the above facts, answer the following:

- Q.1** Which of the following actions best supports the auditor's evaluation of the reliability of TechSphere's reports? **2**
- (a) Accept the report since it originates from a system maintained by a specialist.
 - (b) Review TechSphere's competence and independence and test selected outputs against other audit evidence.
 - (c) Assess whether TechSphere's performance-linked fee creates bias and verify a few system-generated results before reliance.
 - (d) Rely on management's representation confirming that BioTrack+ data cannot be overridden.
- Q.2** What is the most appropriate way to verify the Visakhapatnam inventory when attendance during the count was not possible? **2**
- (a) Perform later-date test counts, verify post-year-end movements, and reconcile closing records with dispatch and production data.
 - (b) Compare drone footage with count sheets and accept management's certification.
 - (c) Restrict the opinion only to the two plants visited.
 - (d) Treat BioTrack+ data as equivalent to physical attendance.
- Q.3** How should the auditor address the non-responses and discrepancies in debtor confirmations? **2**
- (a) Treat the 77% response rate as sufficient since most replies matched.
 - (b) Consider differences immaterial because they are small relative to sales.
 - (c) Accept management's assurance that non-responses are normal for long-term customers.
 - (d) Obtain further evidence for non-responses and examine the causes of differences before concluding.

Case Scenario - 2

Laminar Precision Drives Limited (LPDL) is a mid-sized manufacturer of customised power-train assemblies supplied to electric vehicle producers across India. The company operates three plants—Hyderabad, Hosur and Nagpur—and maintains centralised procurement and logistics. FY 2025–26 saw adverse developments that significantly affected financial stability and cast doubts on future liquidity.

During October 2025, LPDL's largest customer cancelled a long-standing supply arrangement after entering a strategic partnership with a foreign competitor. This customer accounted for nearly 42% of LPDL's annual revenue.

As a result, production lines at the Hosur plant remained under-utilised for the rest of the year, and the company was forced to offer early-exit options to contract workers. Management also attempted to renegotiate supplier terms due to rising payables, but only two out of nine key suppliers agreed to extend credit cycles.

Another development occurred on 5 June 2026, when the government announced a new subsidy programme for manufacturers of energy-efficient components. Preliminary estimates showed that LPDL may be eligible for nearly ₹ 13–14 crore once guidelines are issued. The CFO urged auditors to incorporate this benefit into FY 2025–26 results, arguing that its retrospective nature justified inclusion.

Liquidity pressures worsened steadily. Bank limit utilisation remained at 98–100% throughout the last quarter. The company's debt-service coverage ratio for FY 2025–26 dipped to 0.82, well below the minimum covenant requirement of 1.25. Employee dues at Nagpur remained overdue for about three weeks, and statutory dues related to professional tax and contract labour contributions were delayed.

Management prepared a one-year cash-flow projection to convince auditors that revival was likely. The forecast assumed sanction of additional working-capital lines within three months, onboarding of two new electric-vehicle clients with whom discussions had begun, and cash inflow of ₹ 10 crore from the proposed sale of an unused parcel of land. Auditors noted several weaknesses: no term sheet existed for the land sale, the potential new clients had only expressed preliminary interest without volume commitments, and the projected cost savings from workforce restructuring appeared overstated when compared to past payroll data.

While evaluating future viability, the auditors observed that several assumptions lacked adequate support and that the company's dependence on bank approvals made liquidity highly uncertain. Management ultimately agreed to include a note describing the existence of significant uncertainties affecting future operations.

Based on the above facts, answer the following:

- Q.4** Regarding the new subsidy programme announced on 5 June 2026, what is the appropriate treatment? 2
- Record the estimated benefit in FY 2025–26 because it favourably affects future cash flows.
 - Adjust revenue since the scheme is retrospective and directly linked to the company's operations.
 - Create a receivable for ₹ 14 crore as the approval is reasonably certain based on early indications.
 - Disclose it as a non-adjusting event since the conditions for recognition did not exist at the reporting date.
- Q.5** If the auditor concludes that future viability is subject to significant uncertainty but the financial statements include clear and adequate disclosure of such uncertainties, which opinion is most appropriate? 2
- Express an unmodified opinion and include a dedicated section highlighting the existence of material uncertainties about the entity's ability to continue operating normally.
 - Issue a qualified opinion, stating that uncertainty affects the reliability of future projections.

- (c) Issue an adverse opinion because the company faces severe financial pressure and covenant breaches.
- (d) Present an Emphasis of Matter paragraph, as going-concern issues never affect the form of audit opinion.

Q.6

Management's projected improvement in liquidity assumes immediate onboarding of new clients and prompt bank approvals, despite no firm evidence. What should the auditor do?

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- (a) Accept the forecasts since projections relate to future events that cannot be challenged.
- (b) Analyse the reliability of supporting data, challenge optimistic assumptions, and consider whether these factors create substantial doubt about future operations.
- (c) Ignore the projections entirely because forecasts are outside the auditor's scope of assessment.
- (d) Accept management's assurance that bank approvals are likely because auditors cannot second-guess commercial decisions.

Part B (Descriptive Questions)

Attempt Any two Questions from the rest

Q.1

- (a) Evershine Refineries Ltd. has recognized a substantial provision towards decommissioning and environmental restoration obligations relating to its offshore drilling operations. The measurement of this provision requires complex assumptions involving long-term discounting, engineering life-cycle estimates, and evolving environmental compliance costs. For the current financial year, the Company has relied on a technical assessment prepared by its internal Chief Technical Officer (CTO), who is a qualified environmental engineer and has been associated with the organization for over two decades. Based on internally developed operational efficiency measures, the CTO's report recommends a 15% reduction in the existing provision.

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During the audit, the engagement partner, CA Meera, has identified the provision as a significant matter due to the significant estimation uncertainty and its material effect on the profitability of the Company. Although the CTO possesses relevant technical competence, CA Meera has noted that the CTO's performance incentives are linked to the Company's profitability targets. Further, the audit team does not possess specialized engineering expertise to independently validate the technical assumptions underlying the revised provision estimate, and no comparable external market benchmarks are available for similar offshore decommissioning projects.

Analyse the case and guide CA Meera whether to rely on CTO'S recommendations with reference to the relevant Standard on Auditing.

- (b) CA Deepa is the statutory auditor of SGP Textiles Ltd. for the FY 2025-26 and is in the process of finalizing the audit report. 5

During the course of the audit CA Deepa obtained information indicating that SGP Textiles Ltd. is experiencing severe liquidity crisis arising from a sudden shift in market demand and cancellation of its largest export order. As at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. Management has disclosed in the notes to the financial statements that these events or conditions indicate material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However, the financial statements for the FY 2025-26 have been prepared on going concern basis, based on management's expectation that a proposed merger with a larger conglomerate will be completed and will stabilize the company's financial position.

Analyze and state the reporting responsibilities of CA Deepa in the Independent Auditor's Report of SGP Textiles Ltd. in accordance with relevant applicable Standard on Auditing.

- (c) Moon Ltd. is a dealer in electronic appliances. The Company has a centralised warehouse at the outskirts of Mumbai. The Auditors of the company M/s JK Associates normally attend the physical verification of stocks carried out by the Management at the end of the financial year. However, on account of certain disturbances in the region, the physical inventory counting could not be carried out at the year end. The stock taking is decided to be done by management at some other date subsequently, after a month. 4

In light of the above facts: Enumerate the audit procedures to be considered by M/s JK Associates, if physical inventory counting is conducted at a date other than the date of the financial statements with reference to the relevant Standard on Auditing.

- Q.2 (a) ABC Limited is in the business of manufacturing of iron ore and steel bars since last decade. The company is having its registered office in Mumbai and factory in Bhiwandi. M/s. R and Associates are appointed as the statutory auditors of the company for the financial year 2025-26. While going through the trial balance of the company, they observed that the company has 50 customers and 40 vendors. They requested the company to authorise them to send the external confirmation to few of its customers and vendors. The company immediately provided them an authority letter to send the external confirmation to their customers and vendors. The auditor sent positive confirmation request to top 3 customers and top 3 vendors. After two days of sending positive confirmation request, the management of the company handed over to them the duly signed response received from the respective customers and vendors to whom they had sent the confirmation request. How would M/s. R and Associates proceed to deal with the situation as the auditor of the company? 5

(b) PQR Ltd. is engaged in the business of construction and real estate having various projects across the states. M/s ST & Co., Chartered Accountants have been appointed as statutory auditors. CA T, an engagement partner, who leads engagement team, during preliminary verification, identified a few agreements entered by PQR Ltd. for the provision of services to some parties under terms and conditions that are outside PQR Ltd.'s normal course of business, suggestive of the indications about existence of related party transactions that management has not previously disclosed to the auditor. Highlight the aspects that M/s ST & Co., shall consider on identification of previously undisclosed related party transactions with reference to the relevant standard on auditing. 5

(c) Amudhan & Co., are the Auditors of XYZ Company Ltd., for the year ended on 31.03.2026. The Audit Report for that year was signed by the Auditors on 04.05.2026. The Annual General Meeting was decided to be held during the month of August 2026. On 06.05.2026, the Company had received a communication from the Central Government that an amount of ₹ 5,800 Crore kept pending on account of incentives pertaining to Financial Year 2025-26 had been approved and the amount would be paid to the Company before the end of May 2026. To a query to Chief Financial officer of the company by the board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the financial year and due to uncertainty of receipt. Now, having received the amount, the board of Directors wished to include this amount in the Financial Statements of the company for the Financial Year ended on 31.03.2026. On 08.05.2026, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report for the year ended on 31.03.2026. Analyse the issues involved and give your views as to whether or not the Auditor could accede to the request of the Board of Directors. 4

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Q.3 (a) CA Pawan has been appointed as the statutory auditor of Vij Pvt. Ltd. for the financial year 2026–27. During the course of the audit, he obtained sufficient and appropriate audit evidence for items shown in the Statement of Profit and Loss. However, while auditing the Balance Sheet items, he left obtaining appropriate audit evidence, say, external confirmations, for outstanding accounts receivable amounting to ₹ 135 lakhs. 5

He continued as it is from last year, on the affirmation of management that there are no receipts and further credits during the year. CA Pawan, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by the predecessor auditor.

What measures need to be taken by the auditor CA Pawan? Also, suggest the correct audit procedure in this regard.

(b) The statutory audit of Nizovus Pharmaceuticals Ltd., for the financial year 2025-26, is underway. During the review of "Professional and Legal Fees" ledger, the engagement team noted a significant payment to a high-profile law firm specializing in Intellectual Property (IP) disputes. 5

The management, during initial inquiries, stated that the payment was for 'general advisory services and that no active litigation exists that requires disclosure under the applicable FRF.

However, the minutes of the Board Meeting from February 2026 hint at a potential significant patent infringement claim from a global competitor.

The engagement partner, CA Rukma, insisted on sending a letter of direct inquiry to the external legal counsel to assess the probability of an outflow of resources. The management has refused to permit this communication, citing 'confidentiality clauses' in their contract with the law firm. They have offered to provide a comprehensive written representation confirming that no material litigations are pending. CA Rukma is concerned about the management's stand and non-availability of direct confirmation from the lawyers.

Is management's written representation sufficient in place of legal confirmation? Advise CA Rukma, about the additional audit procedures and reporting implications, if legal confirmation is denied.

- (c) While conducting audit of PC Ltd., CA. T decided to use sampling technique to test the trade receivables at the planning stage. He directed his team members to divide the whole population of trade receivables balances to be tested in a few separate groups called 'strata'. He directed to treat each stratum as if it was a separate population and divided the trade receivables balances of PC Ltd. for the Financial Year 2026-27 into groups on the basis of personal judgment as follows:

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S. No.	Particulars
1	(a) Balances in excess of ₹ 50,00,000;
2	(b) Balances in the range of ₹ 40,00,001 to ₹ 50,00,000;
3	(c) Balances in the range of ₹ 30,00,001 to ₹ 40,00,000;
4	(d) Balances in the range of ₹ 20,00,001 to ₹ 30,00,000;
5	(e) Balances in the range of ₹ 10,00,001 to ₹ 20,00,000;
6	(f) Balances ₹ 10,00,000 and below

From the above mentioned groups, CA. T directed to pick up different percentage of items for examination from each of the group. One of the team members, Mr. Neel, wants to use some other technique of sampling for the above purpose as the concept of stratification is not clear to him. You are required to explain the concept of stratification and its uses to Mr. Neel.

Instructions for Self-Evaluation

Suggested Answers and Marking Scheme will be available at Knowledge Portal/ LMS of

<https://altclasses.in/paper-3-advanced-auditing-mock-test-papers/>

Final Audit - Chapter-wise Mock Tests (For Nov. 2026 Exams)

Test No.	Chapter No. and Name	Date
WT - 1	Ch. 1 - Quality Control	14.08.2026
	Ch. 2 - General Auditing Principles & Responsibilities	
WT - 2	Ch. 3 - Audit Planning, Strategy & Execution	22.08.2026
	Ch. 4 - Materiality, Risk Assessment & Internal Control	
WT - 3	Ch. 5 - Audit Evidence	29.08.2026
	Ch. 6 - Completion & Review	
WT - 4	Ch. 7 - Reporting	05.09.2026
	Ch. 8 - Specialised Areas	
WT - 5	Ch. 9 - Related Services	12.09.2026
	Ch. 10 - Review of Financial Info.	
	Ch. 11 - PFI & Other Assurance Services	
WT - 6	Ch. 12 - Digital Auditing and Assurance	19.09.2026
	Ch. 13 - Group Audits	
WT - 7	Ch. 14 - Audit of Banks & NBFC	26.09.2026
	Ch. 15 - Audit of PSU	
WT - 8	Ch. 16 - Internal Audit	03.10.2026
	Ch. 17 - DD, Investigation & Forensic Accounting	
WT - 9	Ch. 18 - SDG & ESG Assurance	10.10.2026
	Ch. 19 - Professional Ethics & Liabilities of Auditor	
WT - 10	Full Syllabus Test	17.10.2026

Link for Resources (Revision Videos, MTPs, Amendments, Charts, etc.) and Inquiries

1	Youtube Channel	https://www.youtube.com/@altclassesca9193	 www.altclasses.in
2	Telegram Channel	https://t.me/altclasses	
3	Whatsapp Group for Doubts	https://chat.whatsapp.com/LSDM362gjy2ErmRgTi7ceA	
4	LMS Link	https://altclasses.in/knowledge-forum-ca-final/	
5	E-mail Id	altclasses11@gmail.com	
6	Contact Number	9319805511, 7206941195	 <i>A venture of Pankaj Garg</i>
7	Website Link	https://altclasses.in/	