

MTP 4 (Ch. 7 – Reporting & Ch. 8 – Specialised Areas)

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

Jupiter Industries Ltd., an established chemical manufacturer based in Vadodara, Gujarat, is listed on both the BSE and NSE. The company produces a variety of industrial chemicals and is a multi-faceted entity.

M/s Pinnacle & Associates, a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2026-27. CA Rishi was the engagement partner for the said assignment. He noticed that those charged with governance in the company are also involved in managing the entity.

During the ongoing audit engagement, M/s Pinnacle & Associates had already issued the Limited Review Reports for the first and second quarters (Quarter 1 and Quarter 2). Before commencing the review for the third quarter (Quarter 3), the management informed CA Rishi that they would not provide access to a critical overseas subsidiary's books and records, citing confidentiality agreements with a joint venture partner. This imposed a scope limitation on the audit.

CA Rishi considered this limitation likely to result in the need to express an opinion modification on the full-year financial statements and accordingly, he requested management to remove such limitations. However, the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, finally, CA Rishi with his engagement team, concluded that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualified opinion would be inadequate to communicate the gravity of the situation. Accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 25th November, 2026. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

Based on the above facts, answer the following:

- Q.1 What was the immediate responsibility of M/s Pinnacle & Associates with respect to the issue of the Limited Review Report at the time of proposing resignation on 25th November 2026? 2
- (a) The Limited Review Report for Quarter 3 was required to be issued, and consequently, the audit report for the full year is also required to be issued before resignation.
 - (b) The Limited Review Report for Quarter 3 was required to be issued before resignation.
 - (c) Since Limited Review Report for Quarter 1 and Quarter 2 was already issued, no further Limited Review Report was required, and the firm could resign immediately.
 - (d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement

- Q.2** What was the responsibility of CA Rishi when the management refused to remove the said limitation? **2**
- (a) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (b) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
 - (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
 - (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.
- Q.3** If the auditor proposed to resign on 25th November before issuing Limited Review Report for second quarter, then what will be the responsibility of M/s Pinnacle & Associates with respect to withdrawal from engagement and issue of limited review report at the time of resignation? **2**
- (a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third quarter were required to be issued.
 - (b) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
 - (c) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second quarter was required to be issued.
 - (d) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second quarter was required to be issued.
- Q.4** Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal? **2**
- (a) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
 - (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.

- (c) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

Case Scenario - 2

Trellix Components Ltd. had its complete set of financial statements audited for the year ended 31 March 20X7. The auditor's report included an Emphasis of Matter relating to major uncertainties in a long-standing environmental compensation dispute, although the main opinion was unmodified.

After the completion of this audit, the company separately engaged the same auditor to audit only the schedule of net tangible assets as at the same reporting date, which was required by a consortium of lenders for renewal of its ₹ 150 crore credit facility. The schedule included a revaluation component where management had used an indexation-based adjustment resulting in a ₹ 22 crore uplift in carrying value. The lenders wanted assurance on the accuracy of the schedule, independent of the general purpose statements.

The auditor considered whether the earlier Emphasis of Matter in the complete set of financial statements had any implications for the audit of the schedule. The environmental dispute was related to potential cash outflows but had no impact on the asset valuations included in the schedule.

For another engagement in the following year, a sister entity of the group had an adverse opinion in its complete set of financial statements due to pervasive misstatements in revenue recognition. That entity also sought a separate audit of a single statement—its inventory statement as at year-end—for regulatory filing. The auditor evaluated whether an unmodified opinion could be issued on that single statement despite the adverse opinion on the complete financial statements. The inventory balance represented nearly 60% of total assets of the sister entity and was interlinked with the misstated revenue cycle.

Based on the above facts, answer the following:

Q.5 While forming the opinion on Trellix Components' schedule of net tangible assets, how should the auditor appropriately deal with the earlier Emphasis of Matter in the complete set of financial statements?

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- (a) The auditor must reproduce the same Emphasis of Matter paragraph in the report on the schedule because any matter emphasised previously must automatically be repeated in all subsequent engagements.
- (b) The auditor should assess whether the earlier Emphasis of Matter relates to the information contained in the schedule, and include a reference only if the matter is relevant to what is being reported upon in this specific engagement.
- (c) The auditor should modify the opinion on the schedule solely because the earlier report contained an Emphasis of Matter, even if the emphasised matter has no connection with the schedule under audit.
- (d) The auditor must disclaim an opinion on the schedule unless the Emphasis of Matter from the complete financial statements is also included, irrespective of its relevance.

- Q.6** How should the auditor report on the inventory statement of the sister entity whose complete set of financial statements carried an adverse opinion? **2**
- (a) The auditor may issue an unmodified opinion because a single statement can be evaluated independently even when the complete set carries an adverse opinion.
 - (b) The auditor may issue a qualified opinion since an adverse opinion on the complete set only restricts the use of true-and-fair wording but does not affect assurance on a specific element.
 - (c) The auditor must issue an unmodified opinion if inventory balances are supported by separate working papers, even if they constitute a major portion of total assets.
 - (d) The auditor cannot issue an unmodified opinion as a single statement that represents a major portion of the financial statements cannot be separately reported unmodified when the complete set carries an adverse opinion.

Part B (Descriptive Questions)

Attempt Any two Questions from the rest

- Q.1** (a) CA S has been appointed as Statutory Auditor of SRT Ltd. for the financial year 2026-27. The Company while preparing financial statements for the year under audit prepared one additional profit and loss account that disclosed specific items of expenditure and included the same as an appendix to the financial statements. CA S has not been able to understand this as the additional profit and loss account is not covered under applicable financial reporting framework. Guide him as to how he should deal with this issue while reporting on the financial statements of SRT Ltd. **5**
- (b) TEA Ltd., FMCG Company having its tea gardens in north eastern states of the country is exclusively dealing in blending, processing, packing and selling of various brands of Tea. During the year under audit, the company entered into joint venture for purchasing Tea Gardens in Sri Lanka and Kenya. M/s GN & Associates are the statutory auditors of the company for the financial year 2026-27. During the course of audit, the audit team was unable to obtain sufficient appropriate evidence about a single element of the consolidated financial statement being Joint venture investment in Kali Ltd. representing over 90% of the group's net assets having both material and pervasive possible effect to the consolidated financial statements. The group's investment in Kali Ltd. is carried at ₹ 100 crores in the group's consolidated balance sheet. **5**
- Draft opinion paragraph and basis of opinion paragraph.
- (c) CA Rajni is appointed as the statutory auditor of STS Ltd. for the financial year 2026-27 for auditing complete set of financial statements. The company has also assigned the audit of Property, Plant and Equipment to CA Rajni as a separate engagement for the financial year 2026-27. While drafting the audit report of complete set of financial statements, CA Rajni decides to give an adverse opinion based on the audit observations noted during the course of audit. At the same time, she is also finalizing the audit report of the separate engagement where she wants to give an unmodified opinion. **4**

Comment with reference to the relevant SA regarding the opinion to be given by CA Rajni in audit report of separate engagement of audit of Property, Plant and Equipment.

- Q.2** (a) The financial statements of TC & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit? 5
- (b) GS & Co., Chartered Accountants, have been appointed Statutory Auditors of MAP Ltd. for the F.Y 2026-27. The audit team has completed the audit and is in the process of preparing audit report Management of the company has also prepared draft annual report. 5
- Audit in-charge was going through the draft annual report and observed that the company has included an item in its Annual Report indicating downward trend in market prices of key commodities/raw material as compared to previous year. However, the actual profit margin of the company as reported in F.S. has gone in the reverse direction. Audit Manager discussed this issue with partner of the firm who in reply said that auditors are not covered with such disclosures made by the management in its annual report, it being the responsibility of the management. Do you think that the partner is correct in his approach on this issue? Discuss with reference to relevant Standard on Auditing the Auditor's duties with regard to reporting.
- (c) CA Ravi is the Statutory Auditor of Rajhans Textiles Ltd., a listed company, for the financial year 2025-26. During the audit, the following matters came to the auditor's attention: 4
- The company has granted a loan of ₹ 5 crore to its subsidiary. No repayment schedule has been stipulated and no repayment has been received during the year.
- Examine each of the above situations and state how CA Ravi should report the same under CARO 2020.
- Q.3** (a) All in One Ltd., a large departmental store, appointed CA. Kabir as the statutory auditor. After accepting the engagement and performing the audit procedures, he noticed that the management has restricted his access to key inventory records and certain supplier confirmations. These limitations are likely to prevent from obtaining sufficient appropriate audit evidence relating to significant balances in the financial statements. When Kabir requested to remove the restrictions, the management refused, stating that the information is confidential and sensitive. You have communicated the issue to those charged with governance, but the restriction still remains. What are the consequences of this management-imposed limitation on audit opinion and what actions should Kabir take as an auditor in response to the limitation? 5

- (b) When auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which other matters shall the auditor's report on the summary financial statements contain in addition to elements of auditor's report described in SA 810?
If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor's opinion on summary financial statements? 5
- (c) CA Ravi is the Statutory Auditor of Rajhans Textiles Ltd., a listed company, for the financial year 2025-26. During the audit, the following matters came to the auditor's attention: 4
The company had availed a term loan of ₹ 50 crore from a consortium of banks. During the year, the company defaulted in repayment of instalments aggregating to ₹ 6 crore for a period of 95 days. However, the default was subsequently cleared before the balance sheet date.
Examine each of the above situations and state how CA Ravi should report the same under CARO 2020.



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	 ALT CLASSES <i>A venture of Pankaj Garg</i>
7	Website Link	https://altclasses.in/	