Mock Test Paper - Series I: July, 2026

Date of Paper: 3rd August, 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE GROUP – II

PAPER – 5: AUDITING AND ETHICS

Time Allowed – 3 Hours **Maximum Marks – 100**

PART I - Case Scenario based MCQs (30 Marks)

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 1 [MCQs 1-3]

Mega Industries Ltd. is a listed company engaged in manufacturing and export of industrial equipments across multiple jurisdictions. For the financial year ended 31st March 2026, the statutory audit was undertaken by DKS & Co., Chartered Accountants. Considering the complexity of operations, large volume of export transactions, significant foreign currency borrowings and extensive credit sales, the engagement partner classified revenue recognition, trade receivables and foreign currency liabilities as key focus areas of the audit.

At the planning stage, the audit team reviewed the annual reports of the company for the previous five financial years, including audited financial statements, directors' reports, management discussion and analysis reports and other published disclosures. The objective was to understand reporting trends, consistency in disclosures, movements in ratios, changes in borrowing patterns and recurring matters affecting the financial statements. During this review, the audit team noticed a substantial increase in export turnover and foreign currency financing during the current year.

Further examination revealed that the company had availed a long-term loan denominated in US Dollars for expansion of its overseas operations. Since the liability remained outstanding as at the year-end, the audit team verified the exchange rate applied by the management and independently recalculated the outstanding liability using the closing exchange rate prescribed under the applicable accounting framework to ensure proper year-end restatement of the liability.

In addition, because a substantial portion of sales comprised high-volume credit sales to overseas customers, the auditors considered trade receivables to involve significant risk of material misstatement. To obtain sufficient and appropriate audit evidence regarding the existence and accuracy of receivables, the auditors directly communicated with selected customers and sought confirmation of outstanding balances and transaction details recorded in the books of the company.

On the basis of above, answer the following MCQs

1. While reviewing the annual reports and published information of the company for the previous five years in order to study reporting trends, disclosure consistency and movement in financial indicators, the audit team was primarily performing which type of audit procedure?

   (a) Observation

   (b) Inspection

   (c) Inquiry

   (d) External Confirmation

2. In relation to the foreign currency loan obtained by the company, the auditor independently recalculated the year-end liability using the closing exchange rate applicable at the reporting date. The auditor was primarily seeking evidence regarding which assertion?

   (a) Completeness

   (b) Rights and obligations

   (c) Valuation and allocation

   (d) Occurrence

3. The audit team directly communicated with selected overseas customers seeking confirmation of balances and transaction details relating to receivables arising from credit sales. In the context of the identified significant risk area, such procedure is best classified as:

   (a) Tests of controls designed to evaluate internal approval procedures

   (b) Substantive procedures performed to obtain direct audit evidence

   (c) Risk assessment procedures performed only at the planning stage

   (d) Analytical procedures relating to trend analysis of receivables

Case Scenario 2 [MCQs 4-7]

Spectrum Media Network Ltd. is a listed company engaged in diversified media operations comprising television broadcasting, FM radio channels, digital streaming platforms and print publishing activities across India and overseas markets. Due to expansion in operations during the financial year ended 31st March 2026, the company witnessed substantial growth in advertising revenue, acquisition of new broadcasting rights and increased investments in regional operations.

The statutory audit of the company was assigned to RKA & Associates. Before accepting the engagement, the engagement partner held detailed discussions with the Managing Director, Chief Financial Officer and Audit Committee regarding compliance with the Standards on Auditing relating to pre-conditions for audit. During these discussions, management confirmed that the financial statements would be prepared in accordance with the applicable financial reporting framework prescribed under law and acknowledged its responsibility for preparation and fair presentation of the financial statements, maintenance of adequate accounting records and internal controls. Management further assured the auditors that unrestricted access would be provided to books of account, supporting documents, minutes, agreements and other information required for the audit.

However, during one of the meetings, the Chief Financial Officer also stated that the company had not experienced any fraud during the year and therefore the auditors "need not spend significant time" in evaluating fraud-related matters. The engagement partner clarified internally that such a statement by management does not reduce the auditor's responsibilities under the Standards on Auditing and is not relevant for determining whether the audit engagement can be accepted.

After acceptance of the engagement, the audit team commenced planning and risk assessment procedures. Since the company operated through multiple business divisions such as television broadcasting, radio services, digital media and print publications, the company was required to present segment information in the financial statements. Management prepared segment disclosures by allocating revenues, assets and liabilities among different reportable segments. Assets such as studios, broadcasting equipment and regional offices were allocated based on operational usage and geographical deployment, whereas liabilities were allocated based on the nature of segment operations and funding arrangements.

While reviewing segment disclosures, the audit team compared the basis of allocation with prior years, analysed unusual fluctuations in segment margins and verified whether inter-segment revenues and balances had been appropriately eliminated on consolidation. During discussions within the audit team, an audit assistant questioned whether the auditor was also required to ensure that every item of revenue, asset and liability appearing in the financial statements must necessarily be allocated to a reportable segment without any exception.

Simultaneously, the substantive audit team was verifying cash and bank balances appearing in the balance sheet. During examination of supporting records, it was noticed that fixed deposits amounting to ₹ 50 lakhs had been disclosed properly. Since the amount was material, the engagement partner instructed the audit staff to physically inspect the original fixed deposit receipts kept in the company's custody and compare them with the details appearing in the ledger and bank confirmations. The audit assistant involved in the verification process asked the audit senior about the specific financial statement assertion that was being tested through physical examination of the fixed deposit receipts.

Towards the conclusion of the audit, the engagement partner conducted a final review meeting with the audit team. The audit documentation included the overall audit strategy, audit planning memorandum, risk assessment procedures, substantive procedures, analytical procedures, external confirmations and final review procedures carried out before issuance of the audit report. During the discussion, a newly recruited audit assistant observed that considerable time had been spent on planning and review activities and therefore questioned whether planning and final review procedures formed the principal basis for the auditor's opinion on the financial statements. The engagement partner explained that although planning and review are essential components of an audit, the auditor's opinion is fundamentally based on the process of obtaining and evaluating sufficient appropriate audit evidence throughout the audit engagement.

On the basis of above, answer the following MCQs

4. With reference to discussions held between the engagement partner and management before acceptance of the audit engagement, which of the following statements made by management would not constitute a valid pre-condition for accepting the audit of financial statements?

   (a) Management represented that no fraud had occurred during the financial year and therefore extensive fraud-related audit procedures would not be necessary.

   (b) Management assured the auditor of unrestricted access to accounting records, supporting documents and other information necessary for the audit.

   (c) Management acknowledged responsibility for preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.

   (d) Management agreed that the financial statements would be prepared using an acceptable financial reporting framework prescribed under law.

5. During audit of segment disclosures, the audit team compared segment allocations with prior years, analysed unusual trends in segment profitability and verified elimination of inter-segment balances. In the context of the audit assistant's query regarding allocation

of segment information, which of the following would not form part of the auditor's duties relating to presentation and disclosure of segment information?

(a) Examining consistency in basis of segment disclosures with previous financial periods

(b) Performing analytical procedures on segment-wise financial information

(c) Verifying elimination of inter-segment revenues and balances

(d) Ensuring that every item of revenue, asset and liability appearing in the financial statements is compulsorily allocated to reportable segments without exception

6. While verifying bank balances, the audit team physically inspected the original fixed deposit receipts relating to deposits amounting to ₹50 lakhs appearing in the balance sheet. In the context of the audit assistant's query, the primary assertion being verified through this procedure is:

(a) Occurrence

(b) Cut-off

(c) Existence

(d) Accuracy

7. At the final review meeting, the audit assistant questioned whether audit planning and overall review procedures constitute the principal basis for forming the auditor's opinion. Considering the audit procedures performed throughout the engagement, which of the following statements is most appropriate?

(a) Most of the auditor's work in forming the audit opinion consists of establishing audit strategy and planning procedures.

(b) Most of the auditor's work in forming the audit opinion consists of obtaining and evaluating sufficient appropriate audit evidence.

(c) Most of the auditor's work in forming the audit opinion consists primarily of discussions and inquiries with management personnel.

(d) Most of the auditor's work in forming the audit opinion consists of overall review procedures performed immediately before issuance of the audit report.

Case Scenario 3 [MCQs 8-12]

Ardent Precision Components Ltd. has been sanctioned a Cash Credit (CC) limit of ₹ 10 crore by a bank to finance its working capital requirements. As per the sanction terms, the borrower is required to submit monthly stock statements, on the basis of which the bank computes the

Drawing Power (DP) after applying margin on eligible current assets such as stock and receivables.

During the branch audit as on 31st March, the auditor observed that the branch had computed the drawing power at ₹ 8.20 crore based on the stock statement dated 30th November submitted by the borrower. However, the outstanding balance in the CC account as on 31st March was ₹ 8.60 crore. Further examination of the account revealed that the outstanding balance had remained continuously above the drawing power for more than 90 days preceding the balance sheet date.

While reviewing the borrower's records, the auditor compared the stock value appearing in the audited financial statements for the year ended 31st March with the stock value reported in the stock statement submitted to the bank and noticed a significant difference, indicating possible overstatement of stock in the statement submitted to the bank.

Further examination revealed that inventory worth ₹ 2 crore, which had been considered by the branch while computing drawing power, was stated to be lying at a third-party warehouse. However, the branch had not obtained any confirmation from the warehouse operator regarding ownership of such inventory.

After accumulating the differences between the stock reported to the bank and the stock appearing in the audited financial statements, the auditor observed that the aggregate misstatement was approaching the materiality level determined for the audit.

When the matter was discussed with the borrower's management, they stated that the difference arose due to variations in valuation methods used for internal reporting and expressed the view that no adjustment was necessary in the financial statements. Consequently, the identified misstatements remained uncorrected as on the reporting date.

During discussions on these matters, the branch manager informally suggested that the auditor should avoid highlighting these irregularities in the audit report, as doing so might adversely affect the borrower's banking relationship.

On the basis of above, answer the following MCQs

8. Considering the facts given in the case regarding the relationship between the outstanding balance in the CC account and the drawing power determined by the branch, how should the auditor evaluate the status of the account as on the reporting date?

   (a) The account is regular since the sanctioned limit has not been exceeded.

   (b) The account should be treated as out of order since the outstanding balance has remained continuously in excess of the drawing power.

(c) The account is regular because the borrower had submitted stock statements earlier during the year.

(d) The account cannot be evaluated until audited financial statements are finalized.

9. While evaluating the security position of the CC account as on the reporting date, the auditor noted that the drawing power had been computed using stock information that was not available as of the reporting date, and that the borrowings in the account were already close to the level determined on the basis of primary security.

Considering these facts together, which of the following conclusions would be most appropriate?

(a) The borrowing position may not be reliable since it is being evaluated on the basis of outdated information regarding primary security.

(b) The account should be treated as regular because the sanctioned limit itself has not been exceeded.

(c) The drawing power computation can be accepted since the borrower had submitted a stock statement earlier during the year.

(d) The auditor should rely only on the audited financial statements while evaluating the security position.

10. During the audit, the auditor noted that a portion of the inventory considered while determining drawing power was stated to be lying at a third-party warehouse and also observed differences between the stock reported to the bank and the stock appearing in the audited financial statements.

Considering these facts together, which of the following audit procedures would most effectively address the risk arising in this situation?

(a) Rely on the stock statements submitted by the borrower to the bank.

(b) Accept management representation regarding the existence of inventory held outside the entity's premises.

(c) Obtain confirmation from the third-party warehouse operator regarding the inventory held on behalf of the borrower.

(d) Restrict verification only to purchase invoices relating to inventory.

11. The auditor accumulated the differences identified between the stock reported to the bank and the stock appearing in the audited financial statements and noted that the aggregate misstatement was approaching the materiality level determined for the audit. Management, however, decided not to make any adjustment in the financial statements.

In light of these facts, what should the auditor primarily consider while evaluating the implications for the audit?

(a) Conclude that the financial statements are materially misstated without further evaluation.

(b) Evaluate whether the uncorrected misstatements are material individually or in aggregate and consider the implications for the auditor's report.

(c) Accept management's explanation since the difference arose due to valuation methods.

(d) Ignore the misstatement since it does not exceed the materiality threshold.

12. During discussions on the above matters, the branch manager suggested that the auditor should avoid reporting the irregularities so that the borrower's banking relationship is not affected.

Considering this situation described in the case, which of the following ethical principles should primarily guide the auditor's response?

(a) Integrity and Objectivity.

(b) Confidentiality.

(c) Professional Behaviour.

(d) Professional Competence and Due Care.

13. BCD Ltd. is engaged in manufacturing of electronic components. During the audit of financial statements for the year ended 31st March 2025, the auditor assessed the risk of material misstatement at the assertion level for revenue and inventory balances. While designing further audit procedures, the auditor considered whether to perform tests of details, substantive analytical procedures, or a combination of both.

The auditor noted that reliable industry data was available and the relationship between sales volume and revenue had historically been predictable. However, certain unusual fluctuations were also observed during the current year. Accordingly, the auditor exercised professional judgment while deciding the nature of substantive procedures to be performed to reduce audit risk at the assertion level to an acceptably low level.

Which of the following statements correctly explains the basis for the auditor's decision regarding substantive procedures?

(a) Substantive analytical procedures must always be used instead of tests of details where reliable industry data is available.

(b) The auditor decides whether to use tests of details, substantive analytical procedures, or a combination of both based on professional judgment regarding their expected effectiveness and efficiency in reducing audit risk at the assertion level to an acceptably low level.

(c) Substantive analytical procedures can only be used when control risk is assessed as low.

(d) Tests of details are mandatory for all material account balances irrespective of the auditor's judgment.

14. CDE Ltd. is engaged in manufacturing and has a turnover of ₹ 500 crores. During the audit, CA R, the auditor, determined materiality at the planning stage based on a percentage of profit before tax. During the course of audit, certain misstatements were identified, individually immaterial but collectively approaching the materiality threshold. Further, management refused to correct some of these misstatements.

At the completion stage, CA R re-evaluated materiality considering revised financial results and assessed the impact of uncorrected misstatements before forming the audit opinion.

Which of the following statements correctly reflects the application of materiality as per SA 320?

(a) Materiality is determined only at the planning stage and cannot be revised later.

(b) Only individually material misstatements need to be considered by the auditor.

(c) Materiality is applied in planning, performing, and evaluating the audit, including assessing uncorrected misstatements.

(d) Once management refuses to correct misstatements, the auditor must automatically issue a qualified opinion.

15. A Ltd. is engaged in manufacturing operations and has significant Work-in-Progress (WIP) inventory at year end. During the audit, the auditor evaluates measurement of stages of production, basis of estimates, inclusion of cost elements, allocation of overheads, and treatment of abnormal wastage.

Which of the following audit observations indicates inappropriate valuation of Work-in-Progress?

(a) Various stages of production/value additions are measured and where estimates are made, the basis for such estimates is understood.

(b) Overheads included in WIP are based on a method consistent with costing and financial data maintained by the entity.

(c) Auditor has ascertained what elements of cost are included in WIP.

(d) Material costs included in WIP include abnormal wastage factors.

PART II - Descriptive Questions (70 Marks)

Question No. 1 is compulsory.

Attempt any four questions from the Rest.

1. (a) ABC Retail & Logistics Ltd. has established several internal controls to safeguard its assets and ensure reliable financial reporting. Cash and cheque books are required to be kept in a locked safe, with access restricted to authorized personnel. The company has also installed fire extinguishers and smoke detectors in all warehouses to protect inventories from fire hazards. In addition, an imprest petty cash system has been introduced, under which only expenditure below ₹ 10,000 can be paid through petty cash.

During the statutory audit, the auditor observed that the safe containing cash and cheque books was often left unlocked during office hours, some fire extinguishers had expired and several smoke detectors were non-functional, and petty cash vouchers exceeding ₹10,000 had been processed through the imprest system without approval.

The engagement partner remarked that although the entity had established appropriate controls, there was a possibility that these controls were not operating effectively.

Explain the concept of Control Risk with examples. Also comment on the situations identified by the auditor in the above case. **(5 Marks)**

(b) RS & Associates, Chartered Accountants, were appointed as the statutory auditors of Zene Biotech Limited, a company engaged in manufacturing pharmaceutical products. During the audit of financial statements for the year ended 31st March 2026, the audit team identified certain issues relating to valuation of inventories, recognition of export revenue and unusual payments made to certain suppliers.

The management represented that the financial statements were prepared in accordance with the applicable financial reporting framework under the Companies Act, 2013. The engagement partner instructed the audit team to conduct audit procedures in accordance with Standards on Auditing so as to obtain sufficient appropriate audit evidence regarding correctness of the financial statements.

The audit team discussed whether the objective of the auditor is to provide complete guarantee regarding accuracy of financial statements or to obtain only a reasonable level of assurance. Further, the audit assistant asked whether the auditor is required merely to verify books of account or also to communicate audit findings through a formal audit report.

In the light of SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing", explain the objectives of audit of financial statements. **(5 Marks)**

(c) ST & Associates, Chartered Accountants, were conducting the statutory audit of Rose Ltd. for the financial year ended 31st March, 2026. During the audit, the auditor compared various items appearing in the Statement of Profit and Loss for the current year with those of the previous year. The auditor observed significant changes in gross profit margin, selling expenses and administrative expenses as compared to the preceding year.

To obtain a better understanding of these fluctuations, the auditor computed various expense ratios and compared them with corresponding ratios of the previous year. Certain unusual trends and variations were noticed, particularly in relation to sales growth and profitability. The auditor therefore decided to investigate the reasons for such variations and evaluate whether these differences were supported by valid business reasons or indicated possible misstatements in the financial statements.

In the context of the above, explain the purpose of applying analytical procedures. **(4 Marks)**

2. (a) RST & Associates, Chartered Accountants, were conducting the statutory audit of Gee Infrastructure Ltd. for the financial year ended 31st March, 2026. During the audit, the auditor noted that proceedings had been initiated against the company under the Benami Transactions (Prohibition) Act, 1988 in relation to an immovable property allegedly held in the name of another person for the benefit of the company.

The property had been acquired several years earlier and the authorities were investigating the nature of ownership, the identity of beneficiaries and the role of the company in the transaction. The auditor further observed that certain details relating to the property were not reflected in the books of account and management was required to make appropriate disclosures in the financial statements regarding the ongoing proceedings.

In the light of above facts, state the disclosures required where proceedings have been initiated or are pending against a company for holding benami property.

(5 Marks)

(b) KLM & Co., Chartered Accountants, were appointed as statutory auditors of S Ltd. During the audit of bank borrowings, the auditors examined the Cash Credit (CC) facility sanctioned by a bank to the company. The sanctioned limit of the CC account was ₹ 45,000.

As per the latest stock statement submitted to the bank, the company reported stocks having a realizable value of ₹ 50,000. Out of these stocks, ₹ 15,000 represented unpaid stocks financed by sundry creditors. The bank stipulated a margin of 20% on eligible stocks.

The company also reported debtors of ₹ 45,000, out of which debtors amounting to ₹ 5,000 were considered ineligible for the purpose of computing drawing power. The bank prescribed a margin of 50% on eligible debtors.

The auditor was required to verify the correctness of the drawing power computed for the CC account and determine the amount that could actually be drawn by the company. Compute the drawing power available to S Ltd. and comment thereon.

(5 Marks)

(c) VSN & Associates, Chartered Accountants, were appointed as statutory auditors of Ema Energy Limited for the financial year ended 31st March, 2026. At the commencement of the audit, the engagement partner reviewed the previous year's audit files and instructed the audit team to revise the audit plan after considering changes in internal controls relating to inventory management and revenue recognition.

The auditor initially intended to rely upon certain internal controls for purchases and sales transactions. However, after preliminary evaluation, he considered whether substantive audit procedures would be more efficient for obtaining sufficient appropriate audit evidence. The audit team also discussed matters relating to timing of audit procedures, availability of audit assistants, coordination with branch auditors and involvement of valuation experts.

Further, the auditor specifically planned to attend the physical inventory count at year-end. The company was also maintaining substantial cash balances and marketable securities, and therefore the auditor decided to verify the securities and cash balances on the balance sheet date itself since such verification was required to be carried out at a specific point of time. While preparing the audit programme, the engagement partner emphasised that the programme should clearly specify audit objectives, possible errors, procedures to be followed and coordination among various audit areas.

In the light of above facts, explain the considerations to be kept in mind while developing an audit programme. **(4 Marks)**

3. (a) Helping Hands Charitable Institution is a registered charitable institution engaged in providing free education and healthcare services. During the statutory audit for the year ended 31st March, 2026, the auditor noted the following:

- The Trust Deed was amended during the year, but the amendments were not reviewed by the audit team.
- The trust receives income through annual membership subscriptions, life membership fees, donations, charity boxes and fundraising events.
- Receipt books are maintained manually. However, no register of unused receipt books is maintained, and several cancelled receipts were found without proper authorisation.
- Amounts collected through donation boxes and fundraising events are deposited into the bank after considerable delay.
- The total donations reported in the annual report issued by the institution do not agree with the amount recorded in the books of account.
- The institution has expanded its charitable activities during the year, but no verification was carried out to ascertain whether such activities are in accordance with the objects and governing provisions of the institution.

As the statutory auditor of Helping Hands Charitable Institution, explain the audit procedures you would perform while auditing the institution, with particular reference to the following:

- the legal and constitutional framework governing the institution;
- the governance and management of the institution
- the adequacy of internal control over receipts and collections; and the audit of income, subscriptions and donations. **(5 Marks)**

(b) CA Arvind Kapoor is conducting the statutory audit of Chem Energy Limited for the year ended 31st March, 2026. The audit is substantially complete and the auditor proposes to sign the audit report on 20th May, 2026. During the period between 31st March, 2026 and the proposed date of the auditor's report, certain significant events occurred, including settlement of a major lawsuit, issue of debentures, and destruction of inventory by fire at one of the company's warehouses.

While planning the completion stage of the audit, CA Arvind Kapoor seeks to ensure that all events occurring after the reporting date that may require adjustment of or disclosure in the financial statements have been appropriately identified and considered.

Discuss the audit procedures that the auditor should perform in relation to events occurring between the date of the financial statements and the date of the auditor's report in accordance with SA 560, "Subsequent Events". **(5 Marks)**

(c) NRS & Associates, Chartered Accountants, were conducting the statutory audit of Perry Industries Limited for the year ended 31st March, 2026. During the audit, the auditor identified several transactions entered into by the company with its related parties, including sale of goods, rendering of management services and inter-corporate financing arrangements.

The management contended that most of these transactions were undertaken in the ordinary course of business and were similar to transactions entered into with unrelated parties. However, the auditor observed that the company had a large number of group entities operating through a complex organisational structure. Further, certain transactions were not readily identifiable from the accounting system and some transactions appeared to have been entered into without adequate consideration.

The audit team discussed whether related party transactions always involve a higher risk of material misstatement and the circumstances in which such risk may increase.

In the light of the above facts, explain the risks associated with related party relationships and transactions. State whether such transactions always involve a higher risk of material misstatement and illustrate, with examples, the circumstances in which such risk may increase. **(4 Marks)**

4. (a) PNK & Associates, Chartered Accountants, were appointed as statutory auditors of Gala Telecom Limited for the financial year ended 31st March, 2026. While establishing the overall audit strategy, the engagement partner carried out preliminary engagement activities relating to continuance of client relationship, compliance with ethical requirements and assessment of independence of the audit team.

Further, the engagement partner also considered information obtained during a GST compliance review and internal control certification assignment earlier performed for the same company, as such knowledge was considered relevant for planning the statutory audit. During these assignments, certain weaknesses relating to fixed assets capitalization and authorization of employee reimbursement claims had been noticed.

The engagement partner instructed the audit team to maintain a questioning mind and exercise professional skepticism while gathering and evaluating audit evidence. Further, considering the higher risk of material misstatement in certain areas, experienced audit team members were assigned to those areas and additional audit time and resources were allocated for detailed verification procedures.

In the context of establishing the overall audit strategy, explain the factors that the auditor should consider with respect to:

(i) the results of preliminary engagement activities and the relevance of knowledge gained from other engagements performed for the entity by the engagement partner; and

(ii) the nature, timing and extent of resources necessary to perform the audit engagement. **(5 Marks)**

(b) Explain the responsibilities of the engagement partner under SA 220, Quality Control for an Audit of Financial Statements in relation to:

(i) Leadership responsibilities for quality on audits; and

(ii) Relevant ethical requirements. **(5 Marks)**

(c) State the circumstances in which, while reporting on financial statements containing corresponding figures, the auditor is required to refer to the corresponding figures in the auditor's report. Explain the auditor's reporting responsibilities in each such circumstance in accordance with SA 710, 'Comparative Information—Corresponding Figures and Comparative Financial Statements'." **(4 Marks)**

5. (a) Explain how SA 700 (Revised) seeks to achieve a balance between global uniformity in auditor reporting and the need to provide more useful information to the users of financial statements. In this context, explain how the Standard promotes both consistency in auditor reporting and flexibility to accommodate jurisdiction-specific and entity-specific circumstances. Also state the objective of the auditor under SA 700 (Revised). **(5 Marks)**

(b) Sunshine Electronics Limited manufactures and sells consumer electronic products on credit to dealers across the country. During the statutory audit for the year ended 31st March 2026, the auditor observed that trade receivables had increased significantly as compared to the previous year. The company follows a credit approval process before making sales and has established procedures for recording sales, collecting outstanding dues, issuing reminders for overdue balances and reviewing the ageing of receivables periodically.

However, the auditor intends to evaluate whether these internal controls are operating effectively before placing reliance on them. The engagement partner also emphasized that ineffective controls over trade receivables may result in fictitious sales, delayed collections, unauthorized write-offs and inadequate provision for bad debts.

As the auditor of Sunshine Electronics Limited, explain the important points to be considered while carrying out Test of Controls for checking the effectiveness of internal control over sales as a part of the audit procedure relating to trade receivables. **(5 Marks)**

(c) CA Ananya Sharma was appointed as the statutory auditor of Vertex Textiles Limited for the financial year 2025-26. During the audit, the company reported recurring operating losses, significant cash flow constraints and difficulties in meeting repayment obligations to lenders. While evaluating the financial statements, management prepared them on a going concern basis after assessing the company's future viability and funding arrangements.

The Audit Committee sought clarification from the auditor regarding her responsibilities in relation to the going concern assumption and whether an unmodified audit report would guarantee that the company would continue its operations in the future.

Discuss the responsibilities of the auditor in relation to going concern under SA 570 (Revised). Also comment on whether the absence of any reference to a material uncertainty relating to going concern in the auditor's report can be regarded as a guarantee of the entity's future viability. **(4 Marks)**

6. (a) Zeta Manufacturing Limited, a public company, expanded its operations during the financial year 2025–26 by issuing additional equity shares. The company increased its authorised share capital by passing the necessary resolutions and subsequently made a fresh issue of equity shares to the public. A few equity shares were also allotted to promoters in consideration of technical services rendered. The company has filed various forms with the Ministry of Corporate Affairs (MCA) and complied with the applicable regulatory requirements.

While planning the audit, the engagement partner instructed the audit team to verify whether the changes in the company's share capital were duly authorised, correctly recorded, and in compliance with the provisions of the Companies Act, 2013, applicable SEBI regulations and other statutory requirements.

As the statutory auditor of Zeta Manufacturing Limited, explain the audit procedures generally required to be undertaken while auditing share capital to obtain sufficient appropriate audit evidence regarding the existence, completeness and valuation (including accuracy) of share capital and other equity balances. Also explain how these procedures help ensure that changes in the capital structure are duly authorised, correctly recorded and comply with the applicable provisions of the Companies Act, 2013 and other regulatory requirements. **(5 Marks)**

(b) CA Neha Arora was appointed as the statutory auditor of Stellar Healthcare Limited for the financial year 2025-26. During the course of audit, she found that a substantial portion of the company's trade receivables were outstanding for a long period. The management was unable to provide direct confirmations from several major customers, nor could it furnish adequate alternative audit evidence regarding the recoverability and existence of such receivables.

On being informed that the lack of sufficient appropriate audit evidence could result in a modified audit opinion, the management requested CA Neha Arora to convert the audit engagement into a review engagement, stating that a review would be more suitable for the company's current requirements.

Examine whether the request made by the management is justified. Discuss the circumstances under which a request from an entity to change the terms of an audit engagement may be considered reasonable and the situations where such a request may not be acceptable. **(5 Marks)**

(c) M/s TKR & Associates, Chartered Accountants, were conducting the statutory audit of Digital Solutions Ltd., a company operating in a highly automated environment. During the audit, the auditors tested various IT controls relating to user access management, change management, automated processing of transactions and system-generated reports.

While performing audit procedures, the audit team identified certain exceptions, including unauthorized access rights remaining active for former employees, absence of review of privileged user activities and inadequate documentation of changes made to key applications. The engagement partner discussed these findings with the audit team and emphasized the need to evaluate their impact on the audit and determine whether they represented deficiencies in internal control.

The engagement partner further stated that identified deficiencies may require communication to management as well as those charged with governance, depending upon their significance. He also advised the audit team to assess each finding individually as well as collectively before reaching any conclusion.

In the light of the above facts, explain how audit findings and control deficiencies in an automated environment should be assessed and reported. **(4 Marks)**

OR

(c) MP Infrastructure Limited for the financial year ended 31st March, 2026. The company had multiple manufacturing units, several ongoing projects and complex financing arrangements. During the course of audit, the audit team performed various audit procedures and obtained audit evidence relating to significant estimates, contractual obligations and project costs.

The engagement partner instructed the audit team to maintain comprehensive working papers recording the audit plan, nature, timing and extent of audit procedures performed and the conclusions reached. Certain exceptions were identified during verification of project expenditure and management estimates, requiring detailed documentation of the basis of conclusions. The audit firm was also using specialised audit software and electronic documentation tools for maintaining audit files.

In the light of the above facts, explain the factors determining the form, content and extent of audit documentation. **(4 Marks)**