

MTP 2

(Ch. 2 – General Auditing Principles & Auditor Responsibilities, Ch. 3 – Audit Planning, Strategy and Execution & Ch. 4 – Materiality, Risk Assessment and IC)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Q.1 Vortex Manufacturing Ltd. appointed three joint auditors. Work allocation clearly distributed certain units and processes to individual auditors, while some matters — such as statutory compliance review and audit-report conformity — remained undivided. During the audit, one auditor identified issues that affected another auditor’s allocated area and communicated them in writing. 2

You must identify which responsibilities are joint and which remain individual, based on the principles governing joint audits.

Column A (Statements)	Column B (Responsibility Classification)
A1. Audit work not divided and performed by all joint auditors.	P. Joint and several responsibility
A2. Nature, timing & extent of procedures to be applied in the area allocated to a specific auditor.	Q. Individual responsibility
A3. Matters communicated by one auditor that require discussion and are agreed upon	R. Shared communication responsibility but not joint liability
A4. Assessing whether F.S. comply with relevant statutes.	S. Conditional responsibility based on allocation documentation
A5. Proper execution of audit procedures in the area allocated to a particular auditor.	
A6. Ensuring that audit report conforms to statutes and SAs	

Select the correct combination:

- (a) A1–P, A2–Q, A3–P, A4–P, A5–Q, A6–P
- (b) A1–R, A2–P, A3–Q, A4–P, A5–S, A6–P
- (c) A1–P, A2–S, A3–R, A4–Q, A5–Q, A6–P
- (d) A1–P, A2–Q, A3–S, A4–P, A5–R, A6–Q

Q.2 During audit testing, the auditor noted: **2**

1. A purchase invoice of ₹4,20,000 recorded twice.
2. Management estimated credit loss at 0.8%, while historical trend supports at least 1.5%.
3. From a sample of 40 items, small costing errors were found and extrapolated to estimate a total misstatement of ₹18 lakh.

Which combination correctly classifies the misstatements?

- (a) 1 – Projected, 2 – Factual, 3 – Judgmental
- (b) 1 – Judgmental, 2 – Projected, 3 – Factual
- (c) 1 – Factual, 2 – Judgmental, 3 – Projected
- (d) 1 – Factual, 2 – Projected, 3 – Judgmental

Q.3 During the audit of Nexora Appliances Ltd., the auditor identified: **2**

- No ageing analysis of receivables for the past six months,
- Dispatch copies not reaching the billing section consistently,
- Frequent credit notes issued without proper documentation.

Management argued that these weaknesses were “operational variances,” not requiring written communication. They further stated that issuing a written letter might suggest that the auditor is expressing an opinion on internal controls, which “is outside the audit scope.” They asked the auditor to communicate orally and confirm that this will not impact the audit report in any way.

What is the MOST appropriate conclusion based on the auditor’s responsibilities?

- (a) Written communication is required only if these weaknesses have a material effect on the financial statements; oral communication is adequate when deficiencies affect processes but not assertions.
- (b) Written communication is necessary when deficiencies are significant, but the auditor should avoid detailed explanation to prevent implying an opinion on control effectiveness.
- (c) The auditor must issue written communication for significant deficiencies, but also explain that internal control evaluation was performed only for planning audit procedures, not for expressing an opinion on internal control.
- (d) Written communication should be avoided if it may cause misunderstanding regarding the auditor’s responsibility; therefore, a brief oral discussion is preferable unless the weakness must be reported in the audit report.

Part B (Descriptive Questions)

- Q.1** Rivora Textiles Ltd. has outsourced its entire sales invoicing, debtor accounting and related IT processing to DataCore Services, an external service organisation. All sales orders approved by Rivora are directly uploaded to DataCore’s platform, where invoices are generated, credit limits are checked, receipts are recorded and periodic debtor ageing reports are prepared. The system at DataCore automatically posts summaries to Rivora’s general ledger, captures year-end adjustments and also processes non-standard journal entries for foreign currency revaluation on the basis of data provided by Rivora’s finance team. Management believes that, since final financial statements are compiled in-house, the auditor need not examine controls or processes at DataCore. **5**
- On the basis of the applicable Standards on Auditing, discuss whether the services provided by DataCore form part of Rivora’s information system, including related business processes, relevant to financial reporting, and indicate which aspects of that information system are being affected by the outsourced activities.
- Q.2** Aurum Chemicals Ltd. acquired a new patent portfolio during the year. Due to the technical complexity involved in determining the fair value of the patents, the auditor appointed an independent valuation expert to assist in obtaining audit evidence. The expert submitted a valuation report; however, the auditor observed that key assumptions such as market growth forecasts and licensing income projections were not supported with reliable external data. Additionally, several computational steps lacked clear documentation. When the auditor sought clarifications, the expert’s responses were generic and did not adequately address the concerns. Meanwhile, management requested that the auditor mention the expert in the auditor’s report, believing this would increase stakeholder confidence. The auditor must now determine the appropriate course of action. **4**
- Requirements:**
- (e) Explain, based on the above facts, how the auditor should evaluate the situation when the work of the auditor’s expert is not adequate for audit purposes.
- (f) State, in the context of the above case, whether the auditor should make a reference to the expert in the auditor’s report and the principles guiding such a decision.
- Q.3** Horizon Manufacturing Ltd. has been experiencing increasing operational inconsistencies, including repeated pricing errors in invoices, delays in vendor payments, and frequent disputes regarding material shortages. During the audit, the auditor observed that several critical processes operate without documented guidelines, and employees often rely on informal instructions. Certain individuals handle multiple functions such as vendor selection, receipt of goods and invoice passing, leading to risk of override or unchecked decisions. **5**

Some staff have continued in the same sensitive roles for years without rotation. The company has recently expanded, but no formal delegation of financial authority exists, causing confusion and delays in approvals. Additionally, although the company uses an ERP system, many controls are still manual and subject to human error. There is also no structured mechanism for identifying and reviewing risks periodically at an enterprise level.

Based on the above scenario, explain the key organisational measures that the auditor should expect the company to have in place to strengthen its internal control environment.

Instructions for submission of answer sheet

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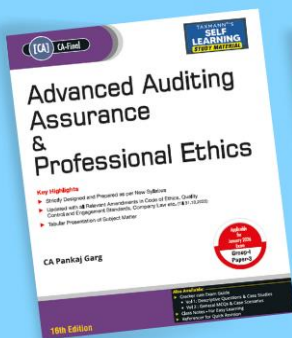
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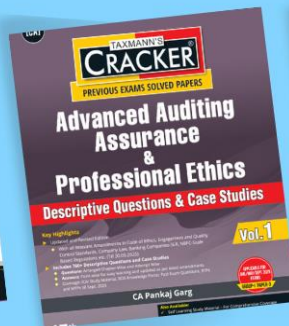
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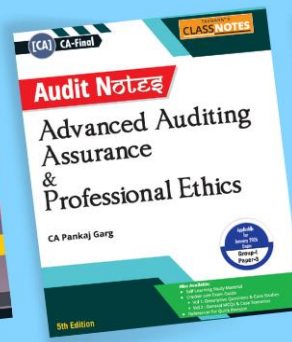
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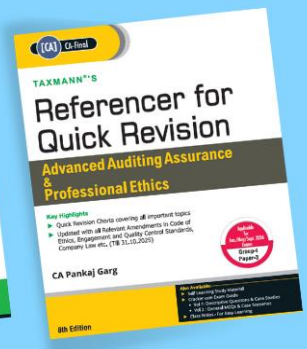
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