

**FINAL COURSE: GROUP I**

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS**

**(MTP 12: Ch. 12 – Digital Auditing and Assurance)**

**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. Statement I:  
Use of Data Analytic Techniques in audit allows the auditor to analyse full-population data, identify anomalies and obtain insights that may not be visible through traditional sampling.  
Statement II:  
When an auditor uses CAATs or other data analytic tools, the need to understand the underlying IT environment becomes insignificant because the tool automatically compensates for system-related risks.  
Which of the above statements is/are correct?
- (a) Both Statement I and Statement II are correct.  
(b) Statement I is correct but Statement II is incorrect.  
(c) Statement I is incorrect but Statement II is correct.  
(d) Both Statement I and Statement II are incorrect.
2. Which of the following best explains a potential application of the metaverse in the financial sector?
- (a) Providing physical document storage facilities for audit files within virtual vaults that replace all cloud-based storage requirements.  
(b) Creating immersive virtual branches where customers interact with financial advisors, complete onboarding, and review investment portfolios in real-time 3D environments.  
(c) Restricting all financial transactions to blockchain-ledger approvals, eliminating the need for front-end customer applications.  
(d) Allowing auditors to bypass evidence-gathering procedures since virtual environments remove the need to test underlying systems.

**Case Scenario [MCQ 3-5]**

Neovista Electronics Ltd., a listed consumer-tech company, recently expanded its online sales platform, integrating real-time order capture, automated pricing calculations, and AI-based fraud-flagging tools. Most financial data now flows through multiple applications, and several transaction classes rely heavily on automated controls, including interface-based transfer of sales data from the e-commerce portal to the ERP. Certain approvals for credit notes are generated through bots using programmed logic.

During the year, the company faced two major incidents. First, the finance team discovered that a system-generated inventory valuation report contained unusual spikes that did not match physical counts. An internal review showed that the valuation logic had been modified during a routine update, but the change had bypassed the normal approval process. Second, a cyber-attack attempt through a spoofed vendor-update email was detected by the IT team, which prevented any changes to the vendor master. Employees were reminded to verify change requests through call-back procedures, but auditors noted inconsistent compliance.

The AI-based fraud-flagging tool used in online sales was also observed to generate alerts that the commercial team overrode frequently without documenting reasons. The audit team is evaluating IT dependencies, considering whether system-generated reports, automated calculations, interfaces, and AI-supported decisions affect the design of audit procedures and whether additional testing of IT general controls is required.

**Based on the above facts, answer the following:**

3. Which of the following most appropriately explains why the auditor should consider testing IT general controls in this audit?
  - (a) Because the presence of bots and automation requires full-population testing even if underlying logic is manually reviewed by management.
  - (b) Because several transaction flows depend on automated calculations, reports and interfaces, creating a risk that changes in underlying applications may affect financial information relied upon by the audit.
  - (c) Because AI-based alerts are used in commercial operations, which automatically eliminates the need for assessing manual overrides.
  - (d) Because cyber incidents indicate that only preventive controls are relevant, reducing the need to understand other IT-related risks.
4. Given the attempted spoofing attack and inconsistent verification practices, which response best reflects the auditor's evaluation of cyber-related risks?
  - (a) The attack is irrelevant to the audit because it was unsuccessful and did not result in any financial loss or unauthorized changes.
  - (b) The incident highlights vulnerabilities around vendor-master modifications, and the auditor must assess whether weak authentication practices could lead to risks of material misstatement.
  - (c) Since cyber risks mainly relate to data privacy, the auditor should focus only on personal-information handling controls.
  - (d) The existence of detection mechanisms alone is sufficient evidence that the entity's cyber-risk management is operating effectively.
5. How should the auditor address the AI-based fraud-flagging tool when frequent overrides lack documented rationale?
  - (a) Rely on the AI tool as long as the override rate does not exceed preset thresholds defined by management.
  - (b) Treat the AI module as a black box and avoid assessing its influence on transaction flows since the commercial team performs manual reviews.
  - (c) Assess whether the AI output influences financial reporting processes and evaluate whether override practices, approval trails and governance create risks requiring further testing.
  - (d) Conclude that the AI system is ineffective and propose its discontinuation as part of the audit recommendations.

# CA Final - Advanced Auditing


## 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. 19 - Professional Ethics	5 MCQs in the form of Case Studies and General MCQ	10
7 Nov.	Thu.	Ch. 1 - Quality Control		10
8 Nov.	Fri.	Ch. 2 - General Auditing Principles & A.R.		10
10 Nov.	Mon.	Ch. 3 - Audit Planning		10
11 Nov.	Tue.	Ch. 4 - Materiality, Risk Assessment and I.C.		10
12 Nov.	Wed	Ch. 5 - Audit Evidence		10
13 Nov.	Thu.	Ch. 6 - Completion and Review		10
14 Nov.	Fri.	Ch. 7 - Reporting		10
17 Nov.	Mon.	Ch. 8 - Specialised Areas		10
18 Nov.	Tue.	Ch. 9 – Related Services & Ch. 10 – Review of F.I.		10
19 Nov.	Wed	Ch. 11 - Financial info. & Other Assurance		10
20 Nov.	Thu.	Ch. 12 - Digital Auditing and Assurance		10
21 Nov.	Fri.	Ch. 13 - Group Audits		10
24 Nov.	Mon.	Ch. 14 - Audit of Banks and NBFC		10
25 Nov.	Tue.	Ch. 15 - Audit of PSU		10
26 Nov.	Wed	Ch. 16 - Internal Audit		10
27 Nov.	Thu.	Ch. 17 - Investigation, Diligence & Forensic		10
28 Nov.	Fri.	Ch. 18 - SDG and ESG Assurance		10

**Note: Test Papers and Answer Key will be uploaded on Knowledge Portal of [www.altclasses.in](http://www.altclasses.in)**

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S. No.	Chapter No. and Name	Date of Test
WT - 1	Ch. 1 - Quality Control	26 Nov. 2025
	Ch. 19 - Professional Ethics	
WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
	Ch. 3 - Audit Planning, Strategy & Execution	
	Ch. 4 - Materiality, Risk Assessment & IC	
WT - 3	Ch. 5 - Audit evidence	03 Dec. 2025
	Ch. 6 - Completion and Review	
	Ch. 7 - Reporting	
WT - 4	Ch. 8 - Specialised Areas	06 Dec. 2025
	Ch. 9 - Audit Related Services	
	Ch. 10 - Review of Financial Information	
	Ch. 11 - PFI & Other Assurance Services	
WT - 5	Ch. 12 - Digital Auditing and Assurance	10 Dec. 2025
	Ch. 16 - Internal audit	
	Ch. 17 - DD, Investigation & Forensic Accounting	
	Ch. 18 - SDG & ESG Assurance	
WT - 6	Ch. 13 - Group Audits	13 Dec. 2025
	Ch. 14 - Special Features of Audit of Banks and NBFC	
	Ch. 15 - Overview of Audit of PSU	
WT - 7	Full Syllabus Test 1	17 Dec. 2025
WT - 8	Full Syllabus Test 1	24 Dec. 2025

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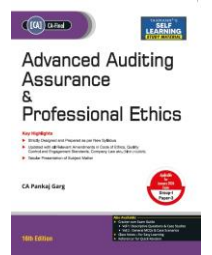
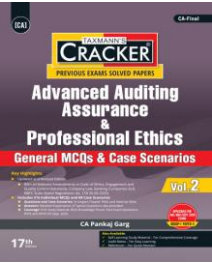
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Audit Notes (Coloured Book)	5th Edition (Nov. 2025)	1195	890	
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