

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 16: Ch. 16 – Internal Audit)

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. An internal auditor of a large entity is required to issue reports in two distinct stages. In the first stage, a report is prepared after concluding a specific assignment, containing observations limited to the area covered during that engagement. In the second stage, a consolidated report is prepared on a periodic basis, covering the overall activities performed under the audit plan and shared with those charged with governance.

Which option correctly characterises the nature of these two reporting stages?

- (a) The first stage summarises entity-wide issues identified throughout the period, whereas the second stage reports only the observations relating to an individual area examined during a single engagement.
 - (b) The first stage reports the outcomes of an individual engagement completed at that time, whereas the second stage consolidates all assignments performed during the plan period and is presented periodically to the highest governing authority.
 - (c) The first stage discloses only high-risk matters noted during multiple engagements, whereas the second stage provides detailed findings related to only one specific audit area reviewed.
 - (d) The first stage is issued periodically to the governing authority summarising all completed assignments, whereas the second stage highlights issues noted in a particular engagement and is issued annually.
2. An internal auditor of a large entity notices that senior management expects him to participate in redesigning operational processes and to approve certain control changes before implementation. He is also asked to share draft observations only after they are reviewed by the functional heads responsible for those areas. Considering the principles governing professional behaviour, which statement best reflects the auditor's proper stance?
- (a) He may participate in redesigning processes and allow functional review of draft observations, provided he documents his analysis and continues to report factual issues accurately.
 - (b) He may approve control changes recommended by management as long as he continues to conduct fieldwork independently and provides unbiased assessments.

- (c) He must avoid assuming roles that involve operational decision-making and must resist any influence that affects the scope, timing, or reporting of his work, ensuring both independence and objectivity remain intact.
- (d) He should first obtain approval from the audit committee before accepting operational roles, after which the functional heads may review draft findings for completeness rather than influencing conclusions

Case Scenario I [MCQ 3-5]

Arinex Group comprises four companies operating in manufacturing, logistics, consumer retail and digital warehousing. The Board has recently instructed each entity's finance head to independently assess whether the company is legally required to appoint an internal auditor under Section 138 of the Companies Act, 2013. The Group's statutory auditor has asked for a consolidated compliance report to ensure no subsidiary violates the internal audit requirements.

The financial information of the four entities for the preceding financial year is as follows:

1. Arcolite Manufacturing Ltd. (AML)

A listed public company, engaged in heavy engineering.

- Paid-up share capital: ₹18 crore
- Turnover: ₹165 crore
- Outstanding loans from banks: ₹78 crore
- Public deposits: Nil

The CFO believes internal audit is automatically applicable to all listed entities, irrespective of turnover or borrowings. However, board members are unsure whether separate thresholds apply only to listed companies or also to unlisted companies.

2. Barona Infrastructure Pvt. Ltd. (BIPL)

A private company providing EPC services.

- Paid-up share capital: ₹1.2 crore
- Turnover: ₹205 crore
- Outstanding borrowings: ₹65 crore
- Public deposits: Not accepted by policy

Management argues that although turnover exceeds ₹200 crore, their "operating cycle is stable" and hence internal audit is "not necessary". The CFO, however, insists that legal thresholds are absolute, not risk-based. He refers to Rule 13 which specifies turnover or borrowings criteria for private companies.

3. Cobalt Urban Transport Ltd. (CUTL)

An unlisted public company providing metro feeder bus services.

- Paid-up share capital: ₹48 crore
- Turnover: ₹198 crore
- Outstanding loans from banks and PFIs: ₹122 crore
- Public deposits: ₹28 crore

During board discussions, the finance team pointed out that the paid-up capital is *below* the ₹50 crore threshold, and turnover is *below* ₹200 crore, but outstanding loans *exceed* the ₹100 crore criterion. Directors are unsure which of the four criteria trigger applicability and whether satisfying any one condition is enough for mandatory internal audit.

4. Dynex Retail Warehousing Pvt. Ltd. (DRWPL)

A private company operating large B2B warehouses.

- Paid-up share capital: ₹0.90 crore
- Turnover: ₹178 crore
- Outstanding loans: ₹102 crore
- Public deposits: Nil

CFO believes internal audit is *voluntary* since turnover is below ₹200 crore. The finance controller, however, points out that borrowings exceed ₹100 crore, and hence internal audit becomes applicable even if turnover threshold is not met for private companies.

Across the group, directors expressed concern regarding the 6-month compliance window for companies that newly fall into the applicability criteria. The statutory auditor plans to review each entity's applicability and report non-compliance to the Audit Committee.

Based on the above facts, answer the following:

3. Based on the information of Arcolite Manufacturing Ltd. (AML), which statement correctly determines its internal audit applicability?

- (a) Internal audit is applicable because AML's turnover exceeds ₹150 crore even though deposits and borrowings are below statutory thresholds.
- (b) Internal audit is applicable solely because AML is a listed company, irrespective of turnover, borrowings, or deposits.
- (c) Internal audit is not applicable as AML does not meet turnover or borrowing thresholds prescribed for unlisted public companies.
- (d) Internal audit becomes applicable only when both turnover exceeds ₹200 crore and borrowings exceed ₹100 crore.

4. Considering the thresholds applicable to Barona Infrastructure Pvt. Ltd. (BIPL) (a private company), which conclusion is correct?

- (a) Internal audit is mandatory since BIPL's turnover exceeds ₹200 crore, even though its borrowings are below ₹100 crore.
- (b) Internal audit is optional because borrowings below ₹100 crore override the turnover threshold for private companies.
- (c) Internal audit will apply only if both turnover crosses ₹200 crore and borrowings exceed ₹100 crore simultaneously.
- (d) Internal audit is applicable only when PUC exceeds ₹50 crore for private companies.

5. Based on Cobalt Urban Transport Ltd. (CUTL), an unlisted public company, which interpretation of applicability is correct?
- (a) Internal audit is applicable only if turnover \geq ₹200 crore and deposits \geq ₹25 crore simultaneously.
 - (b) Internal audit is not applicable as the paid-up share capital is marginally below ₹50 crore, despite high borrowings and deposits.
 - (c) Internal audit is mandatory because CUTL meets at least one criterion—outstanding loans exceed ₹100 crore—even though other thresholds are not met.
 - (d) Internal audit becomes applicable only when the company meets at least two of the four statutory thresholds.

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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

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	Ch. 3 - Audit Planning, Strategy & Execution	
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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	
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WT - 7	Full Syllabus Test 1	17 Dec. 2025
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