

**FINAL COURSE: GROUP I**

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

**(MTP 5: Ch. 4 – Materiality, Risk Assessment and Internal Control)**

**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 For GreenTech Ltd., initial assessments were IR = 65% and CR = 55%. After walkthroughs revealed overrides, the auditor revises IR upward by 20% of its prior value and CR upward by 15% of its prior value. To cap overall Audit Risk (AR) at 4%, what is the maximum acceptable Detection Risk (DR)?

*(Use  $AR = IR \times CR \times DR$ ; round to three decimals.)*

- (a) 0.074  
(b) 0.081  
(c) 0.088  
(d) 0.095

**Case Scenario [MCQ 2-5]**

Zenovia Life Sciences Ltd. (ZLSL) is a listed pharmaceutical manufacturing company with three plants located across India. As part of a strategic restructuring, the company has recently migrated from a partially automated ERP module to a fully integrated ERP system covering procurement, inventory management, production scheduling, quality control, batch tracking, sales, and financial reporting. The new ERP went live mid-year, after a four-month pilot run. Management claims the system has “cut processing errors by half,” though no formal post-implementation review has been conducted.

The internal audit department, which earlier consisted of two senior officers, expanded to a team of five, including two external consultants. Management now conducts quarterly meetings of the Audit Committee, but minutes reveal these meetings focus heavily on financial performance and less on internal control evaluations. Further, the Internal Auditor’s quarterly compliance report highlights persistent delays in generation of GRNs (Goods Receipt Notes) and mismatches between GRNs and supplier invoices, particularly at the Hyderabad plant.

The procurement process underwent redesign as part of the ERP implementation. Purchase requisition approvals are now routed through automated workflow, though it has been noted during walkthroughs that the system allows manual override of approval limits for emergency purchases. Plant Supervisors have been given “temporary elevated rights” to authorize purchases up to ₹25 lakhs—a limit significantly higher than the delegation matrix outlined in the company’s SOP for purchase operations.

In the previous year, ZLSL received observations from Statutory Auditors under SA 265 regarding two significant deficiencies: (i) lack of segregation of duties between inventory custodians and store ledger personnel; and (ii) untimely reconciliations between physical inventory and system records. Management had committed to implement corrective controls but internal audit follow-up reports indicate partial closure only. Further, surprise physical verification conducted by internal auditors in the current year revealed differences in batch-wise expiry reporting due to outdated manual records maintained parallel to the ERP system.

The CFO has expressed concern that while the ERP system generates automated exception reports, user departments do not review them consistently. At the same time, the company’s HR policies do not mandate formal training on internal controls, despite frequent transfer of employees between plants. As part of its strategic roadmap, the company aims to comply strictly with COSO principles and strengthen entity-level controls. However, implementation deadlines remain fluid due to ongoing resource constraints.

As the Statutory Auditor, you are examining the company’s controls over financial reporting, operational processes and compliance. You are required to identify residual risks, weaknesses and deficiencies in the internal control environment and design your audit response accordingly.

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

- 2 During your review, you note that the Audit Committee conducts quarterly meetings, but deliberations primarily focus on financial performance indicators instead of control effectiveness. Which COSO component is most directly impacted by this weakness?
  - (a) Control Environment – Because governance tone is weak and top management is not emphasising internal control responsibilities effectively.
  - (b) Information & Communication – Since the ERP reports are not being communicated regularly to the Audit Committee.
  - (c) Monitoring Activities – Because periodic reviews of control implementation and follow-up on deficiencies are inadequate.
  - (d) Control Activities – As transaction-level control procedures are being bypassed due to lack of supervisory review.
- 3 During testing of procurement controls, you observe that Plant Supervisors have been given temporary elevated rights to approve purchases far beyond the delegation limits specified in the SOP. What should be the most appropriate internal control response when performing SOP-based assessment?

- (a) Recommend immediate removal of elevated rights and require re-design of access control matrix, ensuring only defined levels hold authorization powers as per SOP.
  - (b) Rely on later review by CFO as the supervisory review compensates the risk of override.
  - (c) Suggest documenting emergency purchase approvals manually without altering ERP access settings.
  - (d) Continue testing as designed since elevated rights are temporary and not material to risk.
- 4** In the context of SA 265, which of the following situations most appropriately represents a significant deficiency requiring communication to Those Charged with Governance?
- (a) Consistent failure to perform periodic physical inventory verification, despite prior-year auditor recommendations, resulting in unresolved mismatches.
  - (b) One-off delay in posting of GRNs due to system downtime, corrected within the next working day.
  - (c) Isolated error in supplier invoice data entry, detected and rectified during monthly reconciliation.
  - (d) Temporary staff shortage leading to delayed review of exception reports, resolved within a fortnight.
- 5** Which scenarios best represents a deficiency in the Control Environment element of the COSO framework?
- (a) Management issues comprehensive SOPs but fails to ensure user training, resulting in inconsistent application of controls across plants.
  - (b) Exception reports generated by ERP remain unreviewed due to lack of time by user departments.
  - (c) The Audit Committee prioritises revenue targets and profitability metrics over discussions on internal control deficiencies.
  - (d) Inventory reconciliation mismatches persist because of ineffective reliance on manual parallel records.

# 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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	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	
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WT - 7	Full Syllabus Test 1	17 Dec. 2025
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