

INTER COURSE: GROUP II
PAPER-5: AUDITING AND ETHICS

(MTP 1: Ch. 1 – Nature, Objective and Scope of Audit)

Time Allowed- 20 Minutes

Maximum Marks-100

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. CA Srishti, a newly-qualified practitioner, receives four different client requests in the same month:
- (1) A listed company requests her to audit its annual financial statements and issue a report in accordance with law.
 - (2) A small partnership firm requests her to review its interim results for the quarter.
 - (3) A manufacturing client wants her to examine projected cash-flow statements prepared for a future expansion proposal.
 - (4) Another client seeks her help merely to compile and present its trial balance in the format of financial statements, without expressing any assurance.

She plans to ensure compliance with the relevant professional standards for each type of engagement and with the overall requirement of maintaining quality control in her firm.

Which of the following combinations MOST ACCURATELY matches the nature of each engagement with the applicable ICAI Standard, together with the firm-level quality control requirement?

- (a) Audit – SA 200; Review – SA 2410; Projection – SAE 3400; Compilation – SRE 2400; Quality Control – SQC 1
- (b) Audit – SA 200; Review – SRE 2400; Projection – SAE 3400; Compilation – SRS 4410; Quality Control – SQC 1
- (c) Audit – SA 200; Review – SRE 2400; Projection – SRS 3400; Compilation – SRS 4410; Quality Control – SA 220
- (d) Audit – SA 200; Review – SRE 2400; Projection – SRE 2410; Compilation – SRS 4410; Quality Control – SQC 1

Case Scenario [MCQ 2-5]

Zenith Agro-Tech Pvt. Ltd. (ZATPL) manufactures bio-fertilizers and smart farm sensors. The company's turnover for FY 2024–25 was ₹180 crore. It has 120 employees, a head office in Pune, and sales across five states. The company obtained a term loan from Green Bank Ltd. for expansion and was asked to furnish audited financial statements for the year.

ZATPL appointed M/s PKM & Associates, Chartered Accountants, as its statutory auditors. The audit engagement letter stated that the audit would be conducted in accordance with Standards on Auditing (SAs) issued by ICAI and that the auditors would express an opinion on whether the financial statements presented a true and fair view.

During audit planning, the auditors reviewed internal controls and found that purchase invoices above ₹50,000 required dual authorization. However, several invoices below this limit were missing gate-entry records. The finance manager argued that since payments were made through bank channels, the transactions were genuine.

Midway through the audit, the management requested PKM & Associates to issue a “provisional assurance report” on the half-yearly results for presentation to potential investors. The auditors declined, stating that assurance without sufficient evidence would violate SAs. Management then asked if the auditors could issue a “limited review report” instead.

Later, the audit team discovered that the company had received a show-cause notice from the Pollution Control Board for non-compliance with waste disposal norms. The notice was not disclosed in notes to accounts. The management contended that since the matter was not final, it did not fall within the auditor's scope. The audit partner disagreed.

After audit completion, the auditors issued an unmodified opinion. However, a few months later, a whistleblower alleged that the purchase manager had colluded with a vendor to book fictitious small-value purchases under ₹50,000 each. The management accused the auditors of negligence. PKM & Associates explained that despite adequate audit procedures, certain frauds might remain undetected due to inherent limitations of audit such as collusion and selective concealment.

Based on these facts, answer the following MCQs [Q.2-Q.5]

2. In response to the director's question, the audit partner clarified that audit provides “reasonable assurance.” Which of the following statements *most precisely* explains this term in the context of audit of financial statements?
- (a) Audit provides a high level of assurance, but not a complete guarantee, that the financial statements are free from material misstatement.
 - (b) Audit provides a moderate level of assurance, sufficient to conclude that the financial statements are completely reliable.
 - (c) Audit provides a limited level of assurance, implying that the auditor's opinion is based mainly on management representations.
 - (d) Audit provides an absolute level of assurance, ensuring that no fraud or error exists in the financial statements.

3. The management argued that the Pollution Control Board's notice was outside the audit scope. Which of the following statements *most appropriately* justifies the auditor's position?
- (a) The objective of audit is to verify compliance with all laws; hence, every legal matter must be disclosed in audit report.
 - (b) The scope of audit includes assessing whether financial statements contain all relevant disclosures required by the applicable financial reporting framework.
 - (c) The scope of audit is limited to checking arithmetical accuracy of accounting records and does not extend to disclosure matters.
 - (d) The objective of audit is to ensure compliance with internal control policies, not with external laws or reporting frameworks.
4. After the whistleblower report, management claimed that auditors should have detected the fictitious purchases. Which of the following is the *most accurate explanation* as per auditing principles?
- (a) An auditor's responsibility is to detect all frauds and errors, irrespective of materiality, as part of professional skepticism.
 - (b) The audit provides absolute assurance that frauds involving collusion or override of controls will not exist.
 - (c) Due to inherent limitations of audit, such as use of sampling, management's possible collusion, and limitations of evidence, some material misstatements may remain undetected.
 - (d) Since management signs the financial statements, the auditor has no responsibility for fraud detection.
5. When management requested a "limited review report" on provisional financials, the auditor considered other types of engagements. Which of the following *correctly identifies* the applicable framework?
- (a) A review engagement under SRE 2400 provides limited assurance and involves fewer procedures than an audit.
 - (b) A compilation engagement under SRS 4410 provides reasonable assurance on unaudited financial statements.
 - (c) An audit engagement under SA 200 can be performed on unaudited trial balances if sufficient documentation is provided.
 - (d) A prospective assurance engagement under SAE 3400 is appropriate since the information was "provisional" and forward-looking.

CA Inter – Auditing and Ethics

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. 1 - Nature, Objective and Scope of Audit	1 Case Study with 4 MCQ + 1 General MCQ	10
7 Nov.	Thu.	Ch. 11 - Ethics and Terms of Audit Engagements		10
8 Nov.	Fri.	Ch. 2 - Audit Strategy, Planning & Programme		10
9 Nov.	Sat.	Module Test - Ch. 1, 2 and 11	3 Case Studies comprising 12 MCQs + 3 MCQs	30
10 Nov.	Mon.	Ch. 3 - Risk Assessment and Internal Control	1 Case Study with 4 MCQ + 1 General MCQ	10
12 Nov.	Wed	Ch. 4 - Audit Evidence		10
14 Nov.	Fri.	Ch. 6 - Audit Documentation		10
15 Nov.	Sat.	Module Test - Ch. 3, 4 and 6	3 Case Studies comprising 12 MCQs + 3 MCQs	30
17 Nov.	Mon.	Ch. 5 - Audit of Items of Financial Statements	1 Case Study with 4 MCQ + 1 General MCQ	10
19 Nov.	Wed	Ch. 7 - Completion and Review		10
22 Nov.	Sat.	Module Test - Ch. 5 and 7	3 Case Studies comprising 12 MCQs + 3 MCQs	30
24 Nov.	Mon.	Ch. 8 - Reporting	1 Case Study with 4 MCQ + 1 General MCQ	10
26 Nov.	Wed	Ch. 9 - Audit of Different Types of Entities		10
28 Nov.	Fri.	Ch. 10 - Audit of Banks		10
29 Nov.	Sat.	Module Test - Ch. 8, 9 and 10	3 Case Studies comprising 12 MCQs + 3 MCQs	30

**Note: Test Papers and Answer Key will be uploaded
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MTP No.	Chapter No. and Name	Date of Test
1	Ch. 1 - Nature, Objective and Scope of Audit	26 Nov. 2025
	Ch. 11 - Ethics and Terms of Audit Engagements	
2	Ch. 2 - Audit strategy, Planning and Programme	29 Nov. 2025
	Ch. 3 - Risk Assessment and Internal Control	
3	Ch. 4 - Audit evidence	03 Dec. 2025
	Ch. 6 - Audit Documentation	
4	Ch. 5 - Audit of Items of Financial Statements	06 Dec. 2025
5	Ch. 7 - Completion and Review	10 Dec. 2025
	Ch. 8 - Audit Report	
6	Ch. 9 - Sp. features of Audit of Different Entities	13 Dec. 2025
	Ch. 10 - Audit of Banks	
7	Full Syllabus Test	17 Dec. 2025
8	Full Syllabus Test	24 Dec. 2025

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		Cracker – (Vol 1 & Vol 2)	17th Edition (Oct. 2025)	1195	855	
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