

MTP 1 (Ch. 1 – Quality Control & Ch. 2 – General Auditing Principles)

Marks: 40

Time: 1 Hr. 15 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Case Scenario - 1

ADM & Associates, a medium-sized audit firm, has recently been appointed as the statutory auditor of Muonic Ltd., a listed pharmaceutical company involved in complex global operations and intensive R&D activities.

The audit is being led by CA Rajul, an engagement partner. The company was previously audited by a Big 4 firm, which withdrew citing limitations in audit scope. During planning, CA Rajul observes that while her team has good experience with standard manufacturing audits, they lack exposure to pharmaceutical sector audits, especially in relation to R&D accounting and global regulatory requirements.

Despite this concern, the Managing Partner insists that the team follow their standard procedures to ensure the audit is completed on time, especially due to the company's obligations under listing regulations. CA Rajul is concerned about whether the firm possesses the capability and competence to deliver a high-quality audit in line with professional standards.

Based on the above facts, answer the following:

- Q.1** As per SQC 1, what is the most appropriate action for CA Rajul to take after assessing that her audit team lacks experience in pharma R&D? 2
- (a) Proceed with the audit using standard checklists and procedures.
 - (b) Raise a concern internally and consider involving external experts or specialists.
 - (c) Ignore the concern as the client expects timely reporting.
 - (d) Delegate responsibility to junior staff familiar with manufacturing audits.
- Q.2** The fact that the previous Big 4 auditor resigned due to scope limitations should prompt which of the following actions by ADM & Associates? 2
- (a) Assume the limitations are resolved as the client appointed a new auditor.
 - (b) Proceed after understanding the nature of scope limitations and documenting the evaluation.
 - (c) Consider it irrelevant since resignation is a common occurrence.
 - (d) Use the previous auditor's work to complete current year audit

- Q.3** Under SA 220, what is CA Rajul's responsibility as the engagement partner regarding audit quality? **2**
- (a) To ensure only documentation is maintained
 - (b) To ensure appropriate direction, supervision, and review of the audit work.
 - (c) To delegate all key decisions to the audit manager.
 - (d) To report only to the audit committee

Case Scenario - 2

CA. Biswajit is conducting audit of "Have More Limited". He is auditor of the company since last three years and has found nothing unusual in operations and financial statements of the company. The company has many locations where substantial inventories are stored and lying. During his fourth year stint, he finds that inventory quantities have risen disproportionately as compared to past few years trends. He has assessed existence of risk of material misstatement due to fraud.

During the course of audit, it has come to his knowledge that company is also required to install online air pollution control monitoring systems in its plant as mandated in state pollution control legislation and regulations. Non-installation of such online air pollution control monitoring systems may lead to fines and even sealing of plant.

While verifying pay roll data of the company, it has come to notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour in flagrant violation of rules in this regard. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.

On the basis of above, answer the following questions:

- Q.4** Considering description of disproportionate rise in inventory quantities, which of the following is not likely to be an appropriate response to outlined assessed risk of material misstatement due to fraud? **2**
- (a) Observing inventory counts at all locations at same date by employing necessary resources.
 - (b) Observing inventory counts at certain locations after prior intimation.
 - (c) More rigorous examination of packed items during observing inventory count process.
 - (d) Observing inventory count at end of reporting period to minimize risk of manipulation.
- Q.5** Which of the following statements most appropriately describes responsibilities of auditor in relation to compliance with state pollution control legislation and regulations? **2**
- (a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance.
 - (b) Physical verification of workability of such systems is required from an auditor.
 - (c) Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.

- (d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.

Q.6 The auditor has observed non-compliance of law prohibiting employment of child labour. Which is the most appropriate course of action for him to proceed in this matter? **2**

- (a) He should obtain further information to evaluate the possible effect on financial statements.
- (b) He must report the matter to concerned government department.
- (c) He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.
- (d) He should express a modified opinion in audit report.

Part B (Descriptive Questions)

Attempt Any two Questions from the rest.

- Q.1** (a) M/s SV & Associates is conducting the statutory audit of Solar-Tech Ltd., a company involved in the complex business of manufacturing high-efficiency solar cells. During the audit, the engagement team encounters a highly contentious matter regarding the recognition of government research grants received under a newly introduced "Green Incentive Scheme," which involves complex performance obligations. The firm, being a mid-sized practice, does not have an internal technical cell to deal with such specialized Ind AS interpretations. CA Varun, the engagement partner, decides to take a final stand based on his own experience to avoid delays, as he believes external consultation would undermine the firm's professional image. In light of SQC 1, evaluate CA Varun's approach and discuss the firm's obligations regarding consultations in difficult or contentious matters, including the resources available and documentation requirements. **5**
- (b) You are appointed as Statutory Auditor of Supreme Ltd. and are in the midst of conducting Annual Audit for the financial year ending on 31st March, 2026. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.50 crores from a company incorporated on 18th March, 2026. Upon further inquiry, you discover that purchases have been booked at the instance of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation? **5**
- (c) ENN Limited is availing the services of APP Private Limited for its payroll operations. Payroll cost accounts for 65% of total cost for ENN Limited. APP Private Limited has provided the type 2 report as specified under SA 402 for its description, design and operating effectiveness of control. **4**
- APP Private Limited outsourced a material part of payroll operation M/s SMP & Associates in such a way that M/s SMP & Associates is sub-service organisation to

ENN Limited. The Type 2 report which was provided by APP Private Limited was based on carve-out method as specified under SA 402.

CA Raman while reviewing the unmodified audit report drafted by his assistant found that, a reference has been made to the work done by the service auditor. CA Raman hence asked his assistant to remove such reference and modify report accordingly.

Comment whether CA Raman is correct in removing the reference of the work done by service auditor?

- Q.2**
- (a) M/s D.K. & Associates is the statutory auditor of Sky-High Aviation Ltd., a listed entity. For the financial year 2025-26, CA Aman was appointed as the Engagement Quality Control Reviewer (EQCR). The engagement team, led by the engagement partner, has completed the audit fieldwork and drafted an unmodified opinion. During the documentation phase, the engagement partner is unsure about the specific records required to demonstrate compliance with ethical requirements and the EQCR process. 5
- In light of SA 220, discuss the documentation requirements for engagement partner and the specific matters the Engagement Quality Control Reviewer must document before the audit report is issued.
- (b) FAS Insurance Brokers Limited is a leading online insurance intermediary. During the year, Director General of GST Intelligence (DGGI) has issued notice to the company for allegedly creating fictitious invoices for “marketing and sales services” amounting to ₹ 50 crores in favour of non-life insurance companies. The premises of company were also searched during the year by DGGI officials. The matter was also informed to IRDAI by DGGI for violation of norms and regulations in this regard. 5
- Does above situation has any bearing on your responsibilities as statutory auditor of the company? Outline briefly in context of possible non-compliance with laws by the company.
- (c) In the course of audit of Tech Limited you observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. Tech Limited used a service organisation to record transactions and process related data. As an auditor, what would be your considerations regarding the nature and extent of activities undertaken by service organisation so as to determine whether those activities are relevant to the audit and, if so, to assess their effect on audit risk. 4
- Discuss with reference to relevant Standard on Auditing.
- Q.3**
- (a) UVW & Associates are the statutory auditors of Moon Ltd., a listed company, for the financial year 2026-27. CA Udhav is the engagement partner for the audit assignment. He was of the understanding that as per the requirement of one of the SAs he has a responsibility to communicate following matters to those charged with governance: 5
- (a) The auditor’s responsibilities in relation to the financial statement audit.

- (b) Planned scope and timing of the audit.
- (c) Auditor independence.

Which of the matters is not included in the list prepared by CA Udhav. Discuss such matter in detail.

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- (b) NMN & Co., LLP and ABC & Associates, LLP are the joint statutory auditors of BHS Ltd. BHS Ltd. is a listed company and has been in existence for the last 50 years. Since beginning this company was audited by MQS & Associates but due to audit rotation, the company had to bring in new auditors. Considering the size of the company, two auditors were appointed as joint auditors.

Since the company is new to these auditors and the concept of joint auditors to whom audit work has been divided, management had a discussion and understood that each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. Advise.

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- (c) CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?

Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri and the engagement partner.

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Instructions for Self-Evaluation

Suggested Answers and Marking Scheme will be available at Knowledge Portal/ LMS of

<https://altclasses.in/paper-3-advanced-auditing-mock-test-papers/>

Link for Resources (Revision Videos, MTPs, Amendments, Charts, etc.) and Inquiries			
1	Youtube Channel	https://www.youtube.com/@altclassesca9193	
2	Telegram Channel	https://t.me/altclasses	
3	Whatsapp Group for Doubts	https://chat.whatsapp.com/LSDM362ggy2ErmRgTi7ceA	
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Final Audit - Chapter-wise Mock Tests (For Nov. 2026 Exams)

Test No.	Chapter No. and Name	Date
WT - 1	Ch. 1 - Quality Control	14.08.2026
	Ch. 2 - General Auditing Principles & Responsibilities	
WT - 2	Ch. 3 - Audit Planning, Strategy & Execution	22.08.2026
	Ch. 4 - Materiality, Risk Assessment & Internal Control	
WT - 3	Ch. 5 - Audit Evidence	29.08.2026
	Ch. 6 - Completion & Review	
WT - 4	Ch. 7 - Reporting	05.09.2026
	Ch. 8 - Specialised Areas	
WT - 5	Ch. 9 - Related Services	12.09.2026
	Ch. 10 - Review of Financial Info.	
	Ch. 11 - PFI & Other Assurance Services	
WT - 6	Ch. 12 - Digital Auditing and Assurance	19.09.2026
	Ch. 13 - Group Audits	
WT - 7	Ch. 14 - Audit of Banks & NBFC	26.09.2026
	Ch. 15 - Audit of PSU	
WT - 8	Ch. 16 - Internal Audit	03.10.2026
	Ch. 17 - DD, Investigation & Forensic Accounting	
WT - 9	Ch. 18 - SDG & ESG Assurance	10.10.2026
	Ch. 19 - Professional Ethics & Liabilities of Auditor	
WT - 10	Full Syllabus Test	17.10.2026