

MTP 1 (Ch. 1 – Quality Control & Ch. 19 – Professional Ethics)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1** M/s KRM & Co., Chartered Accountants, audits listed companies, large unlisted entities and performs multiple assurance engagements. During a quality-planning meeting, the managing partner raises concerns about the different external bodies that might review their audit quality. One senior partner claims that the Peer Review Board (PRB) can pick up any assurance engagement of the firm for review, irrespective of listing status. Another insists that the Quality Review Board (QRB) can review their audits independently, even without any reference from NFRA. A third argues that NFRA has the power to directly review their audits of listed companies and prescribed classes of unlisted companies under NFRA Rules, 2018. The partners seek clarity on which views correctly reflect the applicable quality-review mechanisms. 2
- Which of the following best evaluates the correctness of their statements?
- (a) The first and second partners are both correct, because PRB and QRB have wide, overlapping jurisdiction and both may independently review any audit file of the firm without restrictions.
- (b) Only the second partner is correct, because QRB is the primary statutory body for quality review and NFRA carries out inspections only when QRB refers a case to it.
- (c) The first and third partners are correct, because PRB can review any assurance engagement, while NFRA independently inspects audits of listed and other prescribed companies, without requiring QRB involvement.
- (d) None of the partners are fully correct, because all external reviews - PRB, QRB, and NFRA - can only be initiated through a single centralised referral mechanism set by the Council.
- Q.2** CA Rishabh, a sole-proprietor Chartered Accountant, enters the following arrangements in connection with sharing a portion of his professional fees: 2
- (1) He agrees to pay 15% of his audit fees to Mr. K, a *fellow member of ICAI* who occasionally provides technical consultation on complex engagements.
- (2) He promises to pay 10% commission to Ms. T, who holds an *MBA from a private autonomous college*, for referring potential clients.

- (3) He agrees to share 20% of his professional receipts with Mrs. A, the *legal representative of a deceased partner* of his former firm, in accordance with a dissolution settlement still in force.
- (4) He agrees to pay 5% of tax-audit fees to his senior audit assistant, describing it as an “administrative allowance” linked to fees billed.

Which of the above arrangements are permissible under Clause 2 of Part I of the First Schedule to the Chartered Accountants Act, 1949?

- (a) (1) and (2)
- (b) (1) and (4)
- (c) (1), (3) and (4)
- (d) (1) and (3)

Q.3

Column A	Column B
A. Self-interest Threat	1. A professional accountant issuing an assurance report on the effectiveness of financial systems after he himself implemented those systems.
B. Self-review Threat	2. A professional accountant having a close or immediate family member who is a director or officer of the client.
C. Familiarity Threat	3. A professional accountant being threatened with dismissal for disagreeing with management on an accounting principle.
D. Intimidation Threat	4. A professional accountant quoting a very low fee to obtain an engagement such that it becomes difficult to perform the work as per applicable standards.

Which of the following options represents the correct match?

- (a) A–2, B–1, C–4, D–3
- (b) A–4, B–3, C–1, D–2
- (c) A–3, B–4, C–2, D–1
- (d) A–4, B–1, C–2, D–3

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Part B (Descriptive Questions)

- Q.1** KRM & Associates, Chartered Accountants, recently accepted the audit of a fast-growing online lending platform after a short introductory discussion with the promoter, without documenting any assessment of client integrity, possible conflicts of interest, or whether the firm possessed the specialised skills needed for a technology-driven financial services entity. As the audit progressed, the engagement team faced a complex matter relating to classification and recognition of platform fees and embedded service charges, where management’s interpretation was inconsistent with industry practice; however, no technical consultation was sought, differences of view within the team were not documented, and the final working papers merely recorded that the partner “reviewed and agreed” with management’s approach. **5**
- Analyse the above situations, identify the professional requirements that may have been violated, and conclude whether the firm’s quality control framework appears adequate.
- Q.2** M/s RST & Co., Chartered Accountants, was entrusted with ₹18 lakhs by a client for specific statutory filings to be made over the next few months. Instead of maintaining the money in a separate client account, the engagement partner deposited it into the firm’s general bank account. Within weeks, he secretly withdrew ₹6 lakhs for meeting his personal financial commitments, making no entry in the firm’s books and leaving no trail in client correspondence. To conceal the shortage, he manually altered internal cash-control sheets and assured the cashier that the figures “must match the bank later.” The client remained unaware that their funds had been diverted for personal use and partially concealed through falsified internal records. When questioned by another partner, the engagement partner claimed it was only a “temporary borrowing” and should not be treated as misconduct. **5**
- Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.
- Q.3** RZA & Associates, a mid-sized firm, recently redesigned its stationery to appear “more professional,” and in doing so, CA R instructed the admin team to print the firm’s vision and mission statement on all letterheads and visiting cards that are routinely circulated to clients, banks and vendors. During the same period, CA A, another partner of the firm, accepted an assignment from a charitable educational institute to certify the utilisation of government grants, and he negotiated a fee structure where his firm would be paid a fixed percentage of the utilisation amount instead of a flat or hourly fee. Both partners believe their actions are well within ethical limits and reflect modern professional practices. Analyse these two situations in light of the recent decisions of the ESB and conclude whether the conduct of the two partners is appropriate. **4**

Instructions for submission of answer sheet

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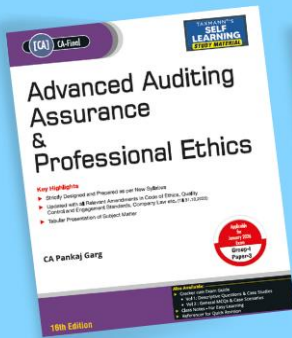
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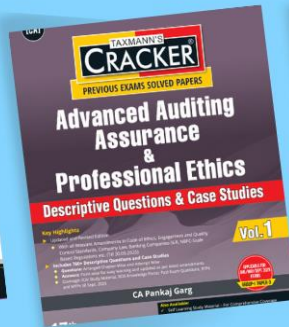
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- 2 Full Syllabus Tests
- Based on ICAI Latest Exam Pattern
- Evaluation by Ex - Examiner of ICAI

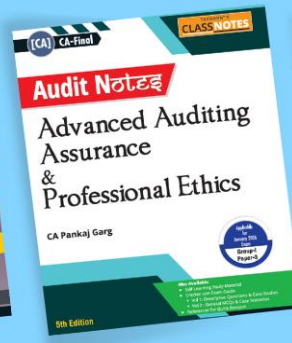
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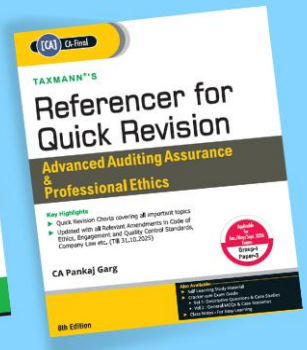
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