

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 1: Ch. 19 – Professional Ethics and Liabilities of Auditors)

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. The firm KDS & Co., Chartered Accountants, proudly displayed the official ICAI logo on the cover page of its firm profile, visiting cards, and also at the bottom of its audit reports and tax consultancy brochures.

In addition, the firm printed the logo in *metallic gold color* on its glass office façade, accompanied by the line:

“Recognized by ICAI for Excellence in Audit Quality.”

The partners justified their action, claiming:

- The logo used was the *official one* without alteration in design; only the color was customized for visibility.
- The accompanying line merely reflected their membership in ICAI, not an official award or certification.

Which of the following interpretations most accurately reflects ICAI’s position under Chapter XVI of the Council General Guidelines, 2008 and subsequent *Advisories on Logo Usage*?

- (a) Since the firm used the official ICAI logo design, without structural modification, the change of color and accompanying text are matters of artistic presentation; hence no ethical breach occurs.
- (b) The use of the ICAI logo on audit reports and office premises reflects professional identity, which is permissible if it enhances visibility and the firm does not claim separate certification.
- (c) The firm has violated the guidelines because even when the ICAI logo is correctly used, any change in color, placement on reports or publicity material, or use with misleading text creates an impression of official recognition, which is strictly prohibited.
- (d) While the color change alone may not amount to violation, placing the logo on consultancy brochures or websites implies commercial endorsement, which contravenes the dignity expected of members.

Case Scenario [MCQ 2-5]

MKS & Co., a long-established firm of Chartered Accountants based in Mumbai, was known for its aggressive client acquisition and modern approach to professional services. The firm had recently won the statutory audit of Chempro Industries Ltd. (CIL), a large listed company engaged in the manufacture of solvents, resins, and specialty chemicals. The engagement was prestigious; CIL was a market leader with a turnover of over ₹ 2,000 crore and operations across three states.

The audit was to be led by CA Meera Shah, the firm's Managing Partner, supported by CA Sanjay Taneja as engagement partner and CA Anjali Deshpande heading consultancy and risk advisory services. While the engagement promised to enhance the firm's stature, it soon became a complex web of ethical challenges that tested the partners' understanding of the Code of Ethics far beyond textbooks.

The first audit planning meeting set the tone. CIL's CEO, Mr. Arvind Desai, known for his flamboyant leadership, welcomed the auditors with warmth but casually remarked, "We prefer auditors who understand business realities, not just regulations." The Finance Director added that the Board was looking forward to a "smooth, timely, and unqualified report."

Meera sensed the subtle undertone - management wanted compliance, not confrontation. Sanjay, however, viewed it pragmatically: "All listed clients expect clean reports; as long as we stay within standards, we're fine." The team proceeded with the engagement.

Within weeks, field auditors discovered that CIL had received multiple show-cause notices from the Pollution Control Board for improper waste disposal at its Ankleshwar plant. Some inspection reports even mentioned unreported chemical spills. When questioned, the plant manager insisted that the issue was "settled informally" and therefore "not material." The CFO assured Sanjay that provisions for penalties would be created only "if the regulator finally imposed fines."

The matter made Sanjay uneasy - possible non-compliance with environmental laws had clear financial and reputational implications. He considered consulting the firm's ethics partner but hesitated, fearing it would escalate and delay the audit. The team simply noted the issue for "management representation" at the completion stage.

Around the same time, Anjali Deshpande, who managed the firm's Risk Advisory Division, announced that she had signed an ERP design and implementation project for CIL. The project involved designing internal financial controls and real-time cost reporting modules - systems that would directly feed into financial statements later audited by MKS & Co.

Sanjay was alarmed. "If we design and test their controls, how can we later audit them independently?" he asked. Anjali countered, "It's for efficiency, not accounting; besides, our engagement letter for audit is separate."

Meera, under pressure to grow the firm's non-audit revenue, approved the project, rationalising that since the ERP implementation was being handled by a separate division, independence remained intact. None of them realised that the prohibition under Section 144 of the Companies Act, 2013 extended to such engagements for an audit client or its subsidiaries.

To celebrate the new assignment, Anjali posted a LinkedIn announcement:

"Proud to announce that MKS & Co. has been appointed as the statutory auditor of Chempro Industries Ltd. Excited to work with an innovative leader in Indian chemical manufacturing!"

The post carried CIL's logo, photographs of the signing ceremony, and hashtags like #audit #ICAI #BigClients. A week later, another post promoted MKS's "integrated audit and risk solutions for listed clients" with her direct contact details.

Several local firms complained to the Institute that this amounted to solicitation and advertisement under the Code of Ethics. The Ethical Standards Board (ESB) took cognisance, noting that while limited factual communication on websites and social media is permitted, naming clients or posting promotional material implying superiority crosses the ethical boundary.

Meera received an advisory email from ESB reminding members to ensure that online communication remains factual and not promotional. Though she instructed Anjali to take down the posts, screenshots were already circulating in professional circles.

As the audit progressed, the finance team at CIL grew increasingly defensive. When Sanjay proposed an adjustment of ₹ 6 crore for probable environmental penalties and unrecorded contingent liabilities, the CFO warned that "such a move could affect our share price and disturb the Board." The Audit Committee Chair informally suggested, "Let's keep disclosures minimal this year; next year we'll clean it up."

Sanjay felt trapped between professional judgment and business pragmatism. His team feared that qualifying the report could lead to the loss of this marquee client. One senior manager confided, "Sir, everyone knows the board picks firms that are cooperative."

The situation triggered classic self-interest and intimidation threats. Meera advised Sanjay to "balance ethics with realism" and to rely on management representation letters for protection. Yet he knew that the principles of integrity and objectivity demanded more than written assurances.

In a separate discussion, Anjali shared some internal cost-analysis data from CIL with another of MKS's clients in the same industry, claiming it was "generic benchmarking." A junior staff member overheard this and reported it to Sanjay. While the data did not reveal confidential details directly, it clearly originated from CIL's systems. Sanjay realised this could constitute breach of confidentiality under the Code.

When confronted, Anjali defended herself, saying, "Everyone shares market insights; nothing specific was disclosed." The incident deepened rifts among the partners, with Meera privately worrying that the firm's internal culture was drifting away from professional restraint.

At year-end, the statutory audit reached a critical phase. Sanjay prepared a draft report qualifying the accounts for inadequate environmental provisions and for failure to disclose pending legal cases. On receiving the draft, the CFO called an urgent meeting.

"Either you issue an unqualified report," he said, "or the Board will reconsider continuing with your firm. Our group has several subsidiaries; this could affect all your future work."

Meera faced a moral dilemma - losing the client would severely hit revenues. Yet compromising on integrity would risk disciplinary action. She considered discussing the matter with ICAI's Ethics Helpline but feared reputational fallout if the issue leaked. The firm chose to issue a "modified report" with ambiguous language that downplayed the environmental violations.

Two months later, a whistle-blower complaint reached SEBI, exposing the unreported chemical discharge and referencing the auditor's soft stance. Media coverage followed, quoting the same LinkedIn post where MKS & Co. had celebrated the audit.

ICAI's Ethical Standards Board initiated an inquiry into potential violations of the Code of Ethics. Preliminary findings cited concerns regarding:

- Breach of independence due to ERP implementation work for the same audit client.
- Inappropriate advertising and solicitation through social media posts naming the client.
- Failure to maintain objectivity and due care in addressing material non-compliance with laws (NOCLAR).
- Possible breach of confidentiality through use of client data for another engagement.

The case sparked debate across the profession. Some members argued that modern firms must embrace online visibility and diversification; others insisted that ethics, not expansion, defines credibility.

For MKS & Co., the realisation came too late—their reputation, once built on trust, now stood tainted by decisions made in shades of grey.

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

2. While concluding the audit, CA Sanjay relied solely on management's representation that pending environmental penalties were "immaterial." Despite internal audit notes showing potential exposure of ₹ 6 crore, he chose not to obtain independent evidence, reasoning that further inquiry might strain client relations and delay signing. Which of the following interpretations most accurately reflects the professional position?
 - (a) Sanjay has exercised professional judgment appropriately, since management's written representation forms part of sufficient audit evidence and there was no final adjudication confirming the liability.
 - (b) Considering the absence of proven financial impact, it was reasonable for Sanjay to accept management's explanation and rely on representations to avoid unnecessary confrontation.
 - (c) Sanjay failed to maintain professional competence and due care, as indications of potential misstatement required further independent evaluation irrespective of management assurances.
 - (d) Sanjay's conduct reflects a lack of objectivity and skepticism, since commercial convenience and client pressure appear to have influenced his judgment on audit evidence.
3. During audit fieldwork, MKS & Co. identified that Chempro Industries Ltd. had discharged untreated effluents in violation of environmental regulations. Management asserted that the issue was "non-financial" and "will be settled informally." The engagement partner debated whether to report externally or close the matter with a management representation. What would constitute the most ethical and professionally compliant response?
 - (a) The auditor should evaluate whether management is taking appropriate remedial action, escalate to those charged with governance if not, and disclose externally only if substantial harm to public interest appears probable.

- (b) Since the matter may eventually affect liabilities, management’s verbal assurance and provision of a letter of representation can be considered adequate evidence to complete the audit.
 - (c) The auditor should immediately resign from the engagement and report the matter to all possible regulators to safeguard professional reputation.
 - (d) The auditor must not discuss or document the matter further as it constitutes confidential information unrelated to financial reporting.
4. Soon after appointment, CA Anjali posted on LinkedIn:
- “Delighted to partner with Chempro Industries Ltd.—India’s leading chemical manufacturer—for their statutory audit. Grateful for the trust shown in MKS & Co. as a leader in corporate assurance.”
- Her post included firm logo, hashtags, and contact details. Several professionals complained that this violated ethical restrictions.
- Which of the following statements best analyses the situation?
- (a) The post merely communicates factual information about a public appointment and, therefore, does not amount to solicitation since it contains no explicit invitation for professional work.
 - (b) As the appointment was already disclosed in Chempro’s stock exchange filing, reiterating the fact on social media does not impair professional dignity.
 - (c) The communication constitutes indirect advertising since it associates the firm’s name with a client and includes promotional undertones implying professional superiority.
 - (d) The post breaches professional behaviour as it could be perceived as soliciting future work and undermines the decorum expected of members in public communication.
5. Following the LinkedIn controversy, ICAI’s Ethical Standards Board issued guidance on permissible digital communication. MKS & Co. reviewed its social-media policy to align with ethical expectations. Which of the following actions would best comply with ESB guidance?
- (a) Sharing details of firm participation in ICAI research workshops or professional conferences, without client references or promotional content.
 - (b) Posting congratulatory messages to clients on successful IPOs, tagging them and adding the firm’s logo as their “statutory audit partner.”
 - (c) Uploading photos from signing ceremonies with captions thanking clients for “trusting the firm’s audit leadership.”
 - (d) Publishing paid social-media posts offering “comprehensive audit and advisory solutions for listed entities” along with contact numbers.

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	1 Case Study with 4 MCQ + 1 General MCQ	10
7 Nov.	Thu.	Ch. 1 - Quality Control		10
8 Nov.	Fri.	Ch. 2 - General Auditing Principles & A.R.		10
9 Nov.	Sat.	Module Test - Ch. 19, 1 and 2	3 Case Studies comprising 12 MCQs + 3 MCQs	30
10 Nov.	Mon.	Ch. 3 - Audit Planning	1 Case Study with 4 MCQ + 1 General MCQ	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
15 Nov.	Sat.	Module Test - Ch. 3 to Ch. 7	3 Case Studies comprising 12 MCQs + 3 MCQs	30
17 Nov.	Mon.	Ch. 8 - Specialised Areas	1 Case Study with 4 MCQ + 1 General MCQ	
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
22 Nov.	Sat.	Module Test - Ch. 8 to Ch. 13	3 Case Studies comprising 12 MCQs + 3 MCQs	30
24 Nov.	Mon.	Ch. 14 - Audit of Banks and NBFC	1 Case Study with 4 MCQ + 1 General MCQ	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
29 Nov.	Sat.	Module Test - Ch. 14 to Ch. 18	3 Case Studies comprising 12 MCQs + 3 MCQs	30

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S. No.	Chapter No. and Name	Date of Test
WT - 1	Ch. 1 - Quality Control	26 Nov. 2025
	Ch. 19 - Professional Ethics	
WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
	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	
	Ch. 15 - Overview of Audit of PSU	
WT - 7	Full Syllabus Test 1	17 Dec. 2025
WT - 8	Full Syllabus Test 1	24 Dec. 2025

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Cracker – (Vol 1 & 2)	17th Edition (Oct. 2025)	1695	1170	
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