

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 2: Ch. 1 - Quality 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. CA Bhavana, engagement partner of MNB & Co., was reviewing the audit of Infratech Constructions Ltd., a listed entity involved in multiple infrastructure projects across India. During the audit, one senior team member reported that the company's CFO was previously employed with MNB & Co. and had close personal ties with Bhavana. The firm had obtained independence declarations at the start of the audit, but Bhavana did not consider this relationship significant. Later, the Engagement Quality Control Reviewer (EQCR) noted that several key audit judgments — including recognition of unbilled revenue and impairment of receivables — were based solely on management representations without sufficient corroborative evidence.

The EQCR recommended delaying the report until additional audit procedures were performed, but Bhavana argued that the statutory deadline under the Companies Act was approaching and decided to sign the report before completion of the review.

Which of the following best describes the quality control breach in this situation as per SQC 1 and SA 220?

- (a) The EQCR's recommendations are advisory in nature; hence, the engagement partner's decision to issue the report before completion of review is acceptable in case of statutory deadline pressure.
- (b) The engagement partner failed to maintain objectivity and independence, and also breached the requirement under SA 220 by issuing the report before completion of the EQCR, thereby compromising engagement quality and ethical compliance.
- (c) Since independence declarations were obtained at the start of engagement, the firm has complied with SQC 1; the relationship between the CFO and partner is irrelevant unless financial interest exists.
- (d) The EQCR should be held responsible for not performing review procedures earlier, as SQC 1 places primary responsibility for quality at the reviewer's level rather than the engagement partner.

Case Scenario [MCQ 2-5]

M/s RKM & Associates, a mid-sized firm of Chartered Accountants based in Mumbai, has seven partners and around 70 audit staff. The firm handles statutory audits of listed and large unlisted entities. It has witnessed rapid expansion over the past three years, accepting clients from sectors such as fintech, pharmaceuticals, logistics, and renewable energy. However, its internal quality control system has not been updated since 2019.

The Managing Partner, CA Rajesh, is known for his strong business orientation and client acquisition drive. He believes that retaining and expanding clients ensures the firm's long-term growth. In recent months, the firm has been under pressure to meet reporting deadlines, leading to overlapping audit engagements and overworked teams.

RKM & Associates was approached by Vistal Pharma Ltd., a newly listed company, for statutory audit. The promoter of Vistal Pharma is a long-time friend of Rajesh. The company's earlier auditor had resigned citing "differences over accounting policies." Vistal offered a 30% higher audit fee if the appointment was accepted immediately. Despite some partners expressing reservations about integrity concerns and possible conflict of interest, Rajesh insisted on accepting the engagement, arguing it would strengthen their presence in the pharma sector. A few weeks later, the internal audit department informed that the company had pending regulatory investigations on alleged overpricing of drugs and non-compliance with CSR spending norms. The partner-in-charge raised a red flag but was told "not to overthink reputational risks."

For the audit of SunVolt Energy Pvt. Ltd., a solar energy company operating in multiple states, the engagement team comprised mostly newly qualified chartered accountants. No partner with prior experience in the renewable energy sector was available for on-site supervision. The team had to complete the audit in just three weeks due to management's tight reporting schedule. During review, a serious mismatch was noticed — the draft audit report referred to profit of ₹ 24 crore, while the financial statements showed a loss of ₹ 18 crore due to an accounting adjustment made after partner review. The final report was nevertheless issued without cross-verification because the partner was traveling abroad.

The audit of SmartConnect Fintech Ltd., a listed entity, was completed and the audit report dated 30th June 2025. However, the Engagement Quality Control Reviewer (EQCR) completed his review on 3rd July 2025, i.e., three days after the report date. When questioned, the engagement partner stated that since the EQCR had reviewed the key sections earlier, the date difference "did not matter." The EQCR had pointed out inadequate documentation for IT revenue recognition testing, but the comments were not incorporated into the audit file before signing the report.

Recently, RKM & Associates underwent a Peer Review by the ICAI's Peer Review Board. The reviewer observed: Absence of documented client acceptance procedures, poorly cross-referenced audit files, missing independence confirmations from engagement staff, and lack of evidence that engagement partners had reviewed final reports.

The Peer Review report was qualified, and a follow-up review was scheduled after six months. Meanwhile, NFRA also selected one of their listed clients for audit quality review and noted serious documentation lapses. Rajesh is now worried that the firm's reputation and eligibility for large assignments may be at risk.

An emergency meeting was called. Partner CA Nisha suggested implementing a robust SQC 1 framework and revising all firm-wide quality control policies. She also emphasized: Assigning a Quality Control Partner responsible for monitoring SQC 1 compliance, mandatory independence declarations before every engagement, training programs for new team members on SA 220 implementation, and establishing periodic internal reviews before external inspections. Rajesh, however, questioned the “commercial feasibility” of such measures and felt they would delay audits and reduce profitability. The partners were divided—some argued that quality and independence are non-negotiable, while others worried about losing clients if stricter checks were implemented.

Based on the above facts, answer the following:

2. RKM & Associates accepted the statutory audit of Vistal Pharma Ltd. despite the previous auditor’s resignation citing differences over accounting treatment, pending regulatory probes, and a close friendship between the managing partner and the promoter. The engagement was accepted at a 30% higher audit fee with minimal documentation of client integrity assessment. From the standpoint of SQC 1, which of the following interpretations most appropriately captures the firm’s lapse in quality control?
 - (a) Though SQC 1 permits commercial considerations in client acceptance, failure to demonstrate that independence threats were identified, evaluated, and mitigated through safeguards indicates a deeper leadership and ethical governance lapse rather than a mere procedural deficiency.
 - (b) Since leadership under SQC 1 primarily relates to the firm’s tone and culture, documenting client acceptance and independence forms alone cannot rectify the underlying breach caused by prioritizing revenue growth over quality.
 - (c) Acceptance of the engagement could be justified only if the firm had robust safeguards - such as independent partner review and external consultation - documented before acceptance; absence of such evidence implies non-compliance with SQC 1’s integrity and objectivity principles.
 - (d) The non-compliance arises mainly because the firm failed to assign an independent engagement partner without prior association with the client, which is mandatory under SQC 1 when potential familiarity threats exist, irrespective of documentation or tone at the top.
3. During the audit of SmartConnect Fintech Ltd., the engagement quality control reviewer (EQCR) completed his review three days after the report was signed. The partner justified it by saying the EQCR had already checked “key sections” earlier and that the post-dated sign-off was merely “formal.” According to SA 220, which statement most accurately captures the auditor’s non-compliance?
 - (a) The engagement partner breached SA 220 because dating the audit report prior to completion of EQCR demonstrates that the review process did not provide the intended independent evaluation before opinion formation.

- (b) Since the EQCR had informally reviewed principal areas before signature, the late formal sign-off constitutes an administrative lapse rather than a violation of audit-quality procedures.
- (c) The breach, if any, lies with the EQCR for not completing documentation in time; SA 220 does not restrict the engagement partner from signing once substantive work is done.
- (d) Provided that the engagement partner disclosed the delay in completion of the EQCR to those charged with governance, the report date need not be aligned with the EQCR's completion date.
4. ICAI's Peer Review Board issued a qualified report on RKM & Associates' systems, while NFRA separately initiated an audit quality review for one listed client citing documentation lapses. Which interpretation best describes how these mechanisms differ and interact?
- (a) Peer Review evaluates firm-level compliance with SQC 1, focusing on design & implementation of systems, whereas NFRA's Audit Quality Review assesses engagement-specific audit execution; both can coexist and lead to disciplinary recommendations through different statutory channels.
- (b) Peer Review and NFRA reviews are mutually exclusive; once a firm holds a valid peer-review certificate, NFRA cannot examine its engagements for the same period.
- (c) Peer Review primarily checks compliance with Code of Ethics and firm registration requirements; NFRA is restricted to recommending training or counseling and cannot initiate disciplinary proceedings.
- (d) The Quality Review Board (QRB) under the CA Act supersedes both mechanisms and directly monitors listed company audits, rendering separate NFRA review redundant.
5. After the peer-review report, RKM & Associates decided to overhaul its quality-control system and train staff on SA 220 compliance. Which of the following most accurately expresses the joint objective of SQC 1 and SA 220 in ensuring audit quality?
- (a) Together, SQC 1 and SA 220 seek to establish reasonable, not absolute, assurance that both firm-level policies and engagement-level procedures result in audits conducted in accordance with professional standards and that opinions issued are appropriate.
- (b) SQC 1 governs engagement performance while SA 220 addresses firm policies; therefore compliance with SA 220 automatically ensures SQC 1 is achieved.
- (c) SQC 1 and SA 220 focus primarily on documentation completeness and do not extend to ethical or independence requirements once policies are approved.
- (d) Provided the firm maintains periodic peer reviews, engagement-level compliance with SA 220 is presumed and separate firm-level monitoring is not necessary.

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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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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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