

(GI-10, GI-11, VI-2(A) & AI-2(A), DI-1+2 & Drive)

DATE: 23.03.2024

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

AUDITING AND ETHICS**DIVISION – A (MULTIPLE CHOICE QUESTIONS)****QUESTIONS (1 to 5 Carry 2 M Each) & (6 to 15 Carry 1 M Each)****CASE SCENARIO**

GSR & Company have been appointed as the statutory auditors of Raj Textiles Ltd. for the FY 2021-22. The engagement partner, CA Rahul Dhawan established the overall audit strategy and made the detailed plan with respect to the audit assignment of Raj Textiles Ltd. after discussing the same with the engagement team.

The strategy adopted by GSR & Company consisted of relying on the internal control system of the company and the audit plan and program were developed accordingly and the audit team started to work in accordance with the developed audit plan and program. During the course of audit, the engagement partner, CA Rahul Dhawan found that some internal controls implemented by the company were not operating effectively. So, he decided not to rely on the internal control system of the company & accordingly changed the overall audit strategy, audit plan & audit program.

While conducting the audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of the company. CA Rahul Dhawan asked for the addresses of various debtors from the management of Raj Textiles Ltd. for the purpose of sending balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of Raj Textiles Ltd. asked the debtors to send the responses of such confirmation requests to General Manager of accounts department of the company, who will in turn provide such responses to the audit team.

Further, the audit team found that a legal case has been filed against the company on account of customer complaint. CA Rahul Dhawan discussed with his team regarding the audit procedures that can be performed by the audit team to verify the implications of such litigation on the financial statements of the company.

One of the audit team members, Mr. Girish had the following understanding with respect to the audit file to be maintained by the audit team with respect to the audit assignment:

Point no. 1: The completion of assembly of final audit file after the date of the auditor's report is an

administrative process involving the performance of new audit procedures or drawing of new conclusions.

Point no. 2: After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

CA Rahul Dhawan briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of Raj Textiles Ltd. and also discussed with his team in detail regarding the various aspects of audit file.

1. Is CA Rahul Dhawan right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?

(a) CA Rahul Dhawan is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.

(b) CA Rahul Dhawan is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.

- (c) CA Rahul Dhawan is right in making changes to the overall audit strategy and the audit plan.
- (d) CA Rahul Dhawan can change the overall audit strategy and audit plan only after taking due permission from the management of Raj Textiles Ltd.
- (2 Marks)**
2. Which of the following audit procedures should the audit team perform with respect to verification of debtors' balances?
- (a) GSR & Company can compare the debtors' balance reflected in financial statements with invoices, debit notes, credit notes, monthly accounts statement sent to the customers.
- (b) GSR & Company can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.
- (c) GSR & Company can obtain management representations with respect to the debtors' balances from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.
- (d) Both a & b.
- (2 Marks)**
3. Is management correct in asking the debtors to provide the reply of confirmation request directly to the General Manager of accounts department of the company?
- (a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.
- (b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.
- (c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation is provided to the auditors.
- (d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.
- (2 Marks)**
4. For confirming/verifying the litigation going against the company which of the following audit procedures is not correct?
- (a) GSR & Company can enquire the management including in house legal counsel.
- (b) GSR & Company should review the minutes of meetings of those charged with governance.
- (c) GSR & Company can review the legal expense account.
- (d) GSR & Company need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.
- (2 Marks)**
5. Is the understanding of Mr. Girish regarding the assembly of audit file with respect to an audit assignment, mentioned as point no. 1 & point no. 2 in the case scenario, correct?
- (a) Only understanding as per point no. 1 is correct.
- (b) Only understanding as per point no. 2 is correct.
- (c) Understanding as per point no. 1 & point no. 2 both are correct.
- (d) Understanding as per point no. 1 & point no. 2, both are incorrect.
- (2 Marks)**

6. is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non occurrence of one or more uncertain future events not wholly within the control of the entity:-
(a) Provisions
(b) Reserves
(c) Contingent Liabilities
(d) Liability
(1 Mark)
7. In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures is known as :
(a) Monitoring
(b) Inspection
(c) Subsequent Audit procedures
(d) Compliance procedures
(1 Mark)
8. The concept of materiality is applied by the auditor:
(a) in planning and performing the audit
(b) in evaluating the effect of identified misstatements on the audit
(c) both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit
(d) none of the above is correct
(1 Mark)
9. Mr. H and his team members in detail checked and evaluated the books of accounts and relevant documents of WT Limited. This is an example of which audit procedure:
(a) Inspection.
(b) Re-performance.
(c) Recalculation.
(d) Observation.
(1 Mark)
10. The auditor finds that there is something unusual about the balances outstanding in the receivables. Date wise verification of the bank reconciliation performed by the auditor has resulted in mismatch in dates in most of the receivable ledger. The auditor has identified a pattern in the mismatches. He suspects that there might be a misappropriation of cash and the detection of this misappropriation is being prevented by crediting the amount received subsequently to the account of customer who paid earlier.
What is the kind of fraud that the auditor has faced in the above case?
(a) Teeming and Lading
(b) Cash skimming
(c) Defalcation of cash by inflating cash payment
(d) Misappropriation of receivables
(1 Mark)
11. Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.
Statement 2: Substantive procedures consist of test of details and analytical procedures.

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both 1 & 2 are correct
- (d) Both 1 & 2 are incorrect

(1 Mark)

12. Statement I As per the Standard on Auditing (SA) 520 "Analytical Procedures", the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data.

Statement II Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

- (a) Only Statement I is correct
- (b) Only Statement II is correct
- (c) Both statements are correct
- (d) Both Statements are incorrect

(1 Mark)

13. Mr. A, auditor and Mr. B, Finance Manager of XYZ Pvt Ltd are friends. Mr. A prepares the audit report according to the wishes and directions of Mr. B. In this situation which essential quality of the auditor has been compromised:

- (a) Professional Competence
- (b) Independence
- (c) Professional Skepticism
- (d) Due care

(1 Mark)

14. The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank:

- (a) Letter of Credit
- (b) Term Loan
- (c) Staff Advances
- (d) Cash Credit Limit

(1 Mark)

15. The auditor of Vishwas Ltd wants to know from you which of the following methods are analytical procedures

- I. Comparison of client and industry data
- II. Comparison of client data with similar prior period data
- III. Comparison of client data with client-determined expected results
- IV. Comparison of client data with auditor-determined expected results

- (a) I, II and III only
- (b) I &, II only
- (c) III &, IV only
- (d) I, II, III and IV

(1 Mark)

QUESTIONS (16-20) CARRY 2 MARKS EACH

Case Scenario

Star Private Limited is a newly formed private limited company, engaged in the manufacturing of solar panels. Company has appointed Rajan Mehta and Associates, a

Partnership Firm of CA Rajan Mehta and CA Piyush Mehta - as their First Auditors. Rajan Mehta and Associates accepted the assignment and CA Rajan Mehta being the engagement Partner, started their Audit.

During the course of Audit, CA Rajan Mehta asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, CA Rajan Mehta found that the Gross Margin of the Company is lower than the Industry Standard / Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. CA Rajan Mehta advised them that he can provide working but cannot give them the working papers as they are the property of the Firm.

Management agreed to that and asked CA Rajan Mehta to go into detail and tell him about the reasons for lower Gross Margin to which he agreed. During the detailed audit, CA Rajan Mehta came to know about the fact that the company dispatched its solar panels to its distributors on delivery challans and once the goods were accepted, sales bills were raised. Checking each challan against sales invoices, CA Rajan Mehta found that there were many challans for which no invoices were raised and thus sales was grossly understated and there was no mechanism where unbilled challans were recorded or tracked. Company employed a person to reconcile all the challans and prepared a list where bills are yet to be sent to the customers. In addition, company was also asked to seek confirmation of balances from all its customers. The management assured CA Rajan Mehta that inventories are physically verified and hence there will be no impact on them.

16. CA Rajan Mehta asked about other Companies, he was intending to perform which audit procedure?

- (a) Analytical Procedures
- (b) Substantive Procedures
- (c) Random Sampling
- (d) Statistical Sampling

(2 Marks)

17. What was the initial procedure carried on by CA Rajan Mehta?

- (a) Trend Analysis
- (b) Ratio Analysis
- (c) Statistical Modelling
- (d) Random Sampling

(2 Marks)

18. Who has the right to retain the audit working papers of the Company in current case?

- (a) Audit Committee
- (b) Board of Directors
- (c) Auditor
- (d) Chairman of the Audit Committee

(2 Marks)

19. When CA Rajan Mehta decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence?

- (a) Test of Transactions
- (b) Test of Balances
- (c) Both (a) and (b)
- (d) Analytical Procedures

(2 Marks)

20. The impact of the exercise carried on by the Company for unbilled challans will have an impact on
- (a) Gross Receipts and Debtors
 - (b) Gross Receipts and Inventory
 - (c) Debtors
 - (d) Inventory

(2 Marks)

DIVISION B-DESCRIPTIVE QUESTIONS**QUESTION NO. 1 IS COMPULSORY****ATTEMPT ANY FOUR QUESTIONS THE REMAINING FIVE QUESTIONS**

Question 1:

Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)

- (i) The concept of materiality is an important and relevant consideration for the auditor in financial statement.
- (ii) No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the Bank.
- (iii) Misstatements in the financial statements can arise from either fraud or error.
- (iv) In case of stratified sampling, the conclusions are drawn on the stratum.
- (v) Intentional errors are most difficult to detect and auditors generally devote greater attention to this type
- (vi) The auditor shall prepare audit documentation on a timely basis.
- (vii) Written representations are requested from those responsible for the preparation and presentation of the financial statements.
- (viii) The auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation.

(2 x 7 = 14 Marks)

Question 2:

- (a)** In what ways an effective two-way communication between auditor and those charged with governance is important?

(4 Marks)

- (b)** Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to comply with fundamental principles to an acceptable level. Discuss those safeguards.

(4 Marks)

- (c)** Various Infrastructural companies opt for takeout finance from Banks. Explain the objectives of such finance.

(3 Marks)

- (d)** Under what circumstances manual controls are more suitable in internal controls.

(3 Marks)

Question 3:

- (a)** While performing the Audit of listed company what disclosure are required to be verified for corporate social Responsibilities.

(4 Marks)

- (b) The process of Audit suffers certain inbuilt limitations. Explain such limitations in light of Nature of financial reporting & Audit procedures. **(4 Marks)**
- (c) In the light of SA-315, explain what Auditor shall do to Identifying & Assessing Risk of Material Misstatements. **(3 Marks)**
- (d) Materiality is a matter of professional judgement while doing so, Auditor makes certain Assumptions about users of financial. State Any three of them. **(3 Marks)**

Question 4:

- (a) Auditor performs Audit on sampling basis, but to reduce chances of sampling risk, sample size should be adequate. Discuss any four examples of factors that can influence sample size for test of controls. **(4 Marks)**
- (b) Related parties either have control or significant Influence over entity. State few relationships that may indicate such influence. **(4 Marks)**
- (c) Melody & Melody co. is drafting Report of LLP, after completion of engagement. Guide the firm what matters to be recorded. **(3 Marks)**
- (d) One of the Responsibility of Auditor is to draw user's Attention towards matters presented or disclosed in financial statement by a separate section in Audit Report. What matters are included in that separate section? **(3 Marks)**

Question 5:

- (a) Ascertaining of Reporting objectives of engagement helps the Auditor to plan timing of different Audit procedure. Support with some of instances. **(4 marks)**
- (b) What Attributes an Auditor in general prefer to vouch for other expenses. **(4 marks)**
- (c) What happens if pre-conditions as per SA-210, are not present? **(3 Marks)**
- (d) In light of Schedule III of Companies Act 2013, explain what an Auditor wants to verify with regard to Sweat Equity Shares? **(3 Marks)**

Question 6:

- (a) CA. Ravi Patnaik is conducting audit of a company for which reporting requirements under CARO, 2020 are applicable. He finds that cash credit facilities amounting to Rs. 4 crores were released to the company by branch of a bank for meeting its working capital requirements. He finds that out of above funds, Rs. 1 crore have been used by company for installing effluent treatment plant to meet State pollution control Board requirements.

Is there any reporting obligation upon him under CARO, 2020?

(4 Marks)

(b) C & AG Act is applicable over comptroller & auditor general, which gives certain powers to C & AG. Explain those powers.

(4 marks)

(c) In which situations, an Auditor may ask management to reconfirm its acknowledgement and understanding of responsibilities.

(3 Marks)

(d) What matters auditor needs to consider prior to identification & assessment of risk of material misstatement?

(3 Marks)

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