

PAPER 5 : AUDITING AND ETHICS**DIVISION – A (MULTIPLE CHOICE QUESTIONS)****Case Scenario 1 carries 10 Marks****Case Scenario 2 carries 10 Marks****General MCQs (5 MCQs x 2 Marks Each = 10 Marks)****Total 30 Marks****Q. 1 to Q. 5:****CASE SCENARIO 1:**

GSR & Company have been appointed as the statutory auditors of Taj Textiles Ltd. for the FY 2021-22. The engagement partner, CA Sanjay Bajaj established the overall audit strategy and made the detailed plan with respect to the audit assignment of Taj 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 Sanjay Bajaj 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 Sanjay Bajaj asked for the addresses of various debtors from the management of Taj 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 Taj 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 Sanjay Bajaj 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. Harish 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 Sanjay Bajaj briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of Taj Textiles Ltd. and also discussed with his team in detail regarding the various aspects of audit file.

1. Is CA Sanjay Bajaj 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 Sanjay Bajaj 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 Sanjay Bajaj 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 Sanjay Bajaj is right in making changes to the overall audit strategy and the audit plan.
- (d) CA Sanjay Bajaj can change the overall audit strategy and audit plan only after taking due permission from the management of Taj Textiles Ltd.
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.
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.
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.
5. Is the understanding of Mr. Harish 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.

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

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Q. 6 to Q. 10:

CASE SCENARIO 2:

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.

6. 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
7. What was the initial procedure carried on by CA Rajan Mehta?
 - (a) Trend Analysis
 - (b) Ratio Analysis
 - (c) Statistical Modelling
 - (d) Random Sampling
8. 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
9. 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

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10. 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

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

11. 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

(2 Mark)

12. 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

(2 Mark)

13. 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

(2 Mark)

14. 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

(2 Mark)

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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

(2 Mark)

DIVISION B-DESCRIPTIVE QUESTIONS

QUESTION NO. 1 IS COMPULSORY

ATTEMPT ANY FOUR QUESTIONS THE REMAINING FIVE QUESTIONS

Question 1:

- (a) While performing audit, auditor applies professional judgement to analyses significance of matters & circumstances. List the examples of significant matters that requires professional judgements.
(4 Marks)
- (b) Maintaining quality control is responsibility of engagement partner. In the light of appropriate Standard, state which matters engagement partner should document pertaining to audit engagement.
(4 Marks)
- (c) Mr. Ramesh appointed as Auditor of Bank, guide him how he can verify calculation of interest.
(3 Marks)
- (d) Under what circumstances central government have right to direct special audit of multistate cooperative society.
(3 Marks)

Question 2:

- (a) As a auditor of NSP Ltd., enlighten them, how they should disclose their relationship with struck off companies.
(4 Marks)
- (b) In course of audit, what procedures are to performed to evaluate rights & obligations over "Property, Plant and Equipment"?
(4 Marks)
- (c) State some examples of risk arising from use of IT system.
(3 Marks)
- (d) Auditor shall plan nature, timing and extent of direction & supervision of team & also review their work. But such Nature, Time & Extent is affect by certain factors. Highlight them.
(3 Marks)

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Question 3:

- (a) Ram Prakash & Co. appointed as External Auditor of a listed company decided to use Internal Auditor to provide direct assistance for matter involving significant judgement.
Comment over Action of External Auditor with regard to relevant standards on auditing.
(4 Marks)
- (b) Audited financial statement provide confidence to users of financial statement and helps them to take decisions, therefore such financial statements should not mislead anybody. How an auditor can ensure same.
(4 Marks)
- (c) The Auditor's Report shall include a section" description of auditor's responsibilities, what shall be included in this section, if auditor disclaims his opinion.
(3 Marks)
- (d) Auditor should ensure sales are accurately measured. Explain procedure to examine it.
(3 Marks)

Question 4:

- (a) As per SA-265, it is responsibility of auditor to communicate significant deficiencies in internal control. List 4 examples of matter auditor may consider in determining whether a deficiency is significant.
(4 Marks)
- (b) Before acceptance & continuance of client relationship & audit engagement, partner should consider certain matter. Explain.
(4 Marks)
- (c) What matters auditor shall record in audit documentation regarding misstatements identified during audit.
(3 Marks)
- (d) A chartered accountant in practice or service has be abide to follow ethical principles. What are the different approaches to follow it & which one is better.
(3 Marks)

Question 5:

- (a) Explain the special steps involved in verifying expenditure of school.
(4 Marks)
- (b) Discuss the reporting requirement in CARO 2020, with respect to investments made by company.
(4 Marks)
- (c) Nitesh India Ltd, a manufactures of FMCG, Range of products. Company is having several cases of litigation pending in courts. Explain such circumstances, under which auditor can modify his opinion.
(3 Marks)

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- (d) Most of information during the audit is obtained by auditor through inquiries from management & those responsible for financial reporting. State any 3 examples.
(3 Marks)

Question 6:

- (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)

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