

WT 2 (Ch. 11 – Ethics and Terms of Audit Engagement)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: 2
- (i) Objective and scope of the audit of the financial statements.
 - (ii) Nature, Timing and Extent of Audit procedures.
 - (iii) Responsibilities of the auditor and management.
 - (iv) Accounting Policies to be used in Preparation of accounting records.
- Choose the correct answer:
- (a) (i) and (ii)
 - (b) (i) and (iii)
 - (c) (i), (ii) and (iii)
 - (d) (i), (ii) and (iv)
- Q.2 CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him? 2
- (a) As CA Raman has not acquired the shares from the market, he can accept the audit after intimating the company in this regard.
 - (b) Holding of shares of the same company for which he is offered appointment as auditor constitutes threat to his independence. CA Raman should take steps to eliminate the threat by transferring the shares to his close relatives immediately before accepting appointment.
 - (c) Holding of shares of the same company for which he is offered appointment as auditor constitutes threat to his independence. CA Raman should take steps to eliminate the threat by selling shares immediately before accepting appointment.
 - (d) No action needed in the circumstances as CA Raman is not yet appointed as auditor of the company. In case CA Raman is appointed as auditor by the company, he may sell the shares.

- Q.3 **Professional skepticism is necessary to the critical assessment of _____.** 1
- (a) audit documentation
 (b) audit evidence
 (c) audit procedures and techniques
 (d) none of the above
- Q.4 **As per SQC 1 the retention period for audit engagements ordinarily is no shorter than from the date of the auditor’s report.** 1
- (a) ten years
 (b) five years
 (c) seven years
 (d) four years
- Q.5 **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:** 1
- (a) Professional Competence
 (b) Independence
 (c) Professional Skepticism
 (d) Due care



Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt Any two from the rest.

- Q.1 State with reasons (in short) whether the following statements are correct or incorrect: 4
- (a) Confidentiality requires an auditor to be straight forward and honest in all professional and business relationships.
 (b) The audit engagement letter is sent by the client to auditor.
- Q.2 (a) Identify what kind of threat to independence may be involved in following cases: 2
- (i) A Chartered accountant receives about 40% of his total audit fees from a single client.
 (ii) CA Murli Madhavan provides accounting and book keeping services to a leading NGO engaged in environmental protection work. He is also offered audit of the accounts of NGO.

- (b) Identify which fundamental principle governing professional ethics is disregarded in following cases: 2
- (i) CA P. Suryakantam has conducted audit of accounts of an entity for a particular year. ICAI has issued a letter to him relating to certain matters concerning audit. He didn't even bother to reply to the letter despite reminders.
- (ii) A Chartered accountant in practice issued a certificate showing original cost of plant and machinery installed in premises of a client for ₹ 9 crores to save some regulatory fees for his client. However, original cost of plant and machinery was ₹ 15 crore as per records of client.
- (c) The firm's system of quality control should include policies and procedures addressing each element. Explain. 3
- Q.3 (a) As per SA 220, "Quality Control for an Audit of Financial Statements" the auditor should obtain information considered necessary in the circumstances before accepting an engagement with a new client. Explain stating clearly the information that would assist the auditor in accepting and continuing of relationship with the client. 4
- (b) Briefly outline how principles-based approach differs from rules-based approach to ethics. 3
- Q.4 (a) CA S is requested to accept the appointment as an auditor of Luck Ltd. With reference to SA 210, what should the auditor determine in order to establish whether the preconditions for an audit are present? 4
- (b) CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him? 3

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