

WT 1 (Ch. 1 – Quality Control & Ch. 2 – General Auditing Principles)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 You are an audit senior working for the firm Bohra & Company. You are currently carrying out the audit of Wisdom Ltd., a manufacturer of waste paper bins. You are unhappy with Wisdom Ltd.'s inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making an objection about. He has refused to meet you on site to discuss those issues. 2
- As the audit manager had dealt with Wisdom Ltd. for so many years, the other partners have decided to leave the audit of Wisdom Ltd. in his capable hands. Identify the most Appropriate answer:
- (a) Failure to resolve the difference of opinion is a breach of the firm's policy under SA 220. It indicates that the firm does not have a suitable policy concerning such disputes required by SA 220.
 - (b) Failure to resolve the difference of opinion is a breach of the firm's policy under SQC 1. It indicates that the firm does not have a suitable policy concerning such disputes required by SQC 1.
 - (c) There is no breach of firm policy as decision to leave the audit of Wisdom Ltd. in hands of audit manager has been taken by the Partners of the Firm.
 - (d) There is no breach of firm policy as whether to consider the issues raised by the Audit Senior or not is a matter to be decided by the Audit Manager.
- Q.2 CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd. a listed entity, which was involved in the business of manufacturing of motor cars for FY 2023-24. CA D was appointed as joint auditor along with CA T and CA P. They have divided the responsibility for conducting audit in accordance with SA 299. As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common 2

audit report which is in accordance with the opinion of CA T and CA P. Guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?

- (a) CA D will have to go with the opinion formed by majority auditors.
- (b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in Other Matter Paragraph.
- (c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in Other Matter paragraph.
- (d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the Other Matter paragraph.

- Q.3** MINSAN Ltd, an unlisted company in South India, is engaged in the business of spice oil extraction. MINSAN Ltd. has appointed M/s. Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2023 for a period of 5 years. Audit team submitted to the engagement partner that company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed? 1
- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
 - (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.
 - (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
 - (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.
- Q.4** Audit quality involves application of a rigorous audit process by auditors and quality control procedures that comply with laws, regulations and applicable professional standards. Standards on auditing, code of ethics issued by ICAI and certain provisions of Companies Act, 2013 facilitate quality control process. There also exists mechanism for review of quality control through Peer review Board, Quality review Board and NFRA (National financial reporting authority). Which of the following is correct w.r.t. constitution of Peer Review Board, Quality Review Board and NFRA: 1

- (a) Peer review Board and Quality review Board has been set up by Central government; NFRA has been constituted in terms of Sec. 132(1) of Companies Act, 2013.
- (b) Peer review Board and Quality Review Board is constituted by Council of ICAI; NFRA has been constituted in terms of Sec. 28A of Chartered Accountants Act, 1949.
- (c) Peer review Board and NFRA has been set up by Central government; Quality review Board is constituted by Council of ICAI.
- (d) Peer review Board is constituted by Council of ICAI; Quality review Board has been set up by Central government; NFRA has been constituted in terms of Sec. 132(1) of Companies Act, 2013.

Q.5 M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2023-24. While conducting the audit, CA Aman, the engagement partner noticed the following: **1**

- (1) Payments of various fines and penalties
- (2) Unusual cash payments
- (3) Payments to various government employees not supported by any document
- (4) Notices received from various regulatory authorities.
- (5) Heavy payments to legal counsels.

CA Aman should consider the above as indicative of:

- (a) Doubt on Internal Controls of PQR Ltd.
- (b) Doubt of non-compliance to laws by PQR Ltd.
- (c) Doubt on the accounting system of PQR Ltd.
- (d) Doubt on the going concern assumption of PQR Ltd. **240**

Part B (Descriptive Questions)

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

Q.1 (a) AP & Associates, Chartered Accountants, are Statutory Auditors of XP Limited for the last four years. While carrying out the audit for the current financial year, auditor came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. **4**

- (b) Four audit firms viz. GPR & Co., MKS & Co., CY & Associates and DES & Associates have been appointed for conducting statutory audit of KNB Bank, a public sector bank in accordance with regulatory guidelines. The professional work was divided by audit firms on the basis of zones of bank. However, work relating to “IT Systems and controls” was not allocated by them due to its very nature. 4

While planning for the above common work area, it was decided to test IT general controls, application controls and IT dependent manual controls. Planned key audit procedures relating to this common area also included testing design and operating effectiveness of controls over “computer operations including back-up, batch-processing and data centre security”.

The actual audit procedures pertaining to “testing controls over batch processing” were performed by team of DES & Associates. In case work in relation to above audit procedures is not performed professionally by DES & Associates, discuss where responsibility for such lapses would lie in line with SA 299?

- Q.2 You are appointed as Statutory Auditor of Supreme Ltd. and are in the midst of conducting Annual Audit for the financial year ending on 31st March, 2024. During the course of audit, you come across a situation involving recording of purchases amounting to ₹ 1.50 crores from a company incorporated on 18th March, 2024. 5

Upon further inquiry, you discover that purchases have been booked at the instance of one of the directors. Further, despite this entry in books, no payment was made and there is lack of documentary or other evidence validating these purported purchases. How would you deal in the given situation?

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- Q.3 (a) Discuss why the potential effects of inherent limitations of an auditor’s ability to detect material misstatements described in SA 200 are far greater in respect of non-compliance with laws and regulations? 3
- (b) Mention function of Quality Review Board constituted by Central Government (Any two). 2

- Q.4 In the course of audit of Tech Limited, Mr. A, Statutory auditor of Tech Limited, observed that processing of accounting data was given to a third party on account of certain considerations like cost reduction, own computer working to full capacity. 5

Mr. A obtained information over various matters so as to understand the nature and significance of services provided by third party. To Support his understanding of Service Organisation, Mr. A is willing to use Type 1 or Type 2 Report. Guide Mr. A as to following:

- (a) While determining sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, matters to be taken care of.
- (b) Audit procedures, if he plans to use a Type 1 or Type 2 report as audit evidence to support his understanding about the design and implementation of controls at the service organisation.

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line “Final Audit Test – WT 1”

Mention the following in the E-mail and answer Sheet:

1. Name:
2. Mobile No.:
3. Test: Final Audit – WT 1
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