

WT 1 (Chapters 1 and 11)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Mr. Manicharan had been working in the Internal Audit Department of a Listed Company, SOS Chemicals Ltd. for the past 10 years. He had been closely working with the Statutory Auditors of the company, namely, M/s TNA & Co., Chartered Accountants during the Conduct of Statutory Audits of the company every year. Mr. Manicharan has retired from the service of the Company and now wishes to join M/s TNA & Co. on employment basis having such a huge experience in the field of Auditing for the past 10 years. CA David, the Engagement Partner, who has been engaged to conduct the Statutory Audit of SOS Chemicals Ltd. on behalf the CA firm wants Mr. Manicharan to be a part of the Engagement team but the Senior Partner of the CA firm, CA Raman refuses to allow him owing to a potential compromise with the 'Independence of the Auditor' in an Audit. CA David, who usually questions every if and but, wants to know about this whereby CA Raman tells him that in any audit, an auditor should be independent of the entity subject to audit. CA David questions him on how the independence can be compromised if Mr. Manicharan is a part of the audit team. He is told that their firm's system of Quality Control includes Policies & Procedures addressing elements like Leadership responsibilities for quality within the firm, Ethical requirements, Continuing Client relationships, Human resources, Engagement Performance and Monitoring. So, 'Independence' of the auditor is one of the major Ethical requirements, governed by various SAs & SQC issued by ICAI. He tells David that Professional integrity and Independence are considered essential characteristics of all the Professions but are more so in the case of Accountancy Profession. 'Independence' implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him. The threats to independence in case of its compromise are Self-interest threats, Self-review treats, Advocacy treats, Familiarity threats & Intimidation threats as identified by the code of ethics prepared by IFAC.

CA Raman, after satisfying the Questioning mind & curiosity of CA David, the Engagement Partner, asks to him to carry out the audit in the most effective manner and ask him for any clarifications further, if required.

Based on the facts stated above, answer Q. No. 1 to 4:

- Q.1 "An Auditor should be independent of the entity subject to audit". Here 'Independence' means. 2
- (i) Independence of Mind
 - (ii) Independence in Appearance

- (iii) Independence in Authority
- (iv) Independence in Character
- (a) (i) & (ii)
- (b) (i) & (iii)
- (c) (iii) & (iv)
- (d) (i), (iii) & (iv)

- Q.2** As per CA Raman, Mr. Manicharan cannot be a part of the Engagement team because of his independence being threatened by which of the following threats? 1
- (a) Self-Review
 - (b) Intimidation
 - (c) Self-Interest
 - (d) Advocacy
- Q.3** CA David, the Engagement Partner, as observed in the above case scenario has an attitude of Professional _____ . 1
- (a) Influence
 - (b) Judgement
 - (c) Skepticism
 - (d) Interest
- Q.4** In the above case scenario, the audit engagement letter must be sent by _____ to the _____ . 1
- (a) TNA & Co. to SOS Chemicals Ltd.
 - (b) SOS Chemicals Ltd. to TNA & Co.
 - (c) Anyone can prepare & send
 - (d) SOS Chemicals' Shareholders to the Engagement Partner
- Q.5** Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs. 2
- (a) Inherent, unavoidable
 - (b) Inherent, complete
 - (c) Management, unavoidable
 - (d) Regulatory, control

Part B (Descriptive Questions)

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

- Q.1** (a) Ace Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2023. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. Ace Limited approached another manufacturing unit Jack Limited for purchase of the unit. Jack Limited was interested in the sale of unit, so the deal went through and Ace Limited acquired ninety five percent shares of Jack Limited. The new management of Jack Limited proposed and appointed NKB Associates, Chartered Accountants, (already auditors of Ace Limited) as new auditors of Jack Limited. NKB Associates accepted the assignment without considering information whether the conclusions reached regarding acceptance & continuance of client relationships and audit engagements are appropriate. **3**
- Comment with respect to appropriate Standard of Auditing what type of information assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?
- (b) Good deeds Limited is engaged in business of recycling of wastes from dumping grounds of municipal corporation of Indore to usable manure. It is, in this way, also, helping to make the city clean. **3**
- During course of audit by Zoha & Zoha, a firm of auditors, it is observed by auditors that company has received a notice from Central Bench of National Green Tribunal for not following certain environmental regulations involving imposition of hefty monetary penalty on the company. The company is yet to reply to the notice. The auditors point out that same is not stated in notes to accounts in financial statements. The company points out that auditors are going beyond scope of their work. Does such a matter fall within scope of audit?
- Q.2** MEA Limited is a listed company having its operation across India. MEA Limited appointed Mr. X, Mr. Y and Mr. Z, as its joint auditors for the year 2024-25. After making sure that all of them are qualified to be appointed as statutory auditor, MEA Limited issued engagement letter to all of them. But Mr. X was not clear on some points, so he requested MEA Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. **4**
- The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors.
- In your opinion what was the discrepancy in the Audit engagement letter issued by MEA Limited?

- Q.3 Discuss the following: Standards collectively known as the Engagement Standards issued by AASB under the authority of Council of ICAI. 4**
- Q.4 Familiarity threats are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client’s interests. List down any three ways by which such threats may occur. 4**
- Also state which provision of Companies Act, 2013 mainly address these very familiarity threats.**
- Q.5 “Assurance Engagement is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria”. 4**
- Briefly explain the elements comprised in assurance engagements.**

Instructions for submission of answer sheet

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

Subject line “Inter Audit Test – WT 1”

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

1. Name:
2. Mobile No.:
3. Test: Inter Audit – WT 1 (July-Aug 2024 Series)



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