

## MTP 1 (Chapters 1 and 11)

Marks: 27

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

## Part – A (Multiple Choice Questions)

CA Mayank Mukhi is statutory auditor of a listed company engaged in providing services relating to “tourism sector”. He is practicing in sole-proprietorship capacity. The audit of abovesaid listed company was conducted by his proprietary firm and report was issued for year 2023-24 on 31.05.2024.

Subsequently, audit report was selected by National Financial Reporting Authority (NFRA) to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective on 30.09.2024.

It was required of him to produce final audit file to show that audit was carried out in accordance with Standards on auditing. CA Mayank Mukhi produces extract of certain working papers and shows his inability to produce final audit file stating that it has not yet assembled as he is pre-occupied with other engagements and as per requirements of SQC 1, final audit file is to be assembled within 6 months from date of audit report.

Based on the papers produced, NFRA pointed out to him the following:

- (a) Engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.
- (b) Consultations were obtained during the course of audit on certain matters which includes discussions with individuals outside the Firm, which is a violation of fundamental principle of confidentiality. He has answered that Firm is not having appropriate internal resources, so there arise need for external consultations.

Based upon above, answer the following questions (Q.1 to Q.3):

- Q.1 Considering auditor’s point of view regarding engagement quality control review, identify the most appropriate statement from below: 2
- (a) Engagement quality control review is mandatory in such type of engagement. It was not proper to bypass such review. He has violated mandatory requirement of SA 220.
  - (b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.
  - (c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review.
  - (d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those benchmarks are satisfied, such a review is not necessary.

- Q.2** Considering auditor's point of view regarding outside consultations, identify the most appropriate statement from below: **2**
- (a) Discussion with Individuals outside the Firm to resolve difficult matters is not permitted as it violates the fundamental principle of confidentiality.
- (b) Discussion with Individuals outside the Firm to resolve a difficult matter is permitted as per requirements of SQC 1.
- (c) As per SQC 1, discussions outside the Firm to resolve a difficult matter is permitted only with professional & regulatory bodies.
- (d) As per SQC 1, discussions outside the Firm to resolve a difficult matter is permitted only with Engagement Quality Control Reviewer.
- Q.3** Examine validity of statement that as per requirements of SQC 1, final audit file is to be assembled within 6 months from date of audit report. **2**
- (a) Statement is not valid because final audit file is to be assembled within 3 months from end of accounting period for which audit was carried out.
- (b) Statement is not valid because final audit file is to be assembled within 6 months from end of accounting period for which audit was carried out.
- (c) Statement is not valid because final audit file is to be assembled within 60 days from date of audit report.
- (d) Statement is not valid because final audit file is to be assembled within 90 days from date of audit report.
- Q.4** CA Ramesh has been the auditor of XYZ Ltd. for the past 10 years. Over these years, he has built a personal relationship with Mr. Rajan, CEO of the company. During the audit, CA Ramesh discovers several discrepancies, but he feels uncomfortable reporting these issues due to his personal relationship with Mr. Rajan. He has also accepted gifts from the company on several occasions. As a result, CA Ramesh is concerned about the impact of his long-standing relationship with Mr. Rajan on the audit report. Which threat to independence exists in the given case?
- (a) Self-interest threat.
- (b) Familiarity threat.
- (c) Self-review threat.
- (d) Advocacy threat.

## Part B (Descriptive Questions)

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

- Q.1 (a) XYZ Ltd., a manufacturing company based in India, operates multiple plants across the country and deals in complex machinery, which requires specialized maintenance and valuation expertise. XYZ Ltd. appointed CA Dhruv as Statutory auditor. During the audit, he observed that the management consistently applied the same method for valuation of inventory over the past few years, but this year, without proper disclosure, they switched to a different valuation method, which resulted in higher reported profits. Does such a matter fall within scope of audit? 4
- (b) CA Puneet is appointed as an auditor of Kamla Limited for the F.Y. 2023-24. The management of Kamla Limited has requested the auditor to change the terms of original engagement as the company has diversified its business and a few new products have been introduced by the company. Whether CA Puneet can agree to the request made by the management? Under which circumstances can the client make a request to the auditor for a change in the terms of engagement? 5
- Q.2 MB & Associates is a partnership firm of the Chartered Accountants which was established seven years back. The firm is getting new clients and has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. 5
- Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1.
- Q.3 JK Ltd. was having a 'Pager' manufacturing plant and looking at the demand it was of the view that the company will grow continuously in future. But, with the introduction of mobile phones in the market, the plant was shut down completely. The shareholders of the company were of the view that auditor failed to perform their duty and have not informed to them about the company's inability to continue its business, otherwise they might not have suffered the loss. List down the factors giving rise to the inherent limitations due to which auditor cannot provide a guarantee that the financial statements are free from material misstatement due to fraud or error. 5

Q.4 CA Sudhakar has been appointed as the auditor of AMRO Ltd. Before accepting the appointment, he learns that his cousin, who held shares in the company and recently passed away without children, named him as the nominee for these shares, which have substantial value. Although holding such shares through a distant relative does not violate legal provisions or affect his independence, this unexpected inheritance places him in a dilemma. Advise CA Sudhakar on how he should deal with this situation and safeguard his independence.

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### Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at [test.altclasses@gmail.com](mailto:test.altclasses@gmail.com)

Subject line "Inter Audit Test – MTP 1"

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

1. Name: \_\_\_\_\_
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