

INTER COURSE: GROUP II
PAPER-5: AUDITING AND ETHICS

(MTP 1: Ch. 11 – Ethics and Terms of Audit Engagement)

Suggested Answers

| Q. No. | Correct Option | Remarks |
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| 1 | (c) <i>Meera faces both a self-review and familiarity threat, since her firm's prior involvement in designing the ERP system means she would be evaluating her own firm's work, possibly impairing objectivity; safeguards such as assigning an independent partner or declining the engagement may be necessary.</i> | <p><i>Option (a) ignores non-financial threats and assumes competence alone ensures ethics.</i></p> <p><i>Option (b) incorrectly limits concern to familiarity; self-review persists even if work predates appointment.</i></p> <p><i>Option (d) mislabels the threat — self-interest arises from financial benefit, but the deeper ethical risk here is self-review + familiarity, not mere fee dependence.</i></p> |
| 2 | (b) <i>Declining the request, as issuing such a letter before audit completion compromises integrity and objectivity, creating a self-interest threat.</i> | <i>Issuing premature assurance compromises independence; hinting at future consultancy creates a self-interest threat. Declining maintains ethical integrity.</i> |
| 3 | (b) <i>The firm may continue with engagement, but should apply safeguards such as rotation of audit staff and documentation of evaluation of threat.</i> | <i>Though not a direct relationship, a familiarity threat exists; continuing with safeguards like staff rotation and documentation is correct under the Code.</i> |
| 4 | (c) <i>Decline the engagement until such acknowledgment is obtained, as it is a necessary precondition for accepting an audit.</i> | <i>Written acknowledgment of management responsibility is a mandatory precondition; without it, the auditor must not accept the engagement.</i> |

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| 5 | (b) | <i>SQC 1 applies at firm level establishing overall quality control policies, whereas SA 220 applies to specific audit engagements.</i> | <i>SQC 1 governs firm-level quality control; SA 220 governs quality at individual engagement level. Both require documentation but at different scopes.</i> |
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| Link for Resources (Revision Videos, MTPs, Amendments, Charts, etc.) | | | |
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| 1 | Youtube Channel | https://www.youtube.com/@altclassesca9193 |  CA Pankaj Garg |
| 2 | Telegram Channel | https://t.me/altclasses | |
| 3 | Whatsapp Group for Doubts | https://chat.whatsapp.com/DiDJAVV1TdiLaf3zd1JH4 | |
| 4 | LMS Link | https://altclasses.in/knowledge-forum-ca-inter/ | |
| 5 | Contact Number | 9319805511, 7206941195 | |
| 6 | Website Link | https://altclasses.in/ | |



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