

M.K.G CA EDUCATION

9811429230 / 9212011367

WEBSITE 🌐 : WWW.MKGEDUCATION.COM

EMAIL ✉ : MKCAEDUCATION@GMAIL.COM

Youtube channel 📺 : MKG CA EDUCATION

Facebook Page 📘 : <https://www.facebook.com/mkgcaeducation/>

Instagram 📷 : <https://www.instagram.com/mkcaeducation/>

TEST-1

CA INTERMEDIATE

AUDITING AND ETHICS

Topics Covered:

1. Nature, Objective and Scope of Audit
2. Audit Strategy, Audit Planning and Audit Programme
3. Audit Documentation

QUESTION PAPER BOOKLET NO. 1012024

(16-01-2024 2:00 P.M. TO 5:00 P.M.)

Roll No245874.....

Time allowed: 3 hours

Total No. of Printed Pages: 10

Maximum Marks: 100

GENERAL INSTRUCTIONS TO CANDIDATES

1. The Question Paper comprises two parts, Part I & Part II
2. Part I comprises Multiple choice Questions
3. Part II comprises questions which require descriptive type answers
4. TIME ALLOWED 180 MINUTES
5. MAXIMUM MARKS 100

Part I

MULTIPLE CHOICE QUESTIONS

Each question consists of 1 mark

1. Audit documentation Provides:

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- (b) Evidence of the auditor's basis for conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- (c) Evidence of the auditor's basis for conclusion about the achievement of the overall objectives of the auditor.
- (d) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

2. CA. Bobby is a recently qualified Chartered Accountant. He is appointed as an auditor of Droopy Ltd. for the current Financial Year 2017-18. He is quite conservative in nature which is also replicated in his professional work. CA. Bobby is of the view that he shall record all the matters related to audit, audit procedures to be performed, audit evidence obtained and conclusions reached. Thus, he maintained a file and recorded each and every of his findings during the audit. His audit file, besides other thing, includes audit programmes, notes reflecting preliminary thinking, letters of confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?

- (a) Audit programmes.
- (b) Notes reflecting preliminary thinking.
- (c) Letters of confirmation.
- (d) E-mails concerning significant matters.

3. SA 230 defines the term audit documentation as to the record of:

- (a) audit procedures performed and audit evidence obtained
- (b) audit evidence Obtained and Conclusion the auditor reached
- (c) Audit procedure performed and conclusion the auditor reached
- (d) Audit procedure performed, relevant audit evidence obtained and conclusion the auditor reached

4. As per SA 230 auditor is required to prepare audit documentation that provides a _____ and _____ record of the basis of the auditor's report

- (a) Complete and Exhaustive
- (b) Sufficient and Reliable
- (c) Sufficient and Appropriate
- (d) None of the Above

5. _____ refers to one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement

- (a) Completion Memorandum
- (b) Audit File

(c) Audit Report

(d) Audit Summary

6. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis within of the date of the auditor's report

(a) 30 days

(b) 60 days

(c) 90 days

(d) 120 days

7. The completion of the assembly of the final audit file after the date of the auditor's report is _____

(a) an administrative process that does not involve the performance of new audit procedures but certainly involves the drawing of new conclusions

(b) an administrative process that involves the performance of new audit procedures or the drawing of new conclusions

(c) an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions

(d) a statutory process

Cheenu & Co are the auditors of a manufacturing industry. During the course of the audit, the following are the observations:

(a) Due to paucity of time, one of the partners of Cheenu & Co. suggests that the team may complete the audit procedures and issue the audit report. They may carry out the audit documentation at a later stage.

(b) Cheenu & Co. has identified the benchmark for the materiality level. However, there is a difference of opinion in documenting materiality for the financial statements. One of the partners is of the opinion that there is no need to document the same as per SA 230.

(c) During the course of the audit, Cheenu & Co. wants to verify the inventory of the company held under the custody and control of the third party. The management refuses the same as it is not practicable.

(d) There exists a litigation matter in which the auditor assesses a risk of material misstatement and wants to directly communicate with the entity's external legal counsel. The management however refuses give the auditor permission to communicate or meet the entity's external legal counsel. Further, the auditor is unable to obtain sufficient appropriate audit evidence by performing alternate procedures.

From the above information, answer the following Q8 & Q9 by choosing the correct option:

8. As per SQC1, what is the retention period of the audit documentation?

(a) It should be no shorter than seven years from the date of the auditor's report.

(b) It should be no shorter than eight years from the date of the auditor's report

(c) There is no such retention period; audit documentation must be there permanently as a defense in favor of the auditor in any litigation

(d) It should be no shorter than eight years from the date of entering into the audit agreement with client

9. As part of the audit documentation, the auditor may consider it helpful to prepare and retain a summary that describes significant matters identified during the audit and how they were addressed. What is this summary known as?

(a) Audit File

(b) Completion Memorandum

(c) Evidence summary

(d) Control Memorandum

10. The audit plan is _____ detailed than the overall audit strategy

- (a) less
- (b) more
- (c) equal
- (d) none of the above

11. Which of the following is not an example of audit documentation:

- (a) Summary of discussions with the entity's key decision makers
- (b) Auditor's report on the entity's financial statements
- (c) Agreements with management or TCWG regarding the scope or changes in scope of services
- (d) None of the above

12. Which of the following audit staff is most likely to be heavily involved in the planning of the audit, evaluation of the results and determination of the audit opinion?

- (a) in-charge auditor
- (b) manager
- (c) partner
- (d) supervisor

13. Nature and extent of planning is affected by:

- (a) size and complexity of the auditee
- (b) past experience
- (c) change in circumstances
- (d) all of the above

14. Once the overall audit strategy has been established, _____ can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources

- (a) audit strategy
- (b) audit plan
- (c) audit plan and audit strategy
- (d) audit note book

15. Audit strategy is concerned with designing optimized _____ that seek to achieve the necessary audit assurance at the lowest cost within the constraints of the information available

- (a) audit procedures
- (b) audit techniques
- (c) audit approaches
- (d) audit programme

16. Process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's assessment procedures, such matters as:

- (a) Nature, timing and extent of risk assessment procedures
- (b) Nature, timing and extent of Substantive procedures
- (c) Management of resources as to engagement team members
- (d) Understanding of terms of audit engagement with the client

17. As per SA 300, the auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. In establishing the overall audit strategy, the auditor shall:

- (a) Set the materiality levels for the audit purpose
- (b) Develop the detailed audit programme
- (c) Identify the characteristics of the engagement that define its scope
- (d) All of the above

18. Which of the following is not correct?

- (a) Audit strategy and audit plan are inter-related to each other because change in one would result into change in the other
- (b) The audit plan is prepared before the audit strategy
- (c) The audit plan contains more details than the overall audit strategy
- (d) Audit strategy provides the guidelines for developing the audit plan

19. The overall audit strategy and the audit plan remain the _____ responsibility

- (a) auditor's
- (b) management's
- (c) those charged with governance
- (d) all of the above

20. Which of the following is true?

- (a) Management of the organisation is solely responsible for the compliance of auditing standards while preparing financial statements
- (b) The matter of difficulty, time, or cost involved is in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative
- (c) The basic objective of audit does not change with reference to nature, size or form of the entity
- (d) Audit procedures used to gather audit evidence may be effective for detecting an intentional misstatement

21. Standards on Assurance Engagements are to be applied in:

- (a) the audit of historical financial information
- (b) the review of historical financial information
- (c) assurance engagements, engagements dealing with subject matter other than historical financial information
- (d) engagements involving application of agreed upon procedures to information and other related services such as compilation engagements

Sookrit, a CA student, has decided to participate in "Mega Conference of CA Students" being organized by Student Skills Enrichment Board, (Board of Studies Operations), ICAI to be held in a city in South India. He has decided to try his luck for presenting a paper in one of the technical sessions of the conference on the topic of "Nature, Objective and Scope of Audit". He has to first submit for approval a soft copy of the paper to the competent authority.

While preparing a draft for the presentation, he has included some paragraphs on the topic. Para A requires filling of certain gaps to explain nature of auditing to prospective audience at the conference. Para B and C have certain misleading and false statements which need corrections. Para D needs certain elaborations.

Para A

An audit of financial statements provides _____ assurance to the users of financial statements. It is a _____ level of assurance but it is not _____ assurance. The auditor has to see effect of misstatement(s) _____. Misstatements in financial statements can arise due to frauds or _____ or both.

Para B

Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. He also carries out appropriate tests and procedures. Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. However, he is not expected to perform duties which fall outside his domain of competence. Auditor is not an official investigator. Para C

The process of audit suffers from certain inbuilt limitations. Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. However, future events may affect an entity adversely.

Para D

The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Its basic nature lies in providing assurance i.e., confidence to users of financial statements. Apart from this obvious utility, there are other advantages of an audit. Some or all of those are of considerable value even to those enterprises and organizations where audit is not compulsory.

Try to help him by answering the following questions No. 22 to 26: .

22. Identify appropriate words to be used in blanks to make the sentences meaningful and relevant in context of theme of the topic.

- (a) absolute, high, complete, individually, uncertainties
- (b) reasonable, high, complete, in totality, errors
- (c) reasonable, moderate, low, in totality, errors
- (d) moderate, low, complete, individually, judgments

23. After reading Para B, which of following statements is false as regards scope of an audit of financial statements is concerned?

- (a) Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited.
- (b) The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls.
- (c) Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents.
- (d) Auditor is not an official investigator.

24. After reading Para C, which statement needs to be corrected in draft regarding inherent limitations of audit?

- (a) Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it.
- (b) The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements.
- (c) Future events may affect an entity adversely.

(d) The process of audit suffers from certain inbuilt limitations.

25. Para D states that an audit provides advantages of considerable value to enterprises. Which of following is not one of advantages of an audit of financial statements of a listed company?

(a) It acts as a moral check on employees.

(b) It acts as an appraisal function.

(c) Its chief advantage lies in safeguarding financial interest of management. (d) It is useful for settling trade disputes for higher wages or bonus.

26. Para D states that audit can be of considerable value even to those enterprises where it is not compulsory. In context of companies in India, which of following statements is correct in relation to Companies Act, 2013?

(a) OPC and small companies are exempted from audit.

(b) OPC, small companies and section 8 companies are exempted from audit.

(c) For all companies in India, except Section 8 companies, audit is legally obligatory.

(d) For all companies in India, audit is legally obligatory.

27. Which of the following is Incorrect:

(a) An auditor conducting an audit in accordance with SAS is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

(b) As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable 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.

(c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.

(d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.

28. Which of the following is the responsibility of the auditor:

(a) Preparation and presentation of the financial statements in accordance with applicable financial reporting

(b) Design, implementation and maintenance of internal controls

(c) Express an opinion on the Financial Statements

(d) To obtain limited assurance

29. The matter of difficulty, time, or cost involved is :

(a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.

(b) in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.

(c) not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists.

(d) not in itself a valid basis for the auditor to omit an audit procedure.

30. Which of the following is correct :

(a) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.

(b) The auditor is expected to and can reduce audit risk to zero and can therefore obtain absolute assurance.

(c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.

(d) The auditor is expected to and can reduce audit risk to zero and can therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error

Part II**(70 Marks)****SUBJECTIVE QUESTIONS***Note: Question no. 1 is compulsory. Answer any Four questions from the rest.***Question 1**

Evaluate whether the following statements is correct or incorrect with reason. Attempt any 7 out of 8.
(2×7= 14)

- (i) Auditing implies systematic, critical and special examination of the records of a business for a specific purpose
- (ii) The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.
- (iii) Auditing is legally obligatory for all types of business organisations
- (iv) Auditor's Opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise.
- (v) Auditor is able to obtain only reasonable assurance due to inherent limitation of audit.
- (vi) The primary objective of an audit is to detect fraud and error in the financial statements.
- (vii) The basic objective of audit does not change with reference to nature, size or form of the entity.
- (viii) Branch auditor of a company should give photocopies of his working papers on demand by Company Auditor.

Question 2

Evaluate whether the following statements is correct or incorrect with reason. Attempt any 7 out of 8.
(2×7= 14)

- (i) An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity
- (ii) The preparation of financial statements does not involve judgement by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity.
- (iii) An audit is an official investigation into alleged wrongdoing.
- (iv) There is no relation between Audit Plans and knowledge of the client's business.
- (v) Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- (vi) A well designed and drafted audit plan and audit strategy which takes care of all uncertainties and conditions, need not be changed during the course of audit.
- (vii) The auditor need not discuss elements of planning with the entity's management in any case.
- (viii) The audit engagement documentations should ordinarily be retained by the auditor for minimum of six years from the date of the auditor's report or is later, the date of the group auditor's report, whichever.

Question 3(a)

Plans should be made to cover acquiring knowledge of the client's accounting systems, policies and internal control procedures. Explain. **(3 Marks)**

Question 3(b)

Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain. **(3 Marks)**

Question 3(c)

"An adequate planning benefits the audit of financial statements". Discuss. **(4 Marks)**

Question 3(d)

“Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits.” Explain. **(4 Marks)**

Question 4(a)

Auditor of ABC Ltd. is worried as to management of key resources to be employed to conduct audit. How the audit strategy would be helpful to the auditor? **(4 Marks)**

Question 4(b)

Discuss the factors the auditor will consider while establishing the overall strategy. **(4 Marks)**

Question 4(c)

“The process of auditing is such that it suffers from certain limitations.” Discuss. **(6 Marks)**

Question 5(a)

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results. Explain stating clearly the examples of significant matters. **(6 Marks)**

Question 5(b)

Discuss the points to be considered by auditor for the purpose of constructing an audit programme. **(4 Marks)**

Question 5(c)

The person conducting audit should take care to ensure that financial statements would not mislead anybody. Explain stating clearly the meaning of Auditing. **(4 Marks)**

Question 6(a)

RAG is proprietorship firm engaged in the manufacturing of textile and handloom products. It sells its finished products both in the domestic as well as in the international market. The company is making total turnover of Rs. 30 crores. It has also availed cash credit limit of Rs. 5 crores from Canara Bank. In the year 2020-21, proprietor of the firm is worried about the financial position of the company and is under the impression that since he is out of India, therefore firm might run into losses. He approaches a CA about advantages of getting his accounts audited throughout the year so that he may not suffer due to accounting weaknesses. Advise regarding advantages of getting accounts audited. **(5 Marks)**

Question 6(b)

Lord Justice Lindley in the course of the judgement in the famous London & General Bank case had succinctly summed up the overall view of what an auditor should be as regards the personal qualities. Explain stating also the qualities of Auditor. **(4 Marks)**

Question 6(c)

Audit documentation provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Explain stating clearly purpose of audit documentation. **(5 Marks)**

SPACE FOR ROUGH WORK