

MKG

Roll No687432.....

Total No. of Printed Pages: 10

Total No. of Questions – 30

Maximum Marks: 30

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book or on Part-I Question paper will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, and (b) the answer book in respect of descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

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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
4. Audit Evidence

QUESTION PAPER BOOKLET NO. 1072024

(29-07-2024 7:30 A.M. TO 10:45 A.M.)

Part I**30 Marks****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. 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

Case Scenario

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 Q4 & Q5 by choosing the correct option:

- 4. 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
- 5. 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
- 6. 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
- 7. 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
- 8. 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

9. 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
10. 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
11. 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
12. 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
13. 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
14. 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
15. 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

16. 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

Case Scenario

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. 17 to 21: .

17. Identify appropriate words to be used in blanks to make the sentences meaningful and relevant in context of theme of the topic.
- absolute, high, complete, individually, uncertainties
 - reasonable, high, complete, in totality, errors
 - reasonable, moderate, low, in totality, errors
 - moderate, low, complete, individually, judgments
18. After reading Para B, which of following statements is false as regards scope of an audit of financial statements is concerned?
- 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.
 - Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents.
 - Auditor is not an official investigator.
19. After reading Para C, which statement needs to be corrected in draft regarding inherent limitations of audit?
- 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.
 - Future events may affect an entity adversely.
 - The process of audit suffers from certain inbuilt limitations.
20. 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?
- It acts as a moral check on employees.
 - It acts as an appraisal function.
 - Its chief advantage lies in safeguarding financial interest of management.
 - It is useful for settling trade disputes for higher wages or bonus.
21. 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?
- OPC and small companies are exempted from audit.
 - OPC, small companies and section 8 companies are exempted from audit.
 - For all companies in India, except Section 8 companies, audit is legally obligatory.
 - For all companies in India, audit is legally obligatory.
22. Which of the following is Incorrect:
- 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.
 - 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.
23. 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
24. 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.
25. 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

Case Scenario

Watch IT India Private Limited is a company engaged in business of manufacturing smart watches. The company had a slow start in the beginning as company's products were gaining traction with customers. However, momentum has picked up during the year. The company wants to appoint M/s Tripathi & Associates, a CA firm as their auditor for year 2023-24 by replacing their existing auditors M/s Sreepath and Co. M/s Tripathi & Associates are willing to accept the engagement. They communicated with previous auditors before accepting the engagement. However, M/s Sreepath and Co. have failed to respond.

CA Kishan, partner of M/s Tripathi & Associates explained to his team members about importance of Engagement letter. He also arranged a team discussion on matters relating to acceptance of terms of engagement.

First point of consideration was concerning preconditions for an audit. Mr. Arun, a team member could recollect few of them. Those included determining whether financial reporting framework used in the preparation of financial statement is acceptable, management providing auditor with access to all relevant information and additional information upon auditor's request. It was further elaborated by Arun that management has to provide unrestricted access to employees within entity as may be required by auditor for obtaining audit evidence. Team members were asked to list factors that may necessitate revision of Engagement letter in case of recurring audits. Mr. Kumar, another team member replied that revision may be required in cases involving significant change in ownership, recent changes in senior management, change

in financial reporting framework adopted in preparation of financial Statements, modest change in nature or size of the entity's business, change in legal and regulatory requirements etc.

Mr. Ram, one of the team members raised a doubt. He enquired regarding recourse available to incoming auditor in case management makes it clear before acceptance of engagement by auditor regarding its inability in providing support to him in respect of certain procedures expected to be performed during course of audit. In this respect, specific question was raised relating to sending of confirmation requests to material trade payables reflecting in financial statements of a company. Trade payables pertain to material input and input services acquired and utilised by company during the year. Lack of support by management in such a case would, in effect, signify management's refusal to allow auditor to send confirmation requests at the outset before engagement is accepted by auditor.

Based on above, answer the following questions No. 26 to 29:

26. As regards doubt of Mr. Ram described in last para of case scenario, which of the following statements is likely to be in accordance with Standards on Auditing?

- (a) The auditor needs to inquire into management's reasons for the refusal and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- (b) The auditor needs to evaluate implications of management's refusal on auditor's assessment of risk of material misstatement and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- (c) The auditor should not accept such an engagement.
- (d) The auditor needs to evaluate implications of management's refusal on risk of fraud and perform alternative audit procedures to obtain relevant and reliable audit evidence.

27. When CA Kishan, the partner, asked about preconditions for an audit, Mr. Arun could recollect only few of them. Read the passage and find out which among the following points were missed.

- (i) Obtaining management responsibility on specific legal aspects governing the organisation.
- (ii) Obtaining management responsibility on Standards on Auditing applicable to the organisation.
- (iii) Obtaining management responsibility for the preparation of financial statements as per applicable financial reporting framework.
- (iv) Obtaining management responsibility on necessary Internal controls to enable preparation of financial statements which are free from material misstatement whether due to error or fraud.

Choose the correct answer from below options.

- (a) (i), (ii) and (iii)
- (b) (ii), (iii) and (iv)
- (c) (iii) and (iv)
- (d) (i) and (iv)

28. From what Mr. Kumar replied about the factors requiring a revision of Engagement letter one point was incorrect. Read the passage and find that incorrect factor.

- (a) A significant change in ownership
- (b) A recent change in management
- (c) A change in financial reporting framework adopted in preparation of Financial Statements
- (d) A modest change in nature or size of the entity's business

29. M/s Sreepath & Co. have failed to respond to incoming auditors. In this regard, choose the most appropriate option: -

- (a) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of objectivity governing professional ethics.

- (b) It was ethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It does not involve violation of any of fundamental principles governing professional ethics.
 - (c) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of Professional competence and due care governing professional ethics.
 - (d) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of professional behaviour governing professional ethics.
30. CA D, during the course of audit of a company engaged in export business, notices that credit facilities taken by company during the year from a bank for ₹10 crores have almost been fully utilized during the year. On going through sanction letter provided by bank to company, it is observed that rate of interest stipulated in sanction letter is 8% p.a. Financial statements of company show bank interest amounting to ₹60.00 lacs. Which type of substantive analytical procedure is being used by CA D?
- (a) Trend analysis
 - (b) Ratio analysis
 - (c) Reasonableness tests
 - (d) Structural modelling