 **ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

Registration Number:

Date & Session: 22-12-2022 (9am)

**B. Com IFA – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCIFADEB5619- ADVANCED AUDIT AND ASSURANCE I**

**Time: 2 ½ Hours Max Marks: 70**

**This paper contains two printed pages and four parts**

**Section A**

I. Answer any **five** of the following  **(5 X 2 = 10marks)**

1. Expand IFAC and IESBA.
2. State the purpose of ISQM 1 and ISQM 2.
3. What is the need for assurance services?
4. How is audit plan different from audit strategy?
5. State any two examples of an adverse audit opinion.
6. Give the meaning of management threat.

**Section B**

II. Answer any **three** of the following **(3 x 5 = 15 marks)**

1. Brief out the structure of IFAC council.
2. Outline the restrictions of auditor’s responsibility.
3. Summarize the importance of materiality by nature.
4. Write a short note on the significance on management and those charged with governance.

**Section C**

III. Answer any **two** of the following **(2 x 15 = 30 marks)**

1. Describe the importance of OECD principles and the code of good corporate governance in detail.
2. Discuss in the various fundamental principles of professional ethics and threats with examples.
3. Explain briefly the audit procedures in obtaining evidences.

**Section D**

IV. **Answer the following (1 X 15 = 15 marks)**

1. **You are an audit manager at RMT & Co. and you are considering a number of ethical issues which have arisen on some of the firm’s long-standing audit clients.**

**ABC Ltd.**

RMT & Co. is planning its external audit of ABC Ltd. Yesterday, the audit engagement partner, Ramesh, discovered that a significant fee for information security services, which were provided to ABC Ltd. by RMT & Co., is overdue. Mr. Ramesh hopes to be able to resolve the dispute amicably and has confirmed that he will discuss the matter with the finance director, Mr. Keshav, at the weekend, as they are both attending a party to celebrate the engagement of Ramesh’s daughter and Keshav’s son.

**XYZ (P) Ltd.**

RMT & Co. is the external auditor of XYZ (P) Ltd. and also provides other non-audit services to the company. While performing the audit for the current year, the audit engagement partner was taken ill and took an indefinite leave of absence from the firm. The ethics partner has identified the following potential replacements and is keen that independence is maintained to the highest level:

Mr. Pankaj Garg who is also the partner in charge of the tax services provided to XYZ (P) Ltd.

Mr. Mohit Taneja who was the audit engagement partner for the preceding five years. Mr. Chetanya Garg who introduced XYZ (P) Ltd. as a client when he joined the firm as an audit partner five years ago. Mr. Nikunj Garg who is also the partner in charge of the payroll services provided to XYZ (P) Ltd.

**MN Ltd.** MN Ltd. is a large public company, and has been an audit client of RMT & Co. for several years. Aadish Jain, a partner of RMT & Co., has acted as the engagement quality control reviewer (EQCR) on the last two audits. At a recent meeting, he advised that he can no longer be EQCR on the engagement as he is considering accepting appointment as a non-executive director and will sit on the audit committee of MN Ltd. The board of directors has also asked RMT & Co. if they would be able to provide internal audit services to the company.

**PQR Ltd.** PQR Ltd., a listed company, is one of RMT & Co.’s largest clients. Last year the fee for audit and other services was Rs.1.2 Cr. and this year it is expected to be Rs. 1.5 Cr. which represents 18% and 19.6% of RMT & Co.’s total income respectively.

**QUESTIONS: (5+5+5)**

**A) Which of the following statements correctly explains the possible threats to RMT & Co.’s independence and recommends an appropriate safeguard in relation to their audit of ABC Ltd.? State the reason.**

(1) An intimidation threat exists due to the overdue fee and ABC Ltd. should be advised that all fees must be paid prior to the auditor’s report being signed.

(2) A self-review threat exists due to the nature of the non-audit work which has been performed and an engagement quality control review should be carried out.

(3) A self-interest threat exists due to the relationship between Ramesh and Keshav and Ramesh should be removed as audit partner.

**(a) 1, 2 and 3**

**(b) 1 and 2 only**

**(c) 2 only**

**(d) 3 only**

**B) Taking into account the concern of the ethics partner, which of the partners identified as potential replacements should take over the audit of XYZ (P) Ltd. for the current year? State the reason.**

(a) Mr. Pankaj Garg

(b) Mr. Mohit Taneja

(c) Mr. Chetanya Garg

(d) Mr. Nikunj Garg

**C) Which of the following correctly identifies the threats to RMT & Co.’s independence and proposes an appropriate course of action for the firm if Aadish Jain accepts appointment as a non-executive director of MN Ltd.? State the reason.**

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| **Threats** | **Course of action:** |
| 1. Self-interest and familiarity | Can continue with appropriate safeguards |
| 1. Self-interest and self-review | Must resign as auditor |
| 1. Self-review and familiarity | Must resign as auditor |
| 1. Familiarity only | Can continue with appropriate safeguards. |

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