



The Institute of Chartered Accountants of India

Code: IN5AE619073
Subject: 05 Auditing and Ethics

Total Marks: 70
Marks Obtained: 47

Subject: Auditing & Ethics
Number of Answer Books used: Main + 4 additional sheets

Date Seal: 1 5 MAY 2024



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Paper Code	N	A B C D E F G H I J K L M <input checked="" type="radio"/> N O P Q R S T U V W X Y Z
	R	A B C D E F G H I J K L M N O P Q <input checked="" type="radio"/> R S T U V W X Y Z
	F	A B C D E <input checked="" type="radio"/> F G H I J K L M N O P Q R S T U V W X Y Z
	1	

MCQ Booklet Serial No. 3804498 Paper No. 5 Level of Exam → Intermediate Intermediate Final

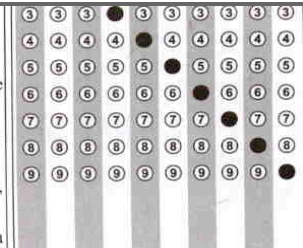
MCQ Answers			
1	A B C <input checked="" type="radio"/> D	11	A <input checked="" type="radio"/> B C D
2	A B C <input checked="" type="radio"/> D	12	A B <input checked="" type="radio"/> C D
3	A <input checked="" type="radio"/> B C D	13	A B C <input checked="" type="radio"/> D
4	A B <input checked="" type="radio"/> C D	14	A B C <input checked="" type="radio"/> D
5	A B C <input checked="" type="radio"/> D	15	A B <input checked="" type="radio"/> C D
6	A B <input checked="" type="radio"/> C D	16	A B C <input checked="" type="radio"/> D
7	A <input checked="" type="radio"/> B C D	17	A B C <input checked="" type="radio"/> D
8	A <input checked="" type="radio"/> B C D	18	A B C <input checked="" type="radio"/> D
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		21	A B C <input checked="" type="radio"/> D
		22	A B C <input checked="" type="radio"/> D
		23	A B C <input checked="" type="radio"/> D
		24	A B C <input checked="" type="radio"/> D
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		28	A B C <input checked="" type="radio"/> D
		29	A B C <input checked="" type="radio"/> D
		30	A B C <input checked="" type="radio"/> D



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INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

- 1. Use a pencil to Darken the appropriate Circle.
- 2. Write the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
- 3. If a candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
- 4. Darken the complete circle.
- 5. If you want to change your Answer, erase the all darkened circle completely and make a fresh mark.
- 6. Please do NOT make any stray marks on the OMR cover page.
- 7. Rough work must NOT be done on the OMR cover page.
- 8. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD: (A) ● (C) (D)

WRONG METHOD: (A) ● (C) (D) with various incorrect markings like partial circles, multiple marks, etc.

Q. No.	To be ticked <input checked="" type="checkbox"/> by the candidate against the Questions answered (Descriptive Type)		
1	<input checked="" type="checkbox"/>	8	<input type="checkbox"/>
2	<input checked="" type="checkbox"/>	9	<input type="checkbox"/>
3	<input type="checkbox"/>	10	<input type="checkbox"/>
4	<input checked="" type="checkbox"/>	11	<input type="checkbox"/>
5	<input checked="" type="checkbox"/>	12	<input type="checkbox"/>
6	<input checked="" type="checkbox"/>	13	<input type="checkbox"/>
7	<input type="checkbox"/>	14	<input type="checkbox"/>
Total		Total	<input type="checkbox"/>



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PART - II

Q 2 (a)

As per the standards on Auditing, ~~most~~ an auditor makes inquiries throughout the audit.

Much of the auditor's inquiry are obtained from management within the entity.

However, inquiries may be directed towards others within the entity.

CA Q is performing Risk Assessment procedures. He can get following information by such inquiries:

① Internal Audit Personnel:

Inquiry directed towards internal Audit personnel may help ~~the~~ the auditor know about,

- whether Internal Controls operate effectively
- whether the Internal Audit function operates effectively.

2aStep1 ✓ 1



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- How does management Responses to assessed risks.

②

(iii) In house legal Counsel:

Inquiries directed towards in house legal counsel, may help the auditor know about,

- litigation & claim against entity.
- warranties.
- compliance with law & Regulation.

2aStep2



0

(iii) Marketing or Sales Personnel:

Inquiries directed towards marketing or sales personnel may help the auditor know:-

- the marketing or sales strategies used,
- sales trends in industry
- OR
- significant customer contracts / contractual arrangement.

2aStep3



1

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rim information system personnel:

Inquiries directed towards such personnel may help the auditor know,

- whether information system are reliable and,
- the information being produced.

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2aStep4 X 0

This is how CA & can get information from inquiries while in audit of departmental store.

2a ✓ 2

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Q 2 (b)

As per SA 501 'Specific considerations of Certain matters',

the auditor may ~~or~~ find it necessary to communicate with entity's external legal counsel in certain circumstances.

- Here, CA Z, Auditor of MNO Ltd, assessed a risk of material misstatement regarding litigation and claim.

- The auditor may send a ~~or~~ general letter of inquiry but the external legal counsel may refuse to respond ~~or~~ as he may be prohibited by governing Body.

- In such a case, the auditor may send a specific Inquiry letter, which shall contain following contents

2b



4

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ICAI 07

2b Step 1 ✓ 2

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- The lists of litigations & claims on such date which are pending.
- Managements estimation about the settlement including amount of financial Resources to settle such claims.
- ~~The~~ Ask such ~~conse~~ counsel to Reply on the managements validity of lists & amount of such claims estimated.

- However, in certain circumstances, the auditor may consider it necessary to meet with external legal ~~con~~ counsel.

- The auditors Report Reporting Requirements would be :-

- In case management pt. Refuses to allow the auditor to meet with the external legal ~~conse~~ counsel, and,



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- The external legal counsel does not ~~Rep~~ Reply to the letters or Refuses to meet,
- and the Auditor is unable to obtain sufficient Appropriate audit evidence from other Alternate procedures,

2bStep2



2

then Auditor may modify the opinion in accordance with SA 705.

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[Q2 (c)]

JK Ltd is facing declining market share & its members blame auditors for not providing guarantee of future.

This leads us to the inherent limitations of audit;

- Nature of financial reporting:
financial reporting involves judgements & such uncertainties owe to inherent limitation of audit.
- Nature of Audit Procedures:
The nature of Audit procedures are such that the auditor cannot obtain Absolute Assurance that the financial statement are free from material ~~mis~~ misstatements.

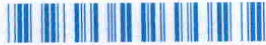
2c ✓ 3



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- Not in nature of investigation:

Audit is not in nature of investigation.

- Timeliness of financial reporting & decreasing relevance of information over time.

- Future events:

future events can adversely affect entity.

Auditor cannot provide guarantee of future events / outcomes which lead to inherent limitations of audit.

Hence, owing to these limitations, auditor cannot provide a guarantee that financial statements are free from material misstatements.

2cStep1



3

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11

2 ✓ 12

[Q 2(d)]

As per [SA 300] 'Planning an audit of financial statements', the auditor develops an audit ~~str~~ strategy & an audit plan to effectively conduct an audit engagement.

Hence the auditor should consider factors which are significant in directing the engagement teams efforts :-

2d ✓ 3

The auditor has limited Resources in terms of time & efforts of engagement teams. &

thus, energies need to be directed to areas Requiring site significant attention, such as,

- Volume of transactions and the operating effectiveness of controls over them.

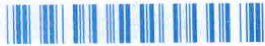
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- Significant ~~Re~~ development in Regulatory environment, such as Reporting Requirement.
- Significant change in Applicable financial Reporting framework, such as ~~an~~ a new accounting standard.
- Change in Industry regulation such as change in Legal Requirement.

This is how ~~CAB~~ MIs CS Co. can direct its engagement team's efforts.

2dStep1



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Q5 (a)

• As per section 53 of Companies Act, 2013, a company shall not issue its shares at a discount.

• However, it may issue its shares at discount to its creditors in pursuance of a statutory resolution plan or a Debt Restructuring scheme approved by NCLT.

• Any shares issued by the company at a discount would be void and would render its directors & company liable under penal provisions of Companies Act.

Here, Directors of ABC Co. issued shares at ₹95 instead of ₹100, which is a violation of provisions of the Act.

Here auditor's contention is valid & company has to refund such amount, ~~also~~ & pay prescribed fines.

5aStep1 1

5aStep2 0



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Q 5 (b)

As per Accounting standard 10,
The cost of PPE comprises its acquisition price, the directly attributable costs & the in Removal or dismantling expenses.

However, certain costs should not be included in the costs of the PPE.

Such costs are:-

- ① Cost of open introducing or opening a new Business facility (inauguration costs)
- ② Cost of introducing new products or services such as marketing or advertising costs.
- ③ Cost of shifting Business or facilities to a new location (Relocation such as staff training)

5b



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(4) General Administration overheads
costs.

5bStep1 ✓ 3



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16



~~Q5CQ~~

Q5CQ

A professional Accountant is expected to comply with the fundamental principles of professional ethics at all times.

Such principles include:

- Integrity
- Objectivity
- Professional Competence & due care
- Professional Behaviour
- Confidentiality.

(i) Here, principle of objectivity is being compromised since his sister was a partner in the firm &

5cStep1



1

the auditor would not Act objectively.

Objectivity includes not to compromise professional judgement because of bias, undue influence or conflict of interest of others.

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ICAI 17

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2) ~~Here principle of Professional behaviour is getting compro~~

Here principle of Confidentiality is getting compromised.

5cStep2 ✓ 1 This Rule emphasis on Respecting the confidentiality of information & free flow of info. among client & professional Accountant.

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3) Here Rule of Professional Competence & due care is getting compromised.

5cStep3 ✓ 1 This Rule states about attaining & maintaining professional qualification & knowledge, competence to give competent service as per latest legal & technological advancement.

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5c ✓ 3



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Q 5 (d)

As per the Companies Auditor's Report Order, 2020, a statutory auditor would be required to Report ~~as~~ in case of a nidhi company as follows:-

?

i) whether net owned funds Ratio has been maintained at 1:20

ii) whether deposits exceeded 10% of the amounts.

iii) whether the nidhi company has defaulted in Repayment of such deposits & interests.

5dStep1



1

5



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[Q 6 (a)]

Sanskar foundation, is a NCO for orphan children.

- They have received voluntary contributions from promoters, in form of corpus funds & revolving funds.
- The NCOs ~~might~~ ^{might} be registered under section 8 of Companies Act, ²⁰¹³ OR under Societies Registration Act, 1860 OR Indian Trusts Act, 1882, but the contribution remain same.

• Corpus fund:

- Such a fund is contributed by the promoters of an NCO with a specific purpose
- This funds needs to be applied for that specific purpose only.
- Such funds are shown as under capital of the NCO & are liabilities of NCO.

6aStep1 X 0



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- Hence ₹ 20 lakh will be shown in Balance sheet as 'Corpus fund'.

• Revolving fund:

- Such funds as the name suggests, Revolves from NCIO to NCIO or Other members for their financial needs.

- Such funds are used for financial needs of such members & are returned & lent against to others.

6a



2

- The interest on such funds may be added back to such fund. or

it might be credited to Income & expenditure Account.

Hence ₹ 30 lakh are treated as Revolving fund.

6aStep2



2

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[Q 6 (b)]

RBI suggest the prudential norms for Asset classification & Revenue/Income Recognition.

• Normally an assets is treated as Non Performing Asset (NPA) if its principal or interest Remains overdue for a period of 90 days.

• In case of such NPA, income Recognition basis is of Record of Recovery.

However, in case of ~~governing~~ government guaranteed loans, some conditions/norms are different:-

(i) Central Govt Guaranteed Advances:

In case of central govt. guaranteed advances, where the guarantee is not invoked or repudiated,

6b



4



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6bStep1



2

advances would be classified as NPA (Non performing) for income Recognition purpose.

[but] for Asset classification, no changes need to be done. Accounts are shown as Regular.

iii) ~~Star~~ State govt. guaranteed Advances:

6bStep2



2

However, in ~~case~~ ^{case} of state govt. guaranteed advances, An asset would be classified as ~~both~~ Non performing (NPA) for [both] income Recognition as well as asset classification.

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Q8 (c)

As per SA 450 'Evaluation of Misstatements Identified during the Audit'

The auditor needs to communicate misstatements identified in the audit & ~~communicate~~ to the management & those charged with Governance.

He also needs to document such misstatements as follows:-

(i) The he needs to document the amount below which misstatements would be regarded as clearly trivial.

(ii) The list of misstatements identified during the audit & whether they were corrected.

(iii) The effect of uncorrected misstatement, if any, in the auditor's professional judgement.

6c ✓ 2

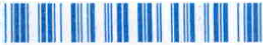
6cStep1 ✓ 2



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Q6(c)

• A financial lease is the lease in which major Risk & Reward incidental to ownership of Asset transfers to the lessee.

• In such a lease, the lease term is of nearly equal to or more than the economic life of an asset.

Here, since lease term is 11 years & equal to ~~term~~ economic life of Asset, it is a financial lease.

6



10

• The lessee (i.e. Person/Party taking such asset on lease) Bears the insurance, maintenance costs relating to asset.

6d



2

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- The ownership status of Asset Remains with the lessor (person giving asset on lease).
i.e., he Remains the legal owner of Asset unless asset is purchased by lessee.

↑
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- The ^{financial} lease is a financing arrangement & hence treated as a loan.

The lessee Records the machine as an asset and a lease liability as a loan.

- for tax treatment, the lessee gets the Benefit of Depreciation as well as interest;

as he is having major Risk & Rewards of ownership of Asset.

↑
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6dStep1



2



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Q4 (a)

As per SA 500 'Audit evidence',

the auditor gathers audit ~~evi~~ evidence throughout the audit in order to derive a conclusion to form an opinion on whether the financial statements are free from material misstatements or not.

The auditor may decided to examine,

- all the items (100% testing)
- OR sample the population,
- OR select specific items.

4aStep1



0

in selection of specific items from population, he shall consider the following:

i) High Value of Key items:

He may choose such high value OR key items as he considers important.

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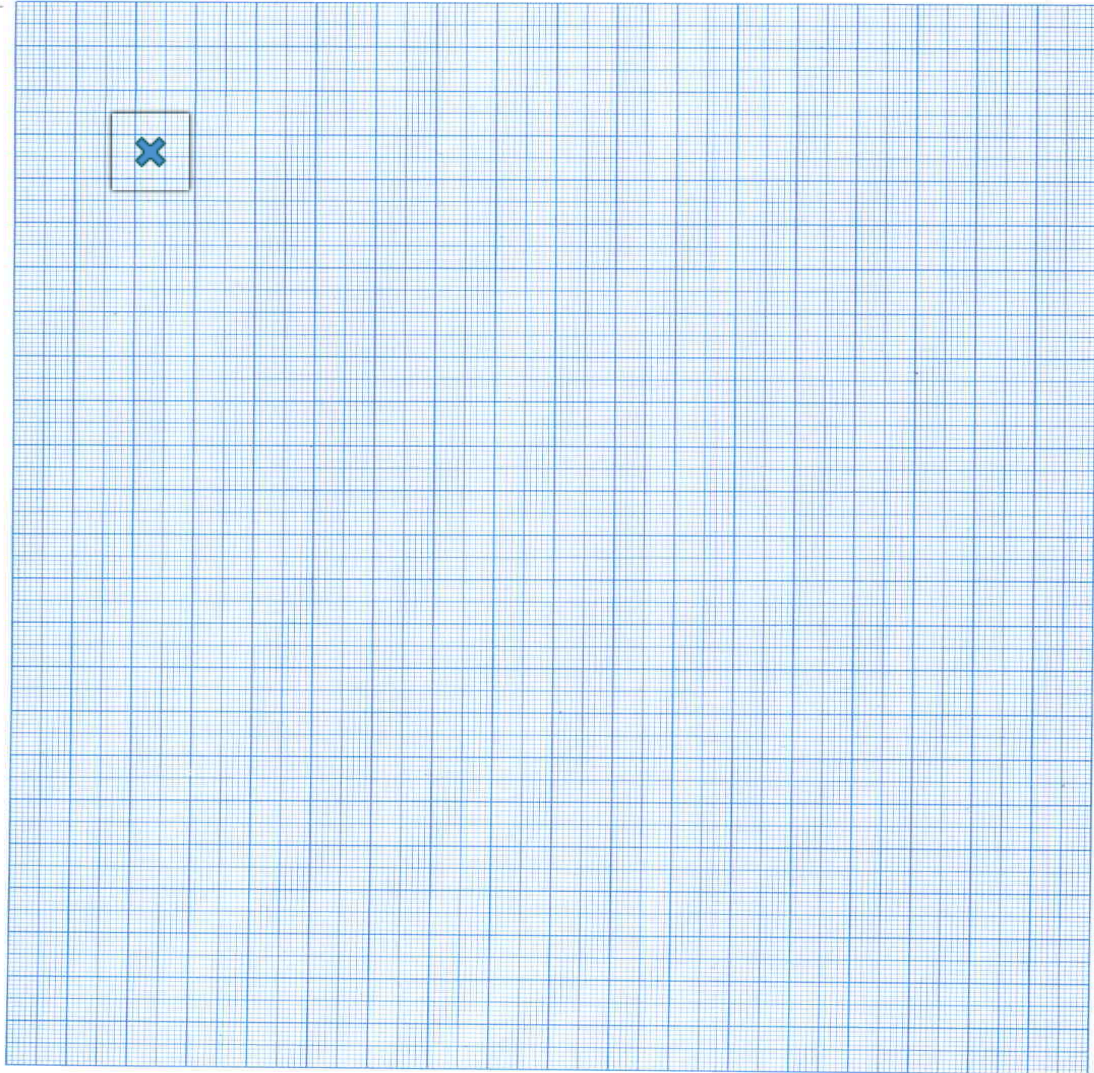


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Such items may be of important values.

for example, items of high ~~say~~ suspicion or important areas.

(ii) ~~Cost~~ All items over a certain amount:

He may select all the items over a certain amount.

for eg:- Selection of trade Receivables over ₹ 10,000.

This helps select high value items as they may contain more potential misstatement.

(iii) Selecting items for information:

He may select some items for information.

Such as:- contracts, invoices, etc.

4aStep2



2



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Barcode

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Addl. Book No. 1

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5000001264

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4a ✓ 2

However, he needs to consider that such selection of specific items might lead to 'Non-detection Risk' and 'non sampling Risk.'



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Q 4 (b)

As per ~~SA 600~~ ^{SA 600} 'Using work of other Auditors'

- the auditor needs to evaluate the competence of the work performed by such another auditor.
- While using such audit report he needs to make sure that such auditor is competent & objective.
- As per section 128 of the companies Act, the Branch may also keep its Books of Account.
- The company Auditor (Principle Auditor) needs to audit consider the Audit Reports of Branch, audited by (other auditor.).

4bStep1 X 0

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• He may check compliance with quality control by such other auditor.

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• The Principle Auditor needs to obtain sufficient Appropriate Audit Evidence that Branch Auditor's (Other Auditor's) work is sufficient for the purpose of his assignment.

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4b 0

• for this he may also obtain confirmation from the other auditor regarding compliance with ethical Requirement, obtaining sufficient Appropriate audit evidence, etc.

4bStep2 0

• He may then, include the Branch Auditor's (Other Auditor's) opinion in his audit opinion.

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4bStep3 0



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Q4(c)

As per schedule III to the Companies Act 2013, an auditor needs to disclose such info of loans given to Related parties as follows.

Para 3 of

¶ (clause (ix) of Companies Auditors Report order, 2020, states such disclosure.

S.No.	Amount outstanding at year end	Total Percentage to amount outstanding to total loans
x (Promoter)	15	12.5%
y (Director)	25	20.83%
z (KMP)	05	4.166%
A (Related Party)	10	8.33%
Total	55	45.83%

4cStep1 0

4cStep2 2

4c 2

loans to others is not disclosed here as per provisions.

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[Q4(d)]

4d ✓ 3

X4 and Associates are auditors of PQR Ltd. they want to test over statement / understatement of sales.

few analytical procedures relevant for such purposes are:-

① Consumption Analysis:

The consumption of Raw material (quantity) during year can be checked with of previous year & purchase quantity can be estimated.

5a ✓ 1

5d ✓ 1



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② Stock Composition Analysis:

The composition of Raw material to total stocks may be analysed to ascertain purchase quantity.

③ Quantitative Reconciliation:

Quantitative Reconciliation of opening & closing stock with consumption can help check Reasonableness of purchases.

④ Ratio Analysis:

This analysis of Stock (Inventory turnover Ratio / Creditor turnover Ratio) may help auditor check Reasonableness of purchases.

4dStep1



3

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⑤ Also cost paid (ie - Input tax credit) can help know the Reasonable mark of prices.

⑥ The auditor can compare the stock consumed with finished goods produced.

⑦ He can also compare such figures with previous years.

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Q1 (a)

Q1 (a)

As per SA 300, the auditor needs to formulate an Audit program.

The audit program is a detailed program which defines the examination & verification steps.

considered.

Some matters to be kept in mind while preparing audit program.

- Stay within scope & limitation of audit.
- Consider all possibilities of error.
- Identify all evidence available & choose the Best possible evidence.
- Prepare a written audit programme setting forth the instructions set out in plan.

1aStep1 ✓ 3

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- Auditors should take care that, evolving one audit programme is not practicable for all businesses.
- Businesses vary in size, nature, & operating effectiveness of internal controls and exact nature of service to be rendered to business differs from assignment to assignment.
- On account of these variations, one audit program is not practicable for all businesses.

Hence contention of C.A.P. is valid that different audit program should be made for different engagement.

1aStep2 ✓ 1



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Code: IN5AE619073
Subject: 05 Auditing and Ethics

Total Marks: 70
Marks Obtained: 47

2

Construction of Audit Programme-

- Also, while construction of Audit programme, Auditor may consider modifications as necessary in the Audit programme.
- He may decide to Rely on Internal control. OR not to Rely when more effective & evidence can be obtained from other sources.
- He needs to consider, expected supports by Client, selection of assistants & involvement of experts in complex matters.
- He may be flexible in determining timing of Audit procedures or sometimes may not be flexible, such as physical inventory count by management.

1a 4

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3

Q. (b)
Q. (b)

AS 2 'Valuation of Inventories' sug states
that an inventory should be valued
at Cost OR Net Realisable Value (NRV)
which ever is lower.

Also, the Cost of inventory should
include all the incidental expenses.
such cost shall exclude all abnormal
expenses / losses

Here Cost of inventory is

Material purchase	2505000
Allocated transport cost	18000
	<u>£ 2523000</u>

The inventory should be valued
at £ 2523000 (Being the cost
£ 2523000, lower than NRV £2524000).

Note: Abnormal wastage £2000 shall
be excluded from cost of
inventory.

1bStep1 ✓ 1

1bStep3 ✗ 0

1bStep2 ✓ 1

1b ✓ 2



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4

Ques 1 Q.1(c)

Asp Mr. Z is appointed as an Independent Auditor of EF Ltd, a listed company.

Such companies are prescribed to maintain Internal financial Controls (IFC), which help in

- compliance with Law & Regulation.
- Efficiency & effectiveness of operations.
- Safeguarding of Assets.
- Reliability of financial Reporting
- Prevention & detⁿ detection of frauds.

(1)

- The director's Responsibility statement u/s 134(5)(c) shall state whether, they have designed such Internal financial control & whether it is operating effectively & adequately.

1cStep1 ✓ 1

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Addl. Book No. 4

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

500001264

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ADDITIONAL ANSWER BOOK

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1cStep2 0

(2) Independent Directors u/s 149(8) shall state whether an effective Internal Control ~~is~~ was operating effectively.

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1cStep3 0

(2) Audit committee's u/s 177(4)(vii) shall state whether the audit Committee has suggested & recommended such Internal financial Control & has laid an oversight on such working.

1c 1

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2

Q. (a)

SQC 1 provides

SQC 1 'firms that provide assurance & Related services,'

- provides that firms should prepare audit documentation & assemble the final audit file on a timely basis.
- The firms should ~~not~~ prepare the final audit file in ordinarily no later than 60 days or date of auditors Report.
- 'SQC 1' also provides that firms should retain such audit documentation for a period ~~not~~ not shorter than 7 years from date of auditors Report or ~~at~~ later in case of group audit Report.

1dStep2 ✓ 1

1dStep3 ✓ 1

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3

Here CAB's actions are not valid since he prepared Audit file Assembly after 3 months from date of Audit Report.

Also his Retention period^v is not as prescribed in SQCI. of 4 yrs.

Also, Audit file may contain one or more folders, containing documentation, whether in electronic or Paper form.

1dStep1 ✓ 1

Here CA B finds that making audit file is mandatory on paper, hence his contention is again invalid.

1d ✓ 3

1 ✓ 10

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Marks Obtained : 47

Result Overview

Awarded Marks: 47

Max Marks:70

NA Not Attempted

O Optional

M Marked

Q1_Compulsory (Score: 10/14)

Question No	Awarded Marks	Maximum Marks	Status
1	10	14	M
1a	4	4	M
1b	2	4	M
1c	1	3	M
1d	3	3	M

Q2_Q6 (Score: 37/56)

Question No	Awarded Marks	Maximum Marks	Status
2	12	14	M
2a	2	4	M
2b	4	4	M
2c	3	3	M
2d	3	3	M
3	0	14	O
3a	0	4	O
3b	0	4	O
3c	0	3	O
3d	0	3	O
4	7	14	M
4a	2	4	M
4b	0	4	M
4c	2	3	M
4d	3	3	M
5	8	14	M
5a	1	4	M
5b	3	4	M

5c	3	3	M
5d	1	3	M
6	10	14	M
6a	2	4	M
6b	4	4	M
6c	2	3	M
6d	2	3	M