

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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## CHARTERED ACCOUNTANT INTERVIEW QUESTIONS & ANSWERS

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 ₹1.2 Cr. and this year it is expected to be ₹1.5 Cr. which represents 18% and 19.6% of RMT & Co's total income respectively.

**Q.1** 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.?

- (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.

	<p>(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.</p> <p>(3) A self-interest threat exists due to the relationship between Ramesh and Keshav and Ramesh should be removed as audit partner.</p> <p>(a) 1, 2 and 3  (b) 1 and 2 only  (c) 2 only  (d) 3 only</p>															
Q.2	<p>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?</p> <p>(a) Mr. Pankaj Garg  (b) Mr. Mohit Taneja  (c) Mr. Chetanya Garg  (d) Mr. Nikunj Garg</p>															
Q.3	<p>Which of the following correctly identifies the threats to RMT &amp; 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.?</p> <table border="1" data-bbox="204 974 1430 1268"> <thead> <tr> <th data-bbox="204 974 269 1033"></th> <th data-bbox="269 974 672 1033">Threats</th> <th data-bbox="672 974 1430 1033">Course of action</th> </tr> </thead> <tbody> <tr> <td data-bbox="204 1033 269 1092">(a)</td> <td data-bbox="269 1033 672 1092">Self-interest and familiarity</td> <td data-bbox="672 1033 1430 1092">Can continue with appropriate safeguards</td> </tr> <tr> <td data-bbox="204 1092 269 1150">(b)</td> <td data-bbox="269 1092 672 1150">Self-interest and self-review</td> <td data-bbox="672 1092 1430 1150">Must resign as auditor</td> </tr> <tr> <td data-bbox="204 1150 269 1209">(c)</td> <td data-bbox="269 1150 672 1209">Self-review and familiarity</td> <td data-bbox="672 1150 1430 1209">Must resign as auditor</td> </tr> <tr> <td data-bbox="204 1209 269 1268">(d)</td> <td data-bbox="269 1209 672 1268">Familiarity only</td> <td data-bbox="672 1209 1430 1268">Can continue with appropriate safeguards</td> </tr> </tbody> </table>		Threats	Course of action	(a)	Self-interest and familiarity	Can continue with appropriate safeguards	(b)	Self-interest and self-review	Must resign as auditor	(c)	Self-review and familiarity	Must resign as auditor	(d)	Familiarity only	Can continue with appropriate safeguards
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Q.4	<p>You are separately considering MN Ltd.'s request to provide internal audit services and the remit of these services if they are accepted.</p> <p>Which of the following would result in RMT &amp; Co assuming a management responsibility in relation to the internal audit services?</p> <p>(1) Taking responsibility for designing and maintaining internal control systems.  (2) Determining which recommendations should take priority and be implemented.  (3) Determining the reliance which can be placed on the work of internal audit for the external audit.  (4) Setting the scope of the internal audit work to be carried out.</p> <p>(a) 1 and 3  (b) 2, 3 and 4  (c) 1, 2 and 4  (d) 3 and 4 only</p>															

<b>Q.5</b>	<p>Which of the following actions should RMT &amp; Co. take to maintain their objectivity in relation to the level of fee income from PQR Ltd.?</p> <p>(1) The level of fee income should be communicated to those charged with governance</p> <p>(2) Separate teams should be used for the audit and non-audit work</p> <p>(3) Request payment of the current year's audit fee in advance of any work being performed</p> <p>(4) Request a pre-issuance review be conducted by an external accountant</p> <p>(a) 1 and 4 only</p> <p>(b) 3 and 4 only</p> <p>(c) 2 and 3 only</p> <p>(d) 1, 2, 3 and 4</p>
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#### Answer – Integrated Case Study 5

Q. No.	Answer	Reason
<b>Q.1</b>	<b>(d)</b>	In line with Code of Ethics, a self-interest threat would arise due to the personal relationship between the audit engagement partner and finance director. A self-interest threat, not intimidation threat, would arise as a result of the overdue fee and due to the nature of the non-audit work, it is unlikely that a self-review threat would arise.
<b>Q.2</b>	<b>(c)</b>	In order to maintain independence, Chetanya Garg would be the most appropriate replacement as audit engagement partner as he has no ongoing relationship with XYZ (P) Ltd. Appointing any of the other potential replacements would give rise to self-review or familiarity threats to independence.
<b>Q.3</b>	<b>(b)</b>	If Aadish Jain accepts the position as a non-executive director for MN Ltd., self-interest and self-review threats are created which are so significant that no safeguards can be implemented. Further as per Code of Ethics, no partner of the firm should serve as a director of an audit client and as such, RMT & Co would need to resign as auditor.
<b>Q.4</b>	<b>(c)</b>	Assuming a management responsibility is when the auditor is involved in leading or directing the company or making decisions which are the remit of management. Designing and maintaining internal controls, determining which recommendations to implement and setting the scope of work are all decisions which should be taken by management.
<b>Q.5</b>	<b>(a)</b>	PQR Ltd. is a listed company and the fees received by RMT & Co from the company is substantially high. As per Code of Ethics, this should be disclosed to TCWG and an appropriate safeguard should be implemented. In this case, it would be appropriate to have a pre-issuance review carried out prior to issuing the audit opinion for the current year.