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# PRESIDENCY UNIVERSITY

Presidency University Act, 2013 of the Karnataka Act No. 41 of 2013 | Established under Section 2(f) of UGC Act, 1956  
Approved by AICTE, New Delhi | Approved By BCI  
Bengaluru

## Even Semester Mid Term, March 2026

**Date: 10/03/2026**

**Time: 09:30 AM - 11:00 AM**

**Course Code: COM2059**

**Course Name: Audit and Assurance**

**Semester: Fourth Semester**

**Max. Marks: 50**

**Weightage: 50%**

CO - Levels	CO1	CO2
Marks	46	44

### PART-A: Answer Following Questions. 10 M

Qn.No	Questions	M	CO	BT
1	An independent practitioner is engaged to examine a company's internal control system and provides a high level of confidence in the report issued to users. What is meant by a reasonable assurance engagement? State any two characteristics.	2	CO1	BT2
2	Investors often believe that auditors are responsible for detecting all fraud and guaranteeing the financial stability of a company, whereas auditors perform their duties within defined professional standards and limitations. What is meant by the expectation gap in auditing? State any two reasons for its existence.	2	CO1	BT2
3	During the financial year, the statutory auditor of a company decided to step down from the position before the completion of the audit term. State any two requirements or procedures that must be followed when an auditor resigns from office.	2	CO1	BT2
4	While auditing a company's inventory records, the auditor noticed unusual fluctuations in stock levels but accepted management's explanation without seeking further evidence. What is meant by professional skepticism in auditing? State any two features of professional skepticism.	2	CO2	BT2
5	A technology company operates in a rapidly changing industry with complex transactions and frequent introduction of new products, increasing the likelihood of errors in financial reporting. What is inherent risk in auditing? State any two factors that may increase inherent risk.	2	CO2	BT2

**PART-B: Answer Any 1 Following Questions. 10 M**

<b>Qn.No</b>	<b>Questions</b>	<b>M</b>	<b>CO</b>	<b>BT</b>
6	<p>You are the audit manager responsible for the statutory audit of Broome Co, a listed company. During the course of the audit, one of the audit juniors informs you that the Finance Director has offered to take the entire audit team to an upcoming World Cup Final at the company's expense as a gesture of appreciation for completing the audit efficiently.</p> <p>Additionally, the Finance Director has invited you to attend a high-profile social event where the company plans to announce a new rights issue of ordinary shares to existing shareholders. He believes that the presence of the external auditor at the event will enhance the credibility of the rights issue and improve investor confidence, thereby increasing the likelihood of raising the required finance. You are concerned about the ethical implications of accepting such hospitality and participating in the event, especially given the company's listed status and the need to maintain independence and professional integrity.</p> <p>Identify and explain the ethical threats arising in this situation and recommend appropriate safeguards that should be implemented to ensure compliance with professional ethical standards.</p>	10	CO1	BT3
7	<p>You have recently joined Horizon &amp; Co as an audit trainee, where your father is an engagement partner. The firm has been appointed as the auditor of Pacifica Co, and your father will act as the engagement partner. You confirm that you have no direct relationship with Pacifica Co's management. At the same time, Alpine Co, a financial institution with 75 employees and revenue of \$8 million, has approached the firm for advice on whether it requires a statutory audit under current regulations, which mandate audits for public interest entities and companies with revenue of \$10 million and at least 50 employees.</p> <p>Identify and explain the ethical issues arising from your employment at Horizon &amp; Co and advise whether Alpine Co is required to have a statutory audit.</p>	10	CO1	BT3

**PART-C: Answer Any 1 Following Questions. 10 M**

<b>Qn.No</b>	<b>Questions</b>	<b>M</b>	<b>CO</b>	<b>BT</b>
8	<p>You are the audit manager at Orion &amp; Co, a medium-sized accounting firm. Zenith &amp; Co, an audit firm in a neighboring country, has requested your advice after their country recently adopted internationally recognized corporate governance codes. One of their listed clients, AlphaTech PLC, is not fully complying with these codes. Since your country has long-established governance regulations, Zenith &amp; Co has</p>	10	CO1	BT3

	<p>asked for your guidance on the changes AlphaTech PLC should implement to achieve compliance.</p> <p>Outline the key corporate governance improvements AlphaTech PLC should implement to comply with internationally recognized corporate governance codes.</p>			
9	<p>Cocklebidy Co., a listed company, is reviewing its corporate governance framework to ensure regulatory compliance and strengthen stakeholder confidence. The company has established a remuneration committee consisting of three non-executive directors. Its audit committee includes the finance director, the chief executive, and two non-executive directors. Additionally, the roles of chair and chief executive are performed by separate individuals to maintain a balance of power.</p> <p>Critically evaluate whether Cocklebidy Co.'s current corporate governance structure is fully compliant with best governance practices. Identify any potential weaknesses and suggest improvements.</p>	10	CO1	BT3

**PART-D: Answer Any 1 Following Questions. 10 M**

<b>Qn.No</b>	<b>Questions</b>	<b>M</b>	<b>CO</b>	<b>BT</b>
10	<p>You are an audit senior at RK &amp; Partners, currently preparing the audit plan for Zenith Innovations Pvt Ltd, a rapidly growing technology manufacturing company. The company produces wearable electronic devices using components sourced from both domestic and international suppliers. Inventory and work-in-progress balances are substantial at year end. During the year, the company capitalised significant development costs for a new product that has not yet been commercially launched. It has also recently entered into new foreign markets through distribution agreements.</p> <p>Explain the audit procedures you would perform to address the major risk areas identified while planning the audit of Zenith Innovations Pvt Ltd.</p>	10	CO2	BT3
11	<p>On 1 July 2026, you are an audit senior at MKS &amp; Associates, recently appointed as auditor of NovaTech Ltd after a successful tender. NovaTech Ltd manufactures electronic devices and relies heavily on one major customer that generates 70% of its revenue. Microchips are sourced from overseas suppliers, and work-in-progress is expected to be material at year end. During the year, NovaTech Ltd invested \$1 million in developing a mobile application, though its launch has been delayed due to technical issues. The company is also planning a listing on the New York Stock Exchange later in the year.</p> <p>Identify and explain the key audit risks you would consider when planning the audit of NovaTech Ltd for the year ending</p>	10	CO2	BT3

**PART-E: Answer Any 1 Following Questions. 10 M**

Qn.No	Questions	M	CO	BT
12	<p>You are a partner at Mehra &amp; Iyer Associates, recently approached by Silverline Foods Pvt Ltd, a rapidly expanding packaged food manufacturer, to act as its external auditor. This is the first time the company is appointing an independent audit firm, as its financial records were previously reviewed only by its internal accounts team. The directors have informally discussed the audit fee and expect the audit to begin immediately, but no written agreement defining the scope, responsibilities, or reporting framework has been signed.</p> <p>Discuss the risks to the auditor if an engagement letter is not issued before commencing the audit of Silverline Foods Pvt Ltd.</p>	10	CO2	BT3
13	<p>Horizon Buildtech Ltd, a fast-expanding real estate development company, has approached Verma &amp; Kulkarni LLP to conduct its statutory audit after its previous auditors resigned citing scope limitations. The company has recently secured large-scale project funding and is keen to complete the audit promptly to satisfy investor expectations. During preliminary meetings, management mentioned that some financial and project-related records are still being reorganised due to internal changes. The audit firm must carefully manage the engagement process.</p> <p>Discuss the role of audit documentation in an audit engagement and explain how proper audit documentation supports audit quality, evidence gathering, and legal protection for the auditor.</p>	10	CO2	BT3