

**(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)**

DATE: 12.09.2019

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

**PAPER : AUDITING****DIVISION – A (MULTIPLE CHOICE QUESTIONS)****Questions (1-20) carry 1 Mark each****Questions (21-25) carry 2 Marks each**

1. If, as a result of a misstatement resulting from fraud. the auditor encounters exception circumstances that bring into question his ability to continue performing the audit, he shall-
  - (a) Withdraw from the engagement immediately
  - (b) Report to Audit team regarding withdrawal
  - (c) Determine the professional and legal responsibilities applicable in the circumstances
  - (d) Ask the management for his withdrawal
2. Which of the following is an example of inflating cash payments?
  - (a) Making payments against purchase vouchers
  - (b) Teeming and lading
  - (c) Not accounting for cash sales fully
  - (d) Making payments against inflated vouchers
3. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as-
  - (a) Self-revealing errors
  - (b) Intentional errors
  - (c) Concealed errors
  - (d) Unconcealed errors
4. Analytical procedures issued in the planning stage of an audit, generally:
  - (a) Helps to determine the nature, timing and extent of other audit procedures
  - (b) Directs attention to potential risk areas
  - (c) Indicates important aspects of business
  - (d) All of the above
5. The basic assumption underlying the use of analytical procedures is:
  - (a) It helps the auditor to study relationship among elements of financial information
  - (b) Relationship among data exist and continue in the absence of known condition to the contrary
  - (c) Analytical procedures will not be able to detect unusual relationships
  - (d) None of the above
6. What is the primary objective of analytical procedures used in the overall review stage of an audit?
  - (a) To help to corroborate the conclusions drawn from individual components of financial statements
  - (b) To reduce specific detection risk
  - (c) To direct attention to potential risk areas
  - (d) To satisfy doubts when questions arise about a client's ability to continue

7. Tolerable error, is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to
- (a) Sample size
  - (b) Audit risk
  - (c) Materiality
  - (d) Expected error
8. Which of the following is source of Non Sampling risk :
- (a) Human Mistakes
  - (b) Applying audit procedures not appropriate to the objectives of audit
  - (c) Misinterpreting the sample results
  - (d) All of the above
9. Which of the following is more scientific :
- (a) Statistical
  - (b) Non- statistical
  - (c) Both (a) and (b)
  - (d) None of the above
10. Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the who shall cause them to be laid before House of Parliament/State Legislature
- (a) President/Governor
  - (b) Prime Minister/ Chief Minister
  - (c) Union Finance Minister/State Finance Minister
  - (d) All of the above
11. The C&AG Act gives which of the following power to the C&AG in connection with the performance of his duties-
- (a) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
  - (b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
  - (c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.
  - (d) All of the above
12. \_\_\_\_\_ aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
- (a) Audit against provision of funds
  - (b) Propriety audit
  - (c) Audit of sanctions
  - (d) Audit against rules and orders

13. Which of the following is fund based advance :
- (a) Term loans
  - (b) Cash credits,
  - (c) Demand Loans
  - (d) All of the above
14. Which of the following is not classification of NPA-
- (a) Impaired
  - (b) Sub standard
  - (c) Doubtful
  - (d) Loss
15. Controls can be \_\_\_\_\_ related to an assertion.
- (a) Directly
  - (b) Indirectly
  - (c) Directly or indirectly
  - (d) None of the above
16. Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:
- (a) Authorization.
  - (b) Performance reviews.
  - (c) Information processing.
  - (d) All of the above
17. With reference to SA 300, the auditor shall document:
- (a) The overall audit strategy
  - (b) The audit plan
  - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
  - (d) All of the above
18. 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
19. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of \_\_\_\_\_.
- (a) Independence
  - (b) Professional Judgment
  - (c) Professional skepticism
  - (d) All of above
20. As per SA-200 "Overall Objectives of the Independent Auditor's, in conducting an audit of financial statements the overall objectives of the auditor are.
- (a) To obtain reasonable assurance
  - (b) To report on the financial statements
  - (c) Both (a) and (b) above
  - (d) None of the above

**Examine with reasons (in short) whether the following statements are correct or incorrect :**

21. Any amount due to the bank under any credit facility is 'overdue' if it is not paid within 90 days of becoming due.
22. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
23. Maintenance of Internal Control System is the responsibility of the Statutory Auditor.
24. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.
25. Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) does not need any revision.

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**Division B-Descriptive Questions**

**Question No. 1 is compulsory**

**Attempt any four questions from the Rest.**

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**Question 1:**

**Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)**

- (i) As per the Standard on Auditing (SA) 520 "Analytical Procedures" 'the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data only.
- (ii) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time.
- (iii) The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
- (iv) Fraudulent financial reporting only involve manipulation, falsification or alteration of accounting records or supporting documents from which financial statements are prepared.
- (v) AB & Co. is an audit firm having partners Mr. A and Mr. B. Mr. C, the relative of Mr. B is holding securities having face value of Rs. 2,00,000 in XYZ Ltd. AB & Co. is qualified for being appointed as an auditor of XYZ Ltd.
- (vi) The auditor of a Ltd. Company wanted to refer to the minute books during audit but board of directors refused to show the minute books to the auditors.
- (vii) A Chartered Accountant holding securities of S Ltd. having face value of Rs. 950 is qualified for appointment as an auditor of S Ltd.
- (viii) Manner of rotation of auditor will not be applicable to company A, which is having paid up share capital of Rs. 15 crores and having public borrowing from nationalized bank of Rs. 50 crore because it is a Private Limited Company.

**(2 x 7 = 14 Marks)**

**Question 2:**

- (a) The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances. **(4 Mark)**
- (b) Explain the duties of the Comptroller and Auditor General of India. **(4 Mark)**
- (c) There are specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and effects on the financial statements. Analyse and explain stating the responsibility of auditor in this regard. **(3 Mark)**
- (d) IT poses specific risks to an entity's internal control. Explain **(3 Mark)**

**Question 3:**

- (a) Judging the significance of a matter requires an objective analysis of the facts and circumstances. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment. Explain with the help of examples. **(4 Mark)**
- (b) The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality. Analyse and Explain stating clearly the factors affecting the auditor's judgement as to sufficiency of audit evidence. **(4 Mark)**
- (c) Explain the overall objective of the auditor as contained in SA 200. **(3 Mark)**
- (d) Lord Justice Lindley in the course of the judgment in the famous London & General Bank case had succinctly summed up the overall view of what an auditor should be as regards the personal qualities. Explain stating also the qualities of Auditor. **(3 Mark)**

**Question 4:**

- (a) The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business. Explain **(4 Mark)**
- (b) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain **(4 Mark)**

- (c) Explain the audit procedure to vouch/verify:
- (i) Rent expenses
  - (ii) Power and Fuel expenses
- (3 Mark)**
- (d) Reserves are amounts appropriated out of profits whereas on the contrary, provisions are amounts charged against revenue. Discuss explaining the difference between the two and also explain clearly revenue reserve and capital reserve.
- (3 Mark)**

**Question 5:**

- (a) When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole. Explain
- (4 Mark)**
- (b) Explain Auditor's right to-
- (a) Report to the members of the company on the accounts examined by him
  - (b) Obtain information and explanation from officers
- (4 Mark)**
- (c) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain
- (3 Mark)**
- (d) Under **sub-section (3) of section 141 of the Companies Act, 2013** along with **Rule 10** of the Companies (Audit and Auditors) Rules, 2014, state the persons who shall not be eligible for appointment as an auditor of a company
- (3 Mark)**

**Question 6:**

- (a) Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity. Explain stating also criteria for a liability to be classified as current liability.
- (4 Mark)**
- (b) Misappropriation of Assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect. Misappropriation of assets can be accomplished in a variety of ways. Analyse and Explain

**(4 Mark)**

- (c)** External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. Analyse and Explain.

**(3 Mark)**

- (d)** The relationship between auditing and law is very close one. Discuss.

**(3 Mark)**

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