

(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 07.10.2019

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) At any AGM, a retiring auditor may be re-appointed if
- He is not disqualified for re-appointment
 - He has not given the company a notice in writing of his unwillingness to be re-appointed
 - A special resolution has not been passed at that AGM appointing some other auditor or providing expressly that he shall not be re-appointed
 - All of above
- (2) Rotation of auditor is not applicable on
- Dormant Company
 - One Person Company
 - Small Company
 - Both (b) and (c)
- (3) As on date of appointment no audit firm having a common partner or partners to audit firm, whose tenure has expired in a company, shall be appointed as auditor of the same company for a period ofyears
- 1
 - 3
 - 5
 - 10
- (4) Auditor shall not render prohibited services to the company or its holding company or its subsidiary company.....
- Directly
 - Indirectly
 - Directly or Indirectly
 - None of these
- (5) For removal of auditor before expiry of term of auditor, which of the following form is filed with CG for getting approval of such removal
- ADT-1
 - ADT-2
 - ADT-3
 - ADT-4
- (6) The auditor shall establish existence of preconditions for an audit of financial statements
- Before confirming common understanding between the auditor and management of the terms of audit engagement.
 - After confirming common understanding between the auditor and management of the terms of audit engagement
 - Before appointment of auditor
 - After the date of auditor's report.

- (7) The audit engagement letter generally should include to each of the following except
- Limitation of auditing
 - Responsibilities of management with respect to audit work
 - Expectation of receiving a written representation letter
 - A description of the auditor's method of sample selection
- (8) If auditor is requested by management to change the audit engagement to an engagement that conveys a lower level of assurance, then the auditor shall
- Reject the management's request
 - Accept the management's request
 - Determine that there is a reasonable justification for doing so
 - Shall not entertain any such request
- (9) If any difference of opinion arise within engagement team or between engagement partner and quality control reviewer, the engagement team follow
- Engagement partner
 - Engagement quality control reviewer
 - Firm's policies and procedures
 - Majority of members of engagement team
- (10) Auditing firms should establish quality control policies and procedures for personnel management in order to provide reasonable assurance that
- Employees promoted possess the appropriate characteristics to perform competently
 - Personnel will have the knowledge required to fulfil responsibilities assigned
 - The extent of supervision and review in a given instance will be appropriate
 - All of the above are reasons
- (11) An auditor who accepts an audit but does not possess the industry expertise of the business entity should
- Engage experts
 - Obtain knowledge of matters that relate to the nature of entity's business
 - Inform management about it.
 - Take help of other auditors
- (12) Auditor can obtain knowledge of client's business from following details do management and the auditor usually agrees upon at this time?
- The specific matters to be included in the communication with the audit committee
 - The minimum amount of misstatements that may be considered to be reportable conditions
 - The schedules and analyses that the client's staff should prepare
 - The effects that inadequate controls may have over the safeguarding of assets
- (13) Materiality in terms of amounts set by the auditor for particular classes of transactions, accounts balances or disclosures is called as
- Materiality for financial statements as a whole
 - Performance Materiality
 - Item Materiality
 - None of these

- (14) In stratified random sampling
- a) Sample is taken from whole of the population
 - b) It requires special attention to judge contents of stratum
 - c) There is application of different concept and not an extension of simple random sampling
 - d) All of these
- (15) A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information is
- a) Negative Confirmation Request
 - b) Exception
 - c) Positive Confirmation Request
 - d) Non Response
- (16) The auditor should use negative confirmation request if
- a) Population comprises a large number of small, homogeneous account balances or transactions
 - b) The auditor has assessed the risk of material misstatements as low
 - c) A very low exception rate is expected
 - d) All of above
- (17) Analytical procedures used 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) Indicate important aspects of business
 - d) All of the above.
- (18) In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.
- a) Reasonable assurance
 - b) Absolute assurance
 - c) Limited assurance
 - d) None of the above
- (19) Which of the following is a not a type of modified opinion
- a) Qualified opinion
 - b) Adverse opinion
 - c) Disclaimer of opinion
 - d) None of these
- (20) When auditor concludes that financial statements as a whole are free from material misstatements and he has no reservation for any material item of the financial statements, he shall express
- a) Qualified opinion
 - b) Unmodified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion

- (21) Which of the following statement is not true
- a) The auditor shall express an opinion on financial statements
 - b) Auditor's opinion is not guarantee to future viability of business
 - c) Auditor is responsible for prevention and detection of fraud and error in financial statements
 - d) Auditor should examine whether recognized accounting principles have been followed
- (22) The primary objective of the ordinary examination of financial statement by an auditor is the expression of an opinion on
- a) The competence of management in accounting matters which is implied by whether the opinion is qualified or not
 - b) The conformity of the statements with the book of account
 - c) The conformity of the financial statements with generally accepted auditing standards applied on a basis consistent with that of the prior year
 - d) The fairness with which the financial statements present cash flows and results of operations
- (23) The first standard of field work recognizes that early appointment of the independent auditor has many advantages to the auditor and the client. Which of the following advantages is least likely to occur as a result of early appointment of the auditor?
- a) The auditor will be able to complete the audit work in less time
 - b) The auditor will be able to perform the examination more efficiently
 - c) The auditor will be able to better plan for the observation of the physical inventories
 - d) The auditor will be able to plan the audit work so that it may be done expeditiously
- (24) Which of the following transaction is not covered within the meaning of business relationship for the purpose of disqualification of auditor
- a) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor under the Co Act, 2013 and Chartered Accountants Act, 1949 and rules or regulations made under those Acts
 - b) Commercial transaction which are in the ordinary course of business of the company at arm's length price – like sale of product or services to the auditor, as customer, in the ordinary course of business.
 - c) Both (a) and (b)
 - d) None of these
- (25) Which of the following is incorrect
- a) Branch office in relation to the company means any establishment described as branch by the company.
 - b) The provisions of regarding reporting of fraud by the auditor shall not be applicable to the branch auditor
 - c) The duties and power of the company's auditor with reference to the audit of the branch and branch auditor, if any, shall be as contained u/s 143(1) to 143(4).
 - d) The branch auditor shall prepare a report on the accounts of the branch examined by him and spent it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

Division B-Descriptive Questions**Question No. 1 is compulsory****Attempt any four questions from the Rest.**

Question 1:**Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)**

- (i) "Sweat Equity Shares" means equity shares issued by the company to employees or directors at a premium or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.
- (ii) If Company X's balance sheet shows building with carrying amount of Rs. 100 lakh, the auditor shall assume only one point that the management has only asserted that the building recognized in the balance sheet exists as at the period-end.
- (iii) The securities premium account may only be applied by the Company towards the issue of unissued shares of the company to the members of the company to the members of the company as fully bonus shares.
- (iv) The auditor shall modify the opinion in the auditor's report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatements.
- (v) The auditor shall express a disclaimer of opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- (vi) The auditor can assume that the system generated information is correct and relied upon without evidence that demonstrates that the system driven information is based on validation of the required parameters for the time being in force and applicable.
- (vii) Registered mortgage is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof.
- (viii) According to 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

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

(a) ABC & Co." is an Audit Firm having partners "Mr. A", "Mr. B" and "Mr. C", Chartered Accountants. "Mr. A", "Mr. B" and "Mr. C" are holding appointment as an Auditor in 4, 6 and 10 Companies respectively.

- (i) Provide the maximum number of Audits remaining in the name of "ABC & Co."
- (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.
- (iii) Can ABC & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than Rs. 100 crore, 2 small companies and 1 dormant company?
- (iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of Rs. 110 crore each?

(7 Marks)

(b) Explain the Manner and procedure of selection and appointment of auditors as per rule 3 of CAAR 2014.

(3 Marks)

- (c) CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs. 30,000. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation.
How much fine may he be punishable with under section 140(3) for non-compliance of section 140(2) of the Companies Act, 2013?
- (4 Marks)**

Question 3:

- (a) How would you vouch/verify the following:
(1) Advertisement Expenses.
(2) Sale of Scrap.
- (6 Marks)**
- (b) Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report"
- (4 Marks)**
- (c) Under what circumstances when corresponding figures are presented, the auditor's opinion shall refer to the corresponding figures.
- (4 Marks)**

Question 4:

- (a) What are the different types of Agricultural Advance, what are the NPA norms would apply to agricultural advance?
- (4 Marks)**
- (b) In what condition NPA's should be straight-away classified as doubtful or loss asset as appropriate.
- (3 Marks)**
- (c) Explain Propriety Audit?
- (3 Marks)**
- (d) Explain Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013.
- (4 Marks)**

Question 5:

- (a) "The Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats." Explain
- (4 Marks)**
- (b) "The utility of the audit programme can be retained and enhanced only by keeping the programme and also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed" Discuss stating clearly the advantages of an audit programme.
- (3 Marks)**

(c) Extent of Reliance on Analytical Procedures (SA-520): **(3 Marks)**

(d) Write short notes on the following:

(i) Advantages of Statistical sampling in Auditing. **(2 Marks)**

(ii) Stratified sampling **(2 Marks)**

Question 6:

(a) What are the different testing methods used when auditing in an automated environment. Which is the most effective and efficient method of testing? **(3 Marks)**

(b) You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that it is not possible to continue the performance of audit. As a Statutory Auditor, how would you deal? **(4 Marks)**

(c) 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 Marks)**

(d) On the basis of which assumption the financial statements of a company are prepared. Explain. Also describe the objectives of the auditor regarding going concern. **(3 Marks)**
