

**(GI-11, GI-12+15, GI-13+14, SI-5)**

DATE: 05.02.2020

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

**PAPER : AUDITING****DIVISION – A (MULTIPLE CHOICE QUESTIONS)****QUESTIONS (1-20) CARRY 1 MARK EACH**

1. (IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements :
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) All of the above
  
2. 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
  
3. 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
  
4. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
  - (a) Positive confirmation request
  - (b) Non Response
  - (c) Negative Confirmation request
  - (d) Exception
  
5. When credit purchases of Rs. 5100 is recorded on credit side and credit sales of Rs. 5100 is recorded on debit side, this kind of error is called\_\_\_\_\_.
  - (a) Error of omission
  - (b) Compensating error
  - (c) Error of principle
  - (d) Error of commission
  
6. 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 of\_\_\_\_\_years
  - (a) 1
  - (b) 3
  - (c) 5
  - (d) 10

7. If any difference of opinion arise within engagement team or between engagement partner and quality control reviewer, the engagement team follow
  - (a) Engagement partner
  - (b) Engagement quality control reviewer
  - (c) Firm's policies and procedures
  - (d) Majority of members of engagement team
  
8. Auditing firms should establish quality control policies and procedures for personnel management in order to provide reasonable assurance that
  - (a) Employees promoted possess the appropriate characteristics to perform competently
  - (b) Personnel will have the knowledge required to fulfil responsibilities assigned
  - (c) The extent of supervision and review in a given instance will be appropriate
  - (d) All of the above are reasons
  
9. The auditor should use negative confirmation request if
  - (a) Population comprises a large number of small, homogeneous account balances or transections
  - (b) The auditor has assessed the risk of material misstatements as low
  - (c) A very low exception rate is expected
  - (d) All of above
  
10. 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
  
11. 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
  
12. 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
  
13. Which of the following is not classification of NPA-
  - (a) Impaired
  - (b) Sub standard
  - (c) Doubtful
  - (d) Loss

14. Controls can be \_\_\_\_\_ related to an assertion.
- (a) Directly
  - (b) Indirectly
  - (c) Directly or indirectly
  - (d) None of the above
15. 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
16. After considering an entity's negative trends and financial difficulties, an auditor has substantial doubt about the entity's ability to continue as a going concern. The auditor's considerations relating to management's plans for dealing with the adverse effects of these conditions most likely would include management's plan to:
- (a) Increase current dividend distributions
  - (b) Reduce existing lines of credit
  - (c) Increase ownership equity
  - (d) Purchase assets formerly leased
17. SA-580 relates to-
- (a) External confirmation
  - (b) Audit materiality
  - (c) Opening balances
  - (d) Written representation
18. \_\_\_\_\_ is the risk that mis-statements will not be prevented, detected and corrected by internal control systems-
- (a) Inherent risk
  - (b) Detection risk
  - (c) Audit risk
  - (d) None of these
19. Under Section 141(3), a person who or his relative or his partner is holding any security in \_\_\_\_\_ is not qualified to be appointed as auditor of the company-
- (a) The company
  - (b) Its associate company
  - (c) Its holding company
  - (d) All of these
20. A person who has been convicted by a court of an offence involving fraud and a period of \_\_\_\_\_ years has not elapsed from the date of such conviction shall be disqualified for the purpose of appointment as auditor-
- (a) 5 years
  - (b) 10 years
  - (c) 15 years
  - (d) 20 years

**QUESTIONS (21-25) CARRY 2 MARKS EACH**

**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) "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)** Professional skepticism is necessary to the critical assessment of audit evidence. Explain.

**(3 Marks)**

- (b) Explain the duties of the Comptroller and Auditor General of India. **(4 Marks)**
- (c) IT poses specific risks to an entity's internal control. Explain **(3 Marks)**
- (d) The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, there are other advantages of audit. Some or all of these are of considerable value even to those enterprises and organisations where audit is not compulsory. Explain. **(4 Marks)**

**Question 3:**

- (a) Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. for the accounting year 2017-2018. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd. Comment. **(3 Marks)**
- (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 Marks)**
- (c) The first auditor of Bhartiya Petrol Ltd., a Government company, was appointed by the Board of Directors. Analyse and Explain **(3 Marks)**
- (d) Mr. A, a chartered accountant, has been appointed as an auditor of Laxman Ltd. in the Annual General Meeting of the company held in September, 2016, which assignment he accepted. Subsequently in January, 2017 he joined Mr. B, another chartered accountant, who is the Manager Finance of Laxman Ltd., as partner. Analyse and explain. **(4 Marks)**

**Question 4:**

- (a) Mention the special steps involved in the audit of cinema. **(4 Marks)**
- (b) Discuss the different ways in which defalcation of cash may take place. **(3 Marks)**
- (c) Explain Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013. **(4 Marks)**
- (d) Explain the audit procedure to vouch/verify:  
(i) Rent expenses  
(ii) Power and Fuel expenses **(3 Marks)**

**Question 5 :**

- (a) "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)**

- (b) What do you mean by Audit Documentation? Also explain the nature and purpose of audit documentation.

**(3 Marks)**

- (c) When we find in the balance sheet:

Particulars		Rs.
Plant and Machinery (at cost)		2,00,000
Less: Depreciation till the end of previous year	70,000	
Depreciation for the year	13,000	83,000
		1,17,000

What are the obvious assertions that would strike the mind of the auditor?

**(4 Marks)**

- (d) 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 Marks)****Question 6:**

- (a) Mention the special features of co-operative audit, to be borne in mind in general while conducting the audit by the auditor.

**(3 Marks)**

- (b) Explain techniques available as substantive analytical procedures.

**(4 Marks)**

- (c) 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)**

- (d) 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 Marks)**


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