

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

DATE: 01.07.2020

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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

1. When an auditor believes there is substantial doubt about the ability of an entity to continue as a going concern, all of the following should be included in the audit documentation.
 - (a) The conditions that gave rise to the substantial doubt.
 - (b) The auditor's conclusion about whether substantial doubt remains or is alleviated.
 - (c) Management's conclusion regarding whether substantial doubt remains or is alleviated.
 - (d) The effect of the auditor's conclusion on the auditor's report.
2. An auditor should disclose the substantive reasons for expressing an adverse opinion in an explanatory paragraph.
 - (a) Preceding the scope paragraph.
 - (b) Preceding the opinion paragraph.
 - (c) Following the opinion paragraph.
 - (d) Within the notes to the financial statements.
3. Restrictions imposed by a retail entity that is a new client prevent an auditor from observing any physical inventories. These inventories account for 40% of the entity's assets. Alternative auditing procedures cannot be applied due to the nature of the entity's records. Under these circumstances, the auditor should express a(an):
 - (a) Disclaimer of opinion.
 - (b) Qualified opinion.
 - (c) Adverse opinion.
 - (d) Unqualified opinion with an explanatory paragraph.
4. SA-580 relates to-
 - (a) External confirmation
 - (b) Audit materiality
 - (c) Opening balances
 - (d) Written representation
5. Positive confirmation request required the third party to reply to the auditor-
 - (a) In the case of agreement with given information
 - (b) In the case of disagreement with given information
 - (c) In the case of agreement / disagreement with the given information
 - (d) None of these
6. 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

7. 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
8. 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
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. 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
12. As per SA 200 "Overall Objectives of the Independent Auditor", 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
13. (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

14. 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
15. As per SQC-1 "An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than days after the date of the auditor's report".
- (a) 30
 - (b) 60
 - (c) 90
 - (d) 45
16. 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
17. Controls can be_____related to an assertion.
- (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above
18. 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
19. The audit engagement letter generally should include to each of the following except
- (a) Limitation of auditing
 - (b) Responsibilities of management with respect to audit work
 - (c) Expectation of receiving a written representation letter
 - (d) A description of the auditor's method of sample selection
20. 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
 - (e)

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. Performing inquiry and analytical procedures is the primary basis for an accountant to issue a:
- (a) Report on compliance with requirements governing major federal assistance programs in accordance with the Single Audit Act.
 - (b) Review report on prospective financial statements that present an entity's expected financial position given one or more hypothetical assumptions.
 - (c) Management advisory report prepared at the request of a client's audit committee.
 - (d) Review report on comparative financial statements for a non-issuer in its second year of operations.
22. Which of the following statements is correct about materiality?
- (a) The concept of materiality recognizes that some matters are important for fair presentation of financial statements in conformity with GAAP, while other matters are not important.
 - (b) An auditor considers materiality for planning purposes in terms of the largest aggregate level of misstatements that could be material to any one of the financial statements.
 - (c) Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative judgment.
 - (d) An auditor's consideration of materiality is influenced by the auditor's perception of the needs of a reasonable person who will rely on the financial statements.
23. The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2017-18. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use an internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under an internal control questionnaire relating to purchases?
- (a) Are authorized signatories for purchases limited to elected officials?
 - (b) Are payments approved only on original invoices?
 - (c) Do authorized officials thoroughly review the documents before signing cheques?
 - (d) Are monthly bank reconciliations implemented for each and every bank account of the company?
24. The primary objective of the ordinary examination of a 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

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

25. Any amount due to the bank under any credit facility is 'overdue' if it is not paid within 90 days of becoming due.

**DIVISION B-DESCRIPTIVE QUESTIONS
QUESTION NO. 1 IS COMPULSORY
ATTEMPT ANY FOUR QUESTIONS FROM THE REST**

Question 1:

- (a) M/s Sureshchandra & Co. has been appointed as an auditor of SC Ltd. for the financial year 2014-15. CA. Suresh, one of the partners of M/s Sureshchandra & Co., completed entire routine audit work by 29th May, 2015. Unfortunately, on the very next morning, while going towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA. Chandra, another partner of M/s Sureshchandra & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA. Suresh.

State with reasons whether CA. Chandra is right in expressing an opinion on financial statements the audit of which is performed by another auditor.

(4 Marks)

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

(4 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?

(3 Marks)

- (d) Professional skepticism is necessary to the critical assessment of audit evidence. Explain.

(3 Marks)

Question 2:

- (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 3:

- (a) 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)

- (b) 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)

- (c) The first auditor of Bhartiya Petrol Ltd., a Government company, was appointed by the Board of Directors. Analyse and Explain

(3 Marks)

- (d) Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term?

(3 Marks)

Question 4:

- (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)

Question 5:

- (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 6:

- (a) What are the different types of Agricultural Advance, what are the NPA norms would apply to agricultural advance? **(4 Marks)**
- (b) Mention the special steps involved in the audit of cinema. **(4 Marks)**
- (c) State the points which should be kept in mind while constructing an audit programme. **(3 Marks)**
- (d) As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the what areas. **(3 Marks)**

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