

(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 27.07.2021

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER : AUDITING

DIVISION – A (MULTIPLE CHOICE QUESTIONS)

QUESTIONS (1-20) CARRY 1 MARK 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. 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

3. 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

4. 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

5. 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

6. 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

7. Along with other disciplines such as accounting and law, equips you with all the knowledge that is required to enter into auditing as a profession.
 - (a) Auditing
 - (b) Taxation
 - (c) Finance
 - (d) Taxation and Finance both

8. 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

9. Which of the following is more scientific :
 - (a) Statistical
 - (b) Non- statistical
 - (c) Both (a) and (b)
 - (d) None of the above

10. Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion:
 - (a) Valuation
 - (b) Rights and obligations
 - (c) Existence
 - (d) Completeness

11. (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

12. _____refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
- (a) Audit Techniques
 - (b) Audit evidence
 - (c) Audit Documentation
 - (d) None of the above
13. Audit risk is a function of the risks of material misstatement and_____
- (a) Detection risk.
 - (b) Inherent risk
 - (c) Control risk
 - (d) Business risk
14. Which of the following is a General IT control?
- (a) IT Environment
 - (b) Application Control
 - (c) Access Security
 - (d) IT Dependent Control
15. 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
16. All inventory units held by the audit entity and that should have been recorded, has been recognized in the financial statements. The assertion involved is :
- (a) Existence
 - (b) Completeness
 - (c) Rights and Obligations
 - (d) Valuation
17. 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.
18. 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.

19. Which of the following events occurring after the issuance of an auditor's report most likely would cause the auditor to make further inquiries about the previously issued financial statement?
- (a) An uninsured natural disaster occurs that may affect the entity's ability to continue as a going concern.
 - (b) A contingency is resolved that had been disclosed in the audited financial statements.
 - (c) New information is discovered concerning undisclosed lease transactions of the audited period.
 - (d) A subsidiary is sold that accounts for 25% of the entity's consolidated net income.
20. 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

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. Maintenance of Internal Control System is the responsibility of the Statutory Auditor.
23. 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.
24. Which of the following is an automated control?
- (a) Program change
 - (b) System generated report
 - (c) Application control
 - (d) Configurations
25. Which of the following is required documentation in an audit in accordance with generally accepted auditing standards?
- (a) A flowchart or narrative of the information system relevant to financial reporting describing the recording and classification of transactions for financial reporting.
 - (b) An audit plan setting forth in detail the procedures necessary to accomplish the engagement's objectives.
 - (c) A planning memorandum establishing the timing of the audit procedures and coordinating the assistance of entity personnel.
 - (d) An internal control questionnaire identifying controls that assure specific objectives will be achieved.

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) 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) 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.
- (iii) Fraudulent financial reporting only involve manipulation, falsification or alteration of accounting records or supporting documents from which financial statements are prepared.
- (iv) Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- (v) A Chartered Accountant holding securities of S Ltd. having face value of Rs. 950 is qualified for appointment as an auditor of S Ltd.
- (vi) The matter of difficulty, time, or cost involved is in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
- (vii) Auditor should not communicate weakness in internal control system to the management as he checks only financial statement.
- (viii) There is inverse relation between materiality & audit risk.

(2 x 7 = 14 Marks)

Question 2:

- (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 Marks)
- (b) 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
(3 Marks)
- (c) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain
(4 Marks)
- (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 Marks)

Question 3:

- (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. **(3 Marks)**
- (b) 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)**
- (c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit. Explain **(4 Marks)**
- (d) Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Explain **(4 Marks)**

Question 4:

- (a) You have been appointed as an auditor of an NGO, briefly state the points on which you would concentrate while planning the audit of such an organisation? **(4 Marks)**
- (b) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Explain **(4 Marks)**
- (c) Write a short note on reversal of income under bank audit. **(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 5:

- (a) In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous. Explain stating uses of Data analytics. **(4 Marks)**
- (b) As per SA 220, "Quality Control for an Audit of Financial Statements" the auditor should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of a new engagement with an existing client. Explain **(3 Marks)**

- (c) State the circumstances which could lead to any of the following in an Auditor's Report:
- (a) A modification of opinion.
 - (b) Disclaimer of opinion.
 - (c) Adverse opinion.
 - (d) Qualified opinion.

(4 Marks)

- (d) What are the different types of Agricultural Advance, what are the NPA norms would apply to agricultural advance?

(3 Marks)

Question 6:

- (a) Explain the audit Procedures generally required to be undertaken while auditing depreciation and amortization expense.

(3 Marks)

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

Particulars	Rs.	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)

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

(3 Marks)

- (d) Discuss the following:

Saburi Yarns Ltd is engaged in manufacturing and trading of yarns of different types. Its huge amount is locked up in account receivables. Moreover, Management of Saburi Yarns Ltd is worried about its Internal Control system over receipts from account receivables and other receipts. Management wants to understand from you as an auditor few techniques as to how receipts can be suppressed resulting into frauds and finally incurring losses.

(4 Marks)

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