

(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 27.09.2021

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER : AUDITING

DIVISION – A (MULTIPLE CHOICE QUESTIONS)

QUESTIONS (1-20) CARRY 1 MARK EACH

1. 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
2. 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
3. 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
4. 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
5. 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
6. 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

7. 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

8. 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

9. 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

10. 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

11. 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

12. Which of the following is not classification of NPA-
 - (a) Impaired
 - (b) Sub standard
 - (c) Doubtful
 - (d) Loss

13. Controls can be _____ related to an assertion.
 - (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above

14. 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
15. 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
16. SA-580 relates to-
- (a) External confirmation
 - (b) Audit materiality
 - (c) Opening balances
 - (d) Written representation
17. _____ 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
18. 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
19. 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.
20. 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

QUESTIONS (21-25) CARRY 2 MARKS EACH

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

21. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
22. 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.
23. 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 on 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.
24. 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 internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under 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) Does authorized officials thoroughly review the documents before signing cheques?
 - (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?
25. 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

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)** 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) Explain techniques available as substantive analytical procedures. **(4 Marks)**

Question 3:

- (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 4:

- (a) 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)**
- (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 auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker's certificate in support of Fixed deposits whereas management provides only written representation on the matter.
Required
Discuss how would you deal as an auditor. **(3 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) Mention the special steps involved in the audit of cinema. **(4 Marks)**

- (d) 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 Marks)

Question 6:

- (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) The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country. Explain.

(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)

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