

**(GI-7, VI-VDI-SI-3)**

DATE: 27.02.2022

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. (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
7. \_\_\_\_\_ 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
8. Audit risk is a function of the risks of material misstatement and \_\_\_\_\_
- (a) Detection risk.
  - (b) Inherent risk
  - (c) Control risk
  - (d) Business risk
9. Which of the following is a General IT control?
- (a) IT Environment
  - (b) Application Control
  - (c) Access Security
  - (d) IT Dependent Control
10. 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
11. Wages paid to workers would always qualify as:
- (a) Revenue expenditure
  - (b) Capital expenditure
  - (c) Revenue or capital expenditure depending upon facts and circumstances.
  - (d) None of the above
12. The auditor shall develop an audit plan that shall include a description of:
- (a) The nature, timing and extent of planned risk assessment procedures
  - (b) The nature, timing and extent of planned further audit procedures at the assertion level.
  - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
  - (d) All of the above

13. 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 misstatement, whether due to fraud or error.
- (a) reasonable assurance
  - (b) absolute assurance
  - (c) Limited assurance
  - (d) None of the above
14. 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
15. 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
16. 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
17. Which of the following is fund based advance :
- (a) Term loans
  - (b) Cash credits,
  - (c) Demand Loans
  - (d) All of the above
18. The auditor's \_\_\_\_\_ safeguards the auditor's ability to form an audit opinion without being affected by any influences.
- (a) Objectivity
  - (b) Independence
  - (c) Confidentiality
  - (d) Integrity
19. \_\_\_\_\_ refer to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- (a) Audit assessment procedures
  - (b) substantive procedures
  - (c) test of control
  - (d) Risk assessment procedures

20. When more persuasive audit evidence is needed regarding the effectiveness of a control,
- (a) it may be appropriate to increase the extent of testing of the control and reduce the extent of the degree of reliance on controls.
  - (b) it may be appropriate to decrease the extent of testing of the control as well as the degree of reliance on controls.
  - (c) it may be appropriate to decrease the extent of testing of the control and increase the extent of the degree of reliance on controls.
  - (d) it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls.

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

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21. Which of the following is an automated control?
- (a) Program change
  - (b) System generated report
  - (c) Application control
  - (d) Configurations
22. 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.
23. Who is mainly responsible for implementation of internal financial controls in a company?
- (a) Auditors
  - (b) Directors
  - (c) Employees
  - (d) Regulators
24. CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?
- (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial

- statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
25. While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management?
- (a) If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.
- (b) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.
- (c) Goodwill is recognised only when there is a contractual or other legal rights for a physical asset which shall not be amortized over the period.
- (d) All of the above.

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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) 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) Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.
- (vi) As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor.
- (vii) The term "internal audit" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".
- (viii) A Chartered Accountant holding securities of S Ltd. having face value of Rs. 950 is qualified for appointment as an auditor of S Ltd.

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

**Question 2:**

- (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 3:**

- (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 4:**

- (a) How would you assess the reliability of internal control system in Computerised Information System (CIS) environment?

**(4 Marks)**

- (b) Engagement partner of Audit Firm MKC AND COMPANY thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning.

**(4 Marks)**

- (c) Explain clearly the purpose of communicating key audit matters.

**(3 Marks)**

- (d) Explain with examples the audit procedure to establish the existence of intangible fixed assets as at the period- end.

**(3 Marks)**

**Question 5:**

- (a) Explain Propriety Audit?

**(3 Marks)**

- (b) 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)**

- (c) In what condition NPA's should be straight-away classified as doubtful or loss asset as appropriate.

**(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 6:**

- (a) Mention the special steps involved in the audit of cinema.

**(4 Marks)**

**(b)** How would you vouch/verify the following:

- (1) Advertisement Expenses.
- (2) Sale of Scrap.

**(4 Marks)**

**(c)** Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO, 2016.

**(3 Marks)**

**(d)** Explain how would you deal as an auditor if, as a result of a misstatement resulting from fraud or suspected fraud, you encounter exceptional circumstances that bring into question your ability to continue performing the audit.

**(3 Marks)**

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