

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

DATE: 16.09.2022

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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

1. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called-
 - (a) Negative confirmation request
 - (b) Non-response
 - (c) Exception
 - (d) Positive confirmation request

2. Statement (1): Reliability of data to be compared depends upon the control over preparation of information.
Statement (2): The development of expectation as per SA-520 need not be precise.
 - (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true

3. Under Section 141, a firm shall be eligible for appointment as auditor of a company if-
 - (a) All of its partners are chartered accountants
 - (b) At least 2 of the partners are chartered accountants
 - (c) Majority of the partners are chartered accountants
 - (d) At least 4 of the partners are chartered accountants

4. Which of the following is fund based advance :
 - (a) Term loans
 - (b) Cash credits
 - (c) Demands loans
 - (d) All of the above

5. If the auditor is facing threat from the client to be dismissed if he refuses to act as per their wishes, it shall give rise to-
 - (a) Familiarity threat
 - (b) Advocacy threat
 - (c) Self review threat
 - (d) Intimidation threat

6. 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

7. (i) Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work.
(ii) Statements are issued by ICAI with a view to secure compliance by members on some matters.
(iii) Guidance notes are recommendatory in nature.
(iv) Statements are mandatory in nature.
(a) All the above statements are correct.
(b) Statements 1 & 2 are correct
(c) Statements 1, 2 & 3 are correct
(d) Statements 1,2 & 4 are correct
8. The frequency of surprise check is-
(a) One-tenth of total time devoted to audit
(b) One-fifth of total time devoted to audit
(c) One-third of total time devoted to audit
(d) To be determined by auditor
9. Audit risk is a function of the
(a) risks of material misstatement and detection risk.
(b) audit risk and detection risk.
(c) control risk and detection risk.
(d) inherent risk and detection risk.
10. The overall attitude and awareness of those charged with governance (i.e. an entity's board of directors) concerning the importance of internal control usually is reflected in its:
(a) Computer-based controls.
(b) System of segregation of duties.
(c) Control environment.
(d) Safeguards over access to assets.
11. The preconditions for an audit implies-
(a) The use by management of acceptable FRF
(b) Their responsibility regarding premises on which audit is conducted
(c) Both (a) and (b)
(d) None of these
12. Which of the following factors most likely would heighten an auditor's concern about the risk of fraudulent financial reporting?
(a) Large amounts of liquid assets that are easily convert into cash.
(b) Low growth and profitability as compared to other entities in the same industry.
(c) Financial management participation in the initial selection of accounting principles.
(d) An overly complex organization structure involving unusual lines of authority.
13. In stratified random sampling-
(a) Sample is taken from whole of the population
(b) It required 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

14. If any case has been filed against the published for breach of copyright as at balance sheet date, the auditor need not-
- (a) Check adequacy of disclosure in financial statements
 - (b) Seek experts opinion
 - (c) Both option (a) and option (b)
 - (d) None of option (a) and option (b)
15. Statement (1): Auditor shall update and change the overall audit strategy and audit plan.
Statement (2): Auditor shall update the audit plan; however, overall audit strategy should not be changed during the course of audit.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true
16. Under Section 144, the auditor of the company shall not provide the following services-
- (a) Taxation advice
 - (b) Review of interim financial information
 - (c) Actuarial services
 - (d) All of these
17. As per SA-330, if auditor obtains audit evidence about operating effectiveness of controls during interim period, the auditor shall not-
- (a) Consider significant changes to those controls
 - (b) Determine additional audit evidences to be obtained for remaining period
 - (c) Both (a) and (b)
 - (d) None of these
18. When examining the debtors of the client, the Auditor should make comparison of-
- (a) Closing balance of debtor with corresponding figure of last year
 - (b) Closing balance of debtor with budgeted figure
 - (c) Current year aging schedule with that of last year
 - (d) All of these
19. In emphasis of matter paragraph, the auditor should write that his opinion is _____ in respect of the matter-
- (a) Qualified
 - (b) Not qualified
 - (c) Modified
 - (d) Any of these
20. Management expert is an individual possessing expertise in a field other than _____ whose work in that field is used by _____
- (a) Accounting; management
 - (b) Accounting or auditing; entity
 - (c) Accounting or auditing; auditor
 - (d) Accounting; auditor

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. For determining the applicability of CARO to the private limited company while computing the limit of 1 crores for paid up capital and reserves and surpluses, _____ should be taken into consideration-
- (a) Capital reserves
 - (b) Revenue reserves
 - (c) Both option (a) and option (b)
 - (d) None of these as it is only w.r.t. paid up capital
22. In the case of NGO, the grant towards _____ is used to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries-
- (a) Donation
 - (b) Revolving fund
 - (c) Corpus fund
 - (d) Capital fund
23. Which of the following factors is most important concerning an auditor's responsibility to detect errors and fraud?
- (a) The susceptibility of the accounting records to intentional manipulations, alterations and the misapplication of accounting principles.
 - (b) The probability that unreasonable accounting estimates result from unintentional bias or intentional attempts to misstate the financial statements.
 - (c) The possibility that management fraud, defalcations, and the misappropriation of assets may indicate the existence of illegal acts.
 - (d) The risk that mistakes falsifications and omissions may cause the financial statements to contain material misstatements.
24. Which of the following is necessary in a financial statement audit?
- (a) An understanding of internal control relevant to each of an entity's operating units.
 - (b) An understanding of internal control relevant to each of an entity's business functions.
 - (c) An understanding of internal control relevant to each of an entity's reporting objective.
 - (d) An understanding of internal control relevant to each of an entity's compliance objective.
25. Statement 1. Verification of assets and liabilities by auditor shall include valuation as well-
- Statement 2. Vouching being of routine matter is generally conducted by junior staff or audit clerks-
- (a) Only statement 1 is true
 - (b) Only statement 2 is true
 - (c) Both the statements are true
 - (d) None of the statement is true

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) Low acceptable sampling risk required large sample.
- (ii) If the purpose of an audit procedure is to test for understatement in the existence or valuation of accounts payable then testing the recorded accounts payable may be relevant audit procedure.
- (iii) Audit notes can serve as a guide in framing Audit programme.
- (iv) The auditor's substantive procedure at the assertion level means substantive analytical procedures only.
- (v) As per Section 139(8) of the Companies Act, 2013, any casual vacancy in the office of an auditor shall in case of a company other than a company whose accounts are subject to audit by an auditor appointed by Comptroller and Auditor General of India, be filled by the Shareholders at an Annual General Meeting within 60 days.
- (vi) Terms of engagement must not be decided in advance.
- (vii) The policy of income recognition, in case of a Bank, should be subjective.
- (viii) Article 151 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.

(2 x 7 = 14 Marks)

Question 2:

- (a)** "Risk of material misstatement at the assertion level for classes of transactions, account balances and disclosures need to be considered." Explain stating the different categories of assertions used by the auditor.

(4 Marks)

- (b)** Comment on the following:

- (a) Due to the resignation of the existing auditor(s), the Board of directors of X Ltd. appointed Mr. Harias the auditor. Is the appointment of Hari as auditor valid?
- (b) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted?

(4 Marks)

- (c)** Audit Committee is to be formed by each and every company and the auditor has right to vote in the meeting of such Audit Committee. Comment.

(3 Marks)

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

(3 Marks)

Question 3:

- (a)** With reference to SA 320, indicate the factors which may affect the identification of an appropriate bench mark in determining materiality for the financial statement as a whole.

(4 Marks)

- (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 Marks)
- (c) The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. Explain stating important objectives of audit of such bodies.
(3 Marks)
- (d) Explain Auditor's right to-
Obtain information and explanation from officers
(3 Marks)

Question 4:

- (a) State the circumstances where the auditing through the computer must be used.
(4 Marks)
- (b) GSR & Co. has been appointed as an auditor of Tagore School. Engagement team wants to verify Fees from students in detail. Advise the audit procedure to be followed by the engagement team.
(4 Marks)
- (c) The firm should **establish policies and procedures** designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. Explain in the above context the purpose of monitoring compliance with quality control policies and procedures.
(3 Marks)
- (d) 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)

Question 5:

- (a) 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)

(b) Audit testing done through Statistical sampling is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances. Explain and also state advantages of Statistical sampling.

(4 Marks)

(c) The CC Ltd., a Pharmaceutical Company, while valuing its finished inventory at the year-end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses. Comment.

(3 Marks)

(d) The risks of material misstatement may exist at the financial statement level and assertion level. Explain the two levels.

(3 Marks)

Question 6:

(a) State how would you verify the Buildings.

(4 Marks)

(b) In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognize income on non-performing assets until it is actually realised. When a credit facility is classified as non-performing for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. This will apply to Government guaranteed accounts also. Analyse and Explain.

(4 Marks)

(c) If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, explain how would the auditor investigate such differences. Explain techniques available as substantive analytical procedures.

(3 Marks)

(d) Should branch auditor of a company comply with the request of the principal auditor of the company to give photocopy of the working papers pertaining to the branch audit? Explain.

(3 Marks)

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