

**(GI-10, GI-11, VI-2(A) & AI-2(A), DI-1+2 & Drive)**

DATE: 20.02.2024

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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

1. \_\_\_\_\_ is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non occurrence of one or more uncertain future events not wholly within the control of the entity:-
  - (a) Provisions
  - (b) Reserves
  - (c) Contingent Liabilities
  - (d) Liability
2. In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures is known as :
  - (a) Monitoring
  - (b) Inspection
  - (c) Subsequent Audit procedures
  - (d) Compliance procedures
3. The concept of materiality is applied by the auditor:
  - (a) in planning and performing the audit
  - (b) in evaluating the effect of identified misstatements on the audit
  - (c) both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit
  - (d) none of the above is correct
4. \_\_\_\_\_ in which the auditor selects the sample without following a structured technique.
  - (a) Haphazard selection,
  - (b) Monetary Unit Sampling
  - (c) Block Sampling
  - (d) Structured Sampling
5. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :
  - (a) management
  - (b) those charged with governance
  - (c) audit committee
  - (d) board of directors
6. The tools and techniques that auditors use in applying the principles of data analytics are known as:
  - (a) Data analytics tools
  - (b) Computer Assisted Auditing Techniques or CAATs in short
  - (c) Analytics tools and techniques
  - (d) System generated tools

7. \_\_\_\_\_ Exists when an internal control is either missing or not operating effectively to prevent or detect a misstatement in a timely manner by management
- Significant Deficiency
  - Operating Deficiency
  - Management Control Deficiency
  - Control Deficiency
8. \_\_\_\_\_ requires firms to establish policies and procedures for the retention of \_\_\_\_\_. The retention period for audit engagements ordinarily is no shorter than from the date of the auditor's report, or, if later, the date of the group auditor's report
- SA 220, audit evidence, six years
  - SA 200, audit documentation, seven years
  - SQC 1, engagement documentation, seven years
  - SA 230, documentation, six years
9. In designing and performing test of controls, the auditor shall perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
- How the controls were applied at relevant times during the period under audit.
  - The consistency with which they were applied.
  - By whom or by what means they were applied.
- (i) and (ii)
  - (ii) and (iii)
  - (i),(ii) and (iii)
  - (i) and (iii)
10. In addition to the audit certificate in the prescribed form and various schedules, the auditor of a Co-operative society in the applicable State has to answer two sets of questionnaires called as
- Internal Control Questionnaires
  - Audit Supplements
  - Audit Memos
  - Memorandum reports
11. To jointly audit books of accounts of WZ Limited for the financial year 2020-21 two different firms of Chartered Accountants namely MH and Associates and NR and Associates were appointed. MH and Associates and NR and Associates can together be called as:
- Principal Auditors of WZ Limited.
  - Branch Auditors of WZ Limited.
  - Individual Auditors of WZ Limited.
  - Joint Auditors of WZ Limited.
12. Mr. H and his team members carefully watched the whole process of counting of finished wooden doors by employees of Bottom Limited. This is an example of which audit procedure:
- External Confirmation.
  - Observation.
  - Inquiry.
  - Inspection.

13. Under section 43(h) of the Central Act, who can frame rules prescribing the books and accounts to be kept by a co-operative society?
- (a) Central Government
  - (b) State Government
  - (c) Management Committee of the Society.
  - (d) Secretary of the Co-operative Society.
14. is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism.
- (a) Familiarity threat
  - (b) Advocacy threat
  - (c) Self Review threat
  - (d) Intimidation threat
15. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :
- (a) management
  - (b) those charged with governance
  - (c) audit committee
  - (d) board of directors
16. As per SA-210, preconditions for an audit do not include which of the following?
- (a) Acceptability of financial reporting framework
  - (b) Responsibility of management regarding preparation of financial statements
  - (c) Making available records to the auditor
  - (d) Integrity of key management personnel
17. An auditor signs a false audit report knowingly. Which of the following fundamental principles of professional ethics is violated in such a case?
- (a) Objectivity
  - (b) Integrity
  - (c) Professional Competence and due care
  - (d) Professional behaviour
18. Which of the following statements is MOST APPROPRIATE?
- (a) Audit programme is a detailed plan of audit strategy
  - (b) Audit programme cannot be reviewed
  - (c) Audit programme is a detailed plan of applying audit procedures
  - (d) Audit programme is relevant for year for which it is prepared, it is useless for subsequent years.
19. A company is engaged in business of obtaining eggs from one day old chicks. Which of the following is NOT an example of an event or condition that may cast significant doubt on the ability of the company to continue as a going concern?
- (a) Mortality of 90% of livestock of the company
  - (b) Decision by govt to ban commercial rearing of birds amidst protests by activists for preventing cruelty to animals
  - (c) Shifting of farm labour to respective villages due to MGNREGA scheme of Govt causing acute scarcity throughout the year
  - (d) Increase in cost of feed of chicks by 20% during the year

20. "Letters of credit" and "Foreign bills purchased and discounted" are examples of respectively:
- (a) Funded facility and non- funded facility
  - (b) Non-funded facility and funded facility
  - (c) Funded facility and funded facility
  - (d) Non-funded facility and Non-funded facility

---

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

---

Suresh Rana & Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller & Auditor General for the FY 2019-20. HAIL Ltd. is a Government company engaged in the manufacture of metro train coaches. During the course of audit, CA Suresh extended his scope of audit to cover efficiency, effectiveness and economy audit. CA Suresh Rana also asked his audit team to conduct expenditure audit as part of the audit engagement of HAIL Ltd.

During the course of audit, CA Suresh also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. Suresh considered such expenditure as infructuous and avoidable expenditure.

The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.

Based on the above facts, answer the following:-

21. Statement 1: Government audit provides public accounting of operational, management programme and policy aspects of public administration as well as accountability of officials administering them.  
Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.
- (a) Only statement 1 is correct
  - (b) Only statement 2 is correct
  - (c) Both 1 & 2 are correct
  - (d) Both 1 & 2 are incorrect
22. \_\_\_\_\_ is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them:-
- (a) Propriety audit
  - (b) Audit against Rules and orders
  - (c) Performance Audit
  - (d) Audit against Provision of funds
23. While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check:-
- (a) That each item of expenditure is covered by a sanction either general or special of a competent authority.
  - (b) That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made.
  - (c) That the expenditure conforms to the relevant provision of the constitution.
  - (d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.

24. Which part of expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Suresh Rana?
- Propriety Audit
  - Audit against provision of funds
  - Audit of sanctions
  - Performance Audit
25. While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?
- Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd.
  - Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or wilful omission or negligence to levy or collect taxes or to issue refunds.
  - Whether the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
  - Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.
- Only statement 1 is correct
  - Statements 1 & 2 are correct
  - Statements 1,2,3,4 are correct
  - Statements 1,2,3 are correct

---

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

---

**Question 1:****Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)**

- Familiarity threats, which occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees.
- The auditor's opinion helps determination of the true and correct view of the financial position and operating results of an enterprise.
- When establishing the overall audit strategy, the auditor need not determine materiality for the financial statements as a whole.
- The policy of income recognition, in case of a Bank, should be subjective.
- The assignment is the creation of an equitable charge which is created in favor of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower.
- The primary responsibility for the prevention and detection of fraud rests with Auditors.
- 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.

- (viii) In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments.  
**(2 x 7 = 14 Marks)**

**Question 2:**

- (a) Discuss the points to be considered by auditor for the purpose of constructing an audit programme.  
**(4 Marks)**
- (b) "Before the commencement of audit, the joint auditors should discuss and develop a joint audit plan." Discuss the points to be considered in developing the joint audit plan by the joint auditors.  
**(4 Marks)**
- (c) Ramesh, who recently join a CA Firm, as a trainee is of the view, that audit concerned with activities related to operating as well financial in nature. As a senior, make him understand what does scope of audit includes.  
**(3 Marks)**
- (d) Professional Integrity & Independence are essential characteristics of all professions but more in case of accounting profession. But concept of independence is nowhere explained precisely.  
Explain the term independence & its interlinked perspectives.  
**(3 Marks)**

**Question 3:**

- (a) A trust operating in Noida, appointed CA Prakash, as an auditor, being new in practice he is unaware of matters to be included in working paper of trust enlighten CA Prakash.  
**(4 Marks)**
- (b) In determining whether it is appropriate to use audit evidence about operating effectiveness of control obtained in previous audit. What factors auditor shall consider?  
**(4 Marks)**
- (c) Local Fund Audit Wing of a State of a State Government has appointed you to audit the accounts of one of the Local body governed by it. As an auditor, what will be your reporting areas?  
**(3 Marks)**
- (d) The form, content and extent of audit documentation depends upon number of factors. List out any four such factors.  
**(3 Marks)**

**Question 4:**

- (a) Discuss the reporting requirements under CARO 2020, with respect to the moneys raised by the company by way of initial public offer or further public offer and where the company has made any preferential allotment or private placement of shares.  
**(4 Marks)**

- (b) In light of SA - 315, auditor shall obtain understanding of information system, including related business processes, relevant to financial reporting highlight the areas of focus. **(4 Marks)**
- (c) M/s. Z & Z, appointed as auditor of NSP Ltd., prior to completing the audit engagement, is requested to change audit engagement to engagement that conveys a lower level of assurance. If M/s Z & Z concludes that there is reasonable justification in doing so, then how CA firm should function? **(3 Marks)**
- (d) While auditing accounts of bank, it is noticed that an account of a borrower has become out of order. Discuss the term "Out of Order". **(3 Marks)**

**Question 5:**

- (a) Validity and consequence of issue of shares at discount, check with respect to the provisions of the Companies Act, 2013. **(3 Marks)**
- (b) Explain any four disclosures as required under Schedule III (Part I) of Companies Act 2013, under head long term borrowings. **(4 Marks)**
- (c) While conducting the audit of Amrit Ltd. the auditor A of ABC and Associates, Chartered Accountants observes that there are a large number of trade receivables standing in the books of account as on 31st March. The auditor wanted to send confirmation request to a few large trade receivables but the management refused the auditor to send confirmation request. How would the auditor proceed? **(4 Marks)**
- (d) Explain the following terms with reference to Audit Sampling :  
(i) Stratification  
(ii) Tolerable misstatement  
(iii) Tolerable rate of deviation **(3 Marks)**

**Question 6:**

- (a) When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor has determined that management of XYZ Ltd has already performed a preliminary assessment of the entity's ability to continue as a going concern. Explain how would auditor of XYZ Ltd proceed in the above case.  
Also explain how would the auditor proceed if such an assessment has not yet been performed by the management. **(4 Marks)**
- (b) In accordance to SA-580, written representation, auditor request certain information from knowledgeable person. What other matters it may include as per other SAs, about financial statements apart from management's responsibility to prepare financial statement as per applicable FRF. **(4 Marks)**

**(c)** Assertions are used by auditor to consider different types of Potential Misstatements. Explain any three assertions for presentation & disclosure.

**(3 Marks)**

**(d)** What matters may affect the timing & extent of audit procedures, when auditor uses work of management's expert.

**(3 Marks)**

\_\_\*\*\_\_