

**Notes :**

1. Question Paper comprises two part, Part I and Part II
2. Part I is having multiple choice Questions which is compulsory
3. Part II Comprise descriptive Questions and in which Question No. 1 is Compulsory and answer any 4 out of remaining 5 questions
4. Answer new Question on new page.

**Part I**

**QUESTION NO.**

- (1) 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

**(1 Mark)**

- (2) Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of \_\_\_\_\_

- (a) Independence
- (b) Professional judgement
- (c) Professional skepticism
- (d) All of the above

**(1 Mark)**

- (3) Which of the following is not an assertion about presentation and disclosure:

- (a) Occurrence and rights and obligations
- (b) Completeness
- (c) Classification and understandability
- (d) Existence

**(1 Mark)**

- (4)** 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
- (1 Mark)**
- (5)** Which of the following is source of Non Sampling risk :
- (a) Human Mistakes
  - (b) Applying audit procedures not appropriate to the objectives of audit
  - (c) Misinterpreting the sample results
  - (d) All of the above
- (1 Mark)**
- (6)** Which of the following is fund based advance :
- (a) Term loans
  - (b) Cash credits,
  - (c) Demand Loans
  - (d) All of the above
- (1 Mark)**
- (7)** An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of \_\_\_\_\_ exercised in performing the work and evaluating the results.
- (a) professional skepticism
  - (b) professional integrity
  - (c) professional judgment
  - (d) Professional sincerity
- (1 Mark)**
- (8)** The firm's system of quality control should include policies and procedures addressing which of the following element:
- (a) Leadership responsibilities for quality within the firm.
  - (b) Ethical requirements.
  - (c) Acceptance and continuance of client relationships and specific engagements.

(d) All of the above

**(1 Mark)**

**(9)** Once the overall audit strategy has been established, \_\_\_\_\_ can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

(a) audit strategy

(b) audit plan

(c) audit plan and audit strategy

(d) audit note book

**(1 Mark)**

**(10)** When credit purchases of Rs. 5,100 is recorded on credit side and credit sales of Rs. 5,100 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

**(1 Mark)**

**(11)** ABC's investee company- XYZ declares final dividend for financial year 2016-17 in the meeting of board of directors held on April 10, 2017. In which financial year should ABC account for the dividend income:

(a) Proportionately i.e. considering 10 days of financial year 2017-18 and 355 days of financial year 2016-17

(b) Financial year 2016- 17

(c) Financial year 2017- 18

(d) Equally between financial year 2016-17 and financial year 2017-18

**(2 Marks)**

**(12)** The auditor shall express \_\_\_\_\_ 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.

(a) Adverse

(b) Qualified

(c) Disclaimer

(d) None of the above

**(2 Marks)**

- (13)** 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

**(2 Marks)**

- (14)** SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is :
- (a) no shorter than eight years from the date of the auditor's report, or, if later, the date of the group auditor's report.
  - (b) no shorter than six years from the date of the auditor's report, or, if later, the date of the group auditor's report.
  - (c) no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
  - (d) no shorter than ten years from the date of the auditor's report, or, if later, the date of the group auditor's report.

**(2 Marks)**

- (15)** Because the assessment of the risk of material misstatement takes account of internal control,
- (a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.
  - (b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
  - (c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.
  - (d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.

**(2 Marks)**

**(16)** \_\_\_\_\_ 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

**(2 Marks)**

**(17)** SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SA more recognizable. Which of the following is the specific heading:

- (a) Key audit matters
- (b) Basis of opinion
- (c) Date
- (d) All of the above

**(2 Marks)**

**(18)** Obtaining trade receivables ageing report and analysis and identification of doubtful debts is performed during audit of accounts receivable balances to address the following balance sheet assertion:

- (a) Valuation
- (b) Rights and obligations
- (c) Existence
- (d) Completeness

**(2 Marks)**

**(19)** 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

**(2 Marks)**

**(20)** 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.

**(2 Marks)**

## Part II

### Question No. 1

Examine with reasons whether the following statements are correct or incorrect. (Answer any seven out of eight)

- (a) The basic objective of audit does not change with reference to nature, size or form of an entity.
- (b) As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor.
- (c) 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.
- (d) Fraud can be termed as intentional error.
- (e) A capital reserve, generally, can be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realized.
- (f) Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.
- (g) In the computerised environment, the auditor need not be familiar with latest applicable RBI guidelines that have bearing on the classification/ provisions and income recognition.
- (h) The method which involves dividing the population into groups of items is known as block sampling.

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

### Question No. 2

- (A) The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats.

In the above context, explain the guiding principles.

**(3 Marks)**

(B) Evolving one audit programme applicable to all business under all circumstances is not practicable. Explain.

**(3 Marks)**

(C) 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 organizations where audit is not compulsory. Explain.

**(4 Marks)**

(D) Briefly discuss the limitations of Internal Control.

**(4 Marks)**

**Question No. 3**

(A) Explain clearly objective of the auditor regarding written representation.

**(3 Marks)**

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

**(3 Marks)**

(C) Companies prepare their financial statements in accordance with the framework of generally accepted accounting principles (Indian GAAP), also commonly referred to as accounting standards (AS). In preparing financial statements, Company's management makes implicit or explicit claims (i.e. assertions) regarding assets, liabilities, equity, income, expenses and disclosures in accordance with the applicable accounting standards. Explain with example stating the relevant assertions involved in this regard. Also explain financial statement audit.

**(4 Marks)**

(D) When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions. Explain the other relevant points in this context.

**(4 Marks)**

**Question No. 4**

(A) Explain the significant points auditor would consider while developing an audit programme.

**(4 Marks)**

(B) An auditor purchased goods worth Rs. 501,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers. Comment.

**(3 Marks)**

(C) Explain the duties of Auditor to inquire under Section 143 (1) of the Companies Act, 2013.

**(4 Marks)**

(D) 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 be auditor investigate such differences.

**(3 Marks)**

**Question No. 5**

**(A)** Explain the Audit Procedure regarding comparative information.

**(3 Marks)**

**(B)** The first auditors of Bhartiya Petrol Ltd., a Government company, were appointed by the Board of Directors. Analyse.

**(4 Marks)**

**(C)** Under what circumstances the retiring Auditor cannot be reappointed?

**(4 Marks)**

**(D)** Detection of manipulation of accounts with a view to presenting a false state of affairs is a task requiring great tact and intelligence. Explain stating clearly how this type of fraud is generally committed.

**(3 Marks)**

**Question No. 6**

**(A)** Advances generally constitute the major part of the assets of the bank. There are large number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors. In carrying out audit of advances, the auditor is primarily concerned with obtaining evidence about, among other points, the amounts included in balance sheet in respect of advances are outstanding at the date of the balance sheet. Explain

**(4 Marks)**

**(B)** Explain the powers and duties of auditors under the Multi-State Co-operative Societies Act, 2002.

**(4 Marks)**

**OR**

**(B)** An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what do you understand by:

- (i) Audit against Rules and Orders
- (ii) Audit of Sanctions
- (iii) Audit against Provision of Funds
- (iv) Propriety Audit

**(4 Marks)**

**(C)** Discuss the situations in which IT will be relevant to an audit.

**(3 Marks)**

**(D)** While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?

**(3 Marks)**