

PART A- Multiple Choice Questions

Questions (1-20) carry 1 Mark each

Total 30 Marks

Questions (21-25) carry 2 Marks each

1. When planning the audit,
 - a. the auditor considers what would make the financial information materially misstated.
 - b. the auditor need not consider what would make the financial information materially misstated.
 - c. the auditor need not consider what would make the financial information materially misstated at planning stage
 - d. the auditor needs to consider what would make the financial information materially misstated while conducting audit only
2. Section 139(7) provides that in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India _____ from the date of registration of the company.
 - a. within 60 days
 - b. within 30 days
 - c. within 90 days
 - d. within 45 days
3. Which of the following is correct :
 - a. As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
 - b. As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting.
 - c. As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its extra ordinary general meeting.
 - d. As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its Board meeting or in such manner as may be determined therein.
4. Which of the following is correct :
 - a. When the projected misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - b. When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - c. When the anomalous misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - d. When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample provides a reasonable basis for conclusions about the population that has been tested.

5. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request is-
 - a. Positive confirmation request
 - b. Non-response
 - c. Exception
 - d. Negative confirmation request
6. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express :
 - a. a disclaimer opinion
 - b. a qualified opinion
 - c. a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
 - d. unmodified opinion
7. Where a company is required to constitute an Audit Committee under section 177,
 - a. all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.
 - b. all appointments, excluding the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.
 - c. appointment of first auditors shall be made after taking into account the recommendations of such committee.
 - d. appointment of subsequent auditors shall be made after taking into account the recommendations of such committee.
8. Which of the following is incorrect :
 - a. In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property.
 - b. Under section 128 of the Act, books of account of a company must be kept at the registered office. These provisions ordinarily make it impracticable for the auditor to have possession of the books and documents.
 - c. The company provides reasonable facility to auditor for inspection of the books of account by directors and others authorised to inspect under the Act.
 - d. working papers not being his own property, auditor can exercise lien on working papers.
9. Judging the significance of a matter requires ___ of the facts and circumstances.
 - a. objective analysis
 - b. subjective analysis
 - c. Both subjective and objective analysis
 - d. qualitative analysis
10. Which of the following is correct :
 - a. A firm whereof all the partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - b. A firm whereof majority of partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - c. A firm whereof all the partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - d. A firm whereof majority of partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.

- 11.** Planning an audit involves establishing the overall audit strategy for the engagement and
- (a) developing an audit plan.
 - (b) developing an audit program
 - (c) developing detailed strategy
 - (d) any of the above
- 12.** Professional skepticism is necessary to the critical assessment of
- (a) audit documentation
 - (b) audit evidence.
 - (c) audit procedures
 - (d) All of the above
- 13.** Components of risk of material misstatement at the assertion level are :
- (a) Inherent risk and detection risk
 - (b) inherent risk and control risk
 - (c) control risk and detection risk
 - (d) inherent risk, control risk and detection risk
- 14.** When an auditor deals with shares or securities of the audited company is an example of :
- (a) Self-review threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats
- 15.** _____ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
- (a) Misstatement
 - (b) Error
 - (c) fraud
 - (d) Any of the above
- 16.** Which of the following is not an example of audit documentation:
- (a) Audit programmes
 - (b) Summaries of significant matters
 - (c) Audit file
 - (d) Checklists.
- 17.** The format of audit report in case of banks is prescribed by
- | | |
|----------------------------------|------------------------------|
| a) Reserve Bank of India | b) The ICAI |
| c) Ministry of Corporate affairs | d) No such format prescribed |
- 18.** Auditor of co-operative Society is appointed by
- | | |
|--------------|---|
| a) Members | b) Central Government |
| c) Registrar | d) Comptroller and Auditor General of India |

19. Which of the following services are not prohibited u/s 144

- (a) Tax Audit
- (b) Internal Audit
- (c) Investment Banking
- (d) Actuarial Sciences

20. Tests of control are not concerned with_

- a) Existence of controls
- b) Effectiveness of controls
- c) Continuity of controls
- d) Designing of controls

(20 x 1 = 20 Marks)

21. Audit procedures to obtain audit evidence can include

- (a) inspection, observation, confirmation, recalculation, re-performance and analytical procedures
- (b) inspection, observation, confirmation, recalculation and re-performance
- (c) inspection, observation, confirmation and analytical procedures
- (d) inspection, observation, recalculation, re-performance and analytical procedures

22. An entity in addition to undertaking purchases and incurring employee benefit expenses also spends on other expenditure that are essential and incidental to running of business operations. One of such expenses is the legal and professional expenses. These are the fees paid for professional advices regarding specific deals.

Iconic Ltd. is having a retainership agreement with a lawyer, Mr. Avi, to whom the company is paying a huge sum as legal and professional expenses on monthly basis. While vouching such expenses, what should be kept in mind by the auditor?

- (a) In case of monthly retainership agreements, only verify if the expenditure for all 12 months has been recorded correctly.
- (b) The auditor should verify that the payments have been only through bank vouchers.
- (c) The auditor should be cautious while vouching for legal expenses as the same may highlight a dispute for which the entity may not have made any provision and the matter may also not have been discussed/ highlighted to the auditor for his specific consideration.
- (d) In case of monthly retainership agreements, only verify that all the payments have been made and there is no outstanding balance to be shown as liability in the Balance Sheet.

23. 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.

24. Which of the following is correct :

- (a) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor need not disclose the substantive reasons for the different opinion.
- (b) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.
- (c) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an emphasis of Matter paragraph in accordance with SA 706.
- (d) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph or emphasis of matter paragraph in accordance with SA 706.

25. Which of the following is incorrect :

- (a) According to Section 140(1), the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014-
- (b) The application to the Central Government for removal of auditor shall be made in Form ADT -2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- (c) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
- (d) The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution.

(5 x 2 = 10 Marks)

Division B- Descriptive Questions

Question No. 1 is compulsory.

Attempt any **four** questions from the Rest.

Total 70 Marks

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

- (i) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven.
- (ii). The auditor shall express an adverse opinion when:
 - (a). The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b). The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive
- (iii). There is no need to put the nature of engagement to writing.
- (iv). The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
- (v) The preparation of financial statements does not involve judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity.
- (vi) Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- (vii). According to Section 53 of the Companies Act, 2013, a company can issue shares at a discount.
- (viii). Subjective examination connotes critical examination and scrutiny of the accounting statements.

(2*7= 14 marks)

QUESTION 2(A)

(4 MARKS)

State four important advantages of audit of accounts of a Partnership firm.

QUESTION 2(B)

(6 MARKS)

State assertions that are implied in the extract of financial statement given below:

			(Rs.)
Less:	Plant & Machinery (at Cost)		4,00,000
	<u>Depreciation:</u>		
	Up to Previous year	1,40,000	
	For the year	<u>26,000</u>	<u>1,66,000</u>
			<u>2,34,000</u>

- (i) Indicate assertions in respect of transactions and events for the period relating to Fixed Assets.
- (ii) State specific assertions relating to the above extract of financial statement.

QUESTION 2(C)

(4 MARKS)

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

QUESTION 3(A)

(5 MARKS)

Advise any five special points in an audit of hospital.

QUESTION 3(B)

(5 MARKS)

The auditor A of ABC & Co.- firm of auditors is conducting the audit of XYZ Ltd and while performing testing of additions wanted to verify that all PPE (Property Plant and Equipment) purchase invoices are in the name of the entity he is auditing. For all additions to land, building in particular, the auditor desires to have concrete evidence about ownership. The auditor is worried about whether the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor.

QUESTION 3(C)

(4 MARKS)

There is a growing realisation that the traditional approach to audit is economically wasteful because all efforts are directed to check all transactions without exception. Explain

QUESTION 4(A)

(6 MARKS)

The auditor of XYZ Ltd, engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether:

- (i) Management has created and maintained a culture of honesty and ethical behavior; and
- (ii) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment.

QUESTION 4(B)

(5 MARKS)

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

QUESTION 4(C)

(3 MARKS)

What are the provisions prescribed under Companies Act, 2013 in respect of ceiling on number of audits in a company to be accepted by an auditor?

QUESTION 5(A)

(3 MARKS)

An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so. Explain stating the factors based on which client can request the auditor to change the engagement.

QUESTION 5(B)**(3 MARKS)**

The fundamental principle of an automated environment is the ability to carry out business with less manual intervention. Explain.

QUESTION 5(C)**(4 MARKS)**

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.

QUESTION 5(D)**(4 MARKS)**

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain.

QUESTION 6(A)**(8 MARKS)**

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.

QUESTION 6(B)**(6 MARKS)**

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Analyse and Explain.

OR

QUESTION 6(B)**(6 MARKS)**

Define Emphasis of Matter paragraph. When the auditor shall include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's report?