

PART – I (MCQ)

MCQ NO.1 to 10 carries 1 mark each

MCQ NO.11 to 20 carries 2 marks each

M/s NSG & Associates have been appointed as auditors of Viaan Ltd. for the financial year 2019-20. The processes, operations, accounting and decisions are carried out by using computers in Viaan Ltd. The auditors understand that there are several aspects that they should consider to determine the level of automation and complexity in the business environment of Viaan Ltd. While planning the audit work, the engagement partners discussed with the audit staff about the various types of controls in the automated environment.

The different types of audit tests that can be used in audit of an automated business environment were also discussed within the engagement team. The responsibility regarding the Internal Financial Controls was also discussed in detail. Further the tools and techniques that can be used to deal with the enormous data and information of Viaan Ltd. were briefed to the audit staff by the engagement partners.

Based on the above facts, answer the following MCQ from 1 to 5:

1. _____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.
 - (a) Application Controls
 - (b) IT dependent Controls
 - (c) Automated Controls
 - (d) General IT Controls

2. Statement 1: Application controls include both manual and automated controls that operate at a business process level.
Statement 2: General IT Controls apply to mainframe, miniframe as well as end user environment.
 - (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both Statements 1 & 2 are correct
 - (d) Both Statements 1 & 2 are incorrect

3. _____ are also known as pervasive or indirect controls :-
 - (a) General IT Controls
 - (b) Application Controls
 - (c) IT dependent Controls
 - (d) None of the above

4. Which of the following are not the types of audit tests that can be used in the audit in an automated environment?

- (a) Observation
 - (b) Inspection
 - (c) Re performance
 - (d) None of the above
5. _____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information:-
- (a) Computer Assisted Audit Techniques
 - (b) Automated Controls
 - (c) Data Analytics
 - (d) None of the above
6. Which of the following is not classification of NPA?
- (a) Impaired
 - (b) sub standard
 - (c) doubtful
 - (d) Loss
7. With respect to the forms specified by companies (Cost Records & Audit) Rule 2014, which of the following is incorrect combination:
- (a) Form CRA 1- Maintenance of cost records by the Company.
 - (b) Form CRA 2- Intimation of appointment of another cost auditor to Central Government.
 - (c) Form CRA 3- Submission of Cost Audit Report to the Board of Directors of the company.
 - (d) Form CRA 4- Submission of Cost Audit Report by the company to the Registrar.
8. Standard on Quality Control (SQC) 1 provides that,
- (a) unless otherwise specified by law or regulation, audit documentation is the property of the management.
 - (b) unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.
 - (c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.
 - (d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.
9. Audit evidence includes
- (a) information contained in the accounting records underlying the financial statements
 - (b) both information contained in the accounting records underlying the financial statements and other information.
 - (c) other information.
 - (d) information contained in the accounting records underlying the financial statements or other information.

10. When deviations from controls upon which the auditor intends to rely are detected,
- (a) the auditor shall not make any inquiries to understand these matters and their potential consequences
 - (b) the auditor shall make specific inquiries to understand these matters and their potential consequences
 - (c) the auditor shall make general inquiries to understand these matters and their potential consequences
 - (d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences

11. Misstatements in the financial statements can arise either from fraud or error. The auditor is concerned with fraud that causes a material misstatement in the financial statements which may further be classified as fraudulent financial reporting or misappropriation of assets.

There are certain events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud which may be termed as fraud risk factors. Which of the following is an example of fraud risk factor relating to misstatements arising from misappropriation of assets?

- (a) Known history of violations of laws and regulations.
 - (b) Management failing to remedy known significant deficiencies in internal control on a timely basis.
 - (c) Inventory items that are small in size, but of high value or in high demand.
 - (d) An interest by management in employing inappropriate means to minimize reported earnings for tax- motivated reasons.
12. Statement 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.
- Statement II Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- (a) Only Statement I is correct
 - (b) Only Statement II is correct
 - (c) Both statements are correct
 - (d) Both Statements are incorrect

13. _____are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client’s interests.
- (a) Familiarity threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats

14. Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), the following persons shall not be eligible for appointment as an auditor of a company, namely-

- (i) a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- (ii) an officer or employee of the company;
- (iii) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (iv) a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. It may be noted that the relative may hold security or interest in the company of face value not exceeding Rs. 1,00,000.

Which of the above is incorrect :

- (a) All statements are incorrect.
 - (b) (i) and (ii)
 - (c) (i) only
 - (d) (iv) only
15. A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue—
- (a) a qualified opinion
 - (b) an adverse opinion
 - (c) a disclaimer of opinion
 - (d) emphasis of matter paragraph.
16. Which of the following is correct as per section 143(10) of the Companies Act, 2013 :
- (a) IFAC may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
 - (b) the International Auditing Standards Board may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
 - (c) the MCA may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
 - (d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
17. 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.

18. While auditing TEN Ltd., CA. Porky divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of TEN Ltd. for the Financial Year 2017-18 into groups on the basis of personal judgment as follows:

S. No.	Particulars
1	Balances in excess of Rs. 10,00,000;
2	Balances in the range of Rs. 7,75,001 to Rs. 10,00,000;
3	Balances in the range of Rs. 5,50,001 to Rs. 7,75,000;
4	Balances in the range of Rs. 2,25,001 to Rs. 5,50,000;
5	Balances Rs. 2,25,000 and below

From the abovementioned groups, CA. Porky picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of Rs.10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following?

- (a) Systematic sampling.
 - (b) Stratified sampling.
 - (c) Section sampling.
 - (d) Selection sampling.
19. Which of the following is correct :
- (a) Under section 128 of the Act, books of account of a company must be kept at the registered office.
 - (b) Under section 128 of the Act, books of account of a company must be kept at the corporate office.
 - (c) Under section 128 of the Act, books of account of a company must be kept at the Head office of the company.
 - (d) Under section 128 of the Act, books of account of a company must be kept at the usual place of business.
20. An Audit report is :
- (a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.

- (b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent.
- (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.
- (d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent.

PART II (Descriptive Questions)

QUESTION.1 is compulsory and attempt any four out of remaining five questions.

QUESTION.1

**Examine with reasons (in short) whether the following statements are correct or incorrect :
(Attempt any 7 out of 8) (7*2 = 14 MARKS)**

1. Preconditions for an audit have not been defined in SA 210 "Agreeing the Terms of Audit Engagements."
2. 'Test of Control' may be defined as an audit procedure designed to detect material misstatements at the assertion level
3. Inquiry is often the most efficient audit testing method, but least effective.
4. Inquiry alone provides sufficient audit evidence of the absence of a material misstatement at the assertion level and of the operating effectiveness of controls.
5. Teeming and lading is one of the techniques of inflating cash payments.
6. It is necessary for the auditor to maintain professional skepticism throughout the audit.
7. An intangible asset is an identifiable monetary asset.
8. The auditor shall express a disclaimer of 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.

QUESTION : 2

- (A)** "An audit is independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."

Explain stating clearly how the person conducting this task should take care to ensure that financial statements would not mislead anybody.

(4 MARKS)

- (B)** Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. for the accounting year 2017-2018. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd. Comment.

(4 MARKS)

- (C)** What does the Valuation assertion mean in respect of Assets, liabilities and equity balances? Explain with the help of example in respect of Inventory. **(3 MARKS)**

(D) Explain the Reporting requirements the auditor should ensure under CARO 2016 related to fixed assets.

(3 MARKS)

QUESTION : 3

(A) Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard.

(4 MARKS)

(B) Define the following :

- (i) Positive confirmation request
- (ii) Negative confirmation request
- (iii) Non-response
- (iv) Exception

(4 MARKS)

(C) Routine checks cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts, certain other procedures also have to be applied like trend and ratio analysis. Analyse and Explain stating clearly the meaning of analytical procedures.

(3 MARKS)

(D) Internal control over safeguarding of assets against unauthorised acquisition, use, or disposition may include controls relating to both financial reporting and operations objectives. Explain stating clearly the objectives of Internal Control.

(3 MARKS)

QUESTION : 4

(A) XYZ Ltd is engaged in trading of electronic goods and having huge accounts receivables. For analysing the whole accounts receivables, auditor wanted to use sampling technique. In considering the characteristics of the population from which the sample will be drawn, the auditor determines that stratification or value-weighted selection technique is appropriate. SA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques. Advise the auditor in accordance with SA 530.

(4 MARKS)

(B) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain.

(4 MARKS)

(C) "Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users." Discuss.

(3 MARKS)

(D) The head accountant of a company entered fake invoices of credit purchases in the books of account aggregate of Rs. 50 lakh and cleared all the payments to such bogus creditor. How will you deal as an auditor ?

(3 MARKS)

QUESTION : 5

(A) At the AGM of HDB Pvt. Ltd., Mr. R was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to pursue his career in banking sector. The Board of Director has appointed Mr. L as the statutory auditor in board meeting within 30 days. Comment on the matter with reference to the provisions of Companies Act, 2013.

(4 MARKS)

(B) It has been suggested that actual operation of the internal control should be tested by the application of procedural tests and examination in depth. Explain with the help of example in respect of the procedure for sales.

(4 MARKS)

(C) What are the obvious assertions in the following items appearing in the Financial Statements?

(i) Statement of Profit and Loss

Travelling Expenditure Rs. 50,000

(ii) Balance Sheet

Trade receivable Rs. 2,00,000

(3 MARKS)

(D) The discussion between members of the engagement team members and the audit engagement partner should be done on the susceptibility of the bank's financial statements to material misstatements. Briefly discuss the points ordinarily included in discussion of the engagement team.

(3 MARKS)

QUESTION : 6

(A) The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of at least three examples.

(4 MARKS)

(B) 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. Analyze and Explain.

(4 MARKS)

(C) Discrepancies in the accounting records, including transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy is one of the example of circumstances that indicate the possibility of fraud. Explain at least four other such examples relating to discrepancies in the accounting records.

(3 MARKS)

(D) In the case of audit of a charitable institution, what attentions should be paid by auditor regarding audit of expenditure items ?

(3 MARKS)