

**PART A- Multiple Choice Questions**

**Questions (1-20) carry 1 Mark each**

**Total 30 Marks**

**Questions (21-25) carry 2 Marks each**

M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.

Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.

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

1. \_\_\_\_\_ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
  - (a) Audit Programme
  - (b) Overall Audit Strategy
  - (c) Completion Memorandum
  - (d) Audit Plan
2. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.  
Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.
  - (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. \_\_\_\_\_ means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-
  - (a) Benchmark Materiality
  - (b) Materiality in Planning

- (c) Performance Materiality
  - (d) Materiality.
4. Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-
- (a) Total Revenue
  - (b) Profit before tax
  - (c) Net Asset Value
  - (d) None of the above
5. (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
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)**

As per Multi-state Co-operative Societies Act, 2002, the auditor shall make a report to the members of the Multi-State co-operative society on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document required to be part of or annexed to the balance-sheet or profit and loss account. Explain

**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)**

ABC Ltd is a company incorporated in India. It has branches within and outside India. Explain who can be appointed as an auditor of these branches within and outside India. Also explain to whom branch auditor is required to report.

**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 behaviour; 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)**

Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform check completeness of data and population that is used in either test of controls or substantive audit tests. Explain in detail stating all the relevant points.

**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)**

Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine such matters as for example - the resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high

risk areas or the involvement of experts on complex matters. Explain the other three such matters.

**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?