

# Multiple Choice Questions

## Chapter – 1: Nature, Objective and Scope of Audit

1	<p>_____ along with other disciplines such as accounting and law, equips you with all the knowledge that is required to enter into auditing as a profession.</p> <p>(a) Auditing (b) Taxation (c) Finance (d) Law</p>
2	<p>No business or institution can effectively carry on its activities without the help of proper _____:</p> <p>(a) Audit (b) Record and accounts (c) neither (a) nor (b) (d) both (a) and (b)</p>
3	<p>As per SA-200 “Overall Objectives of the Independent Auditor”, in conducting an audit of financial statements, the overall objectives of the auditor are:</p> <p>(a) To obtain reasonable assurance (b) To report on the financial statements (c) Both (a) and (b) (d) To obtain absolute assurance</p>
4	<p>(IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principle of professional ethics relevant to the auditor when conducting an audit of financial statements:</p> <p>(a) Professional Judgment (b) Professional Skepticism (c) Professional intelligence (d) Professional competence and due care</p>
5	<p>The auditor’s _____ safeguards the auditor’s ability to form an audit opinion without being affected by any influences.</p> <p>(a) objectivity (b) independence (c) confidentiality (d) integrity</p>
6	<p>An employee of Fruits and Vegetables Limited was of the opinion that auditor of a company is required to express an opinion. On which one of the following the auditor of a company is required to express an opinion:</p> <p>(a) Only Balance Sheet of the Company. (b) Financial Statements of the Company.</p>

	(c) Only Profit and Loss Account of the Company. (d) Only Cash Flow Statement of the Company.
7	<b>The auditor of Delicious Sweets Limited was of the opinion that objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from misstatements. Which type of misstatements are mentioned by auditor of Delicious Sweets Limited:</b> (a) Simple (b) Material (c) Easy (d) Competent
8	<b>A request from the client for the auditor to change the engagement may result from:</b> <b>(1) A change in circumstances affecting the need for the service.</b> <b>(2) A misunderstanding as to the nature of an audit or related service originally requested.</b> <b>(3) A restriction on the scope of the engagement, whether imposed by management or caused by circumstances.</b> (a) (1) only (b) (1) and (2) (c) (1), (2) and (3) (d) (1) or (2) or (3)
9	<b>Standard on Quality Control (SQC) 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of _____.</b> (a) Management. (b) Those charged with governance. (c) Management or Those charged with governance. (d) Auditor
10	<b>As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", _____ is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.</b> (a) absolute assurance (b) limited assurance (c) reasonable assurance (d) reasonable or absolute assurance
11	<b>The matter of difficulty, time, or cost involved is:</b> (a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative. (b) in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative. (c) not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists. (d) not in itself a valid basis for the auditor to omit an audit procedure. <b>[MTP-March 19]</b>
12	<b>_____ are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.</b> (a) Self-review threats (b) Familiarity threats

	(c) Intimidation threats (d) Advocacy threats	[MTP-March 19]
13	<b>If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:</b> (a) the original engagement; or any procedures that may have been performed in the original engagement. (b) the original engagement; (c) any procedures that may have been performed in the original engagement (d) the original engagement and any procedures that may have been performed in the original engagement.	[MTP-April 19]
14	<b>Which of the following is correct?</b> (a) The auditor is not expected to and cannot reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. (b) The auditor is expected to and can reduce audit risk to zero and can therefore obtain absolute assurance. (c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error. (d) The auditor is expected to and can reduce audit risk to zero and can therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.	[MTP-April 19]
15	<b>Professional skepticism is necessary to the critical assessment of _____.</b> (a) Audit Documentation (b) Audit Evidence (c) Audit Procedures and Techniques (d) None of the above	[MTP-Oct. 19]
16	<b>As per SA 210 "Agreeing the Terms of Audit Engagements", the auditor shall agree the terms of the audit engagement with:</b> (a) Management (b) Those charged with governance (c) Management or those charged with governance, as appropriate (d) Engagement team members	[MTP-Oct. 19]
17	<b>Judging the significance of a matter requires _____ analysis of the facts and circumstances.</b> (a) objective (b) subjective (c) both subjective and objective (d) qualitative	[RTP-Nov. 19]
18	<b>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.</b>	

	<p>(a) professional skepticism  (b) professional integrity  (c) professional judgment  (d) professional sincerity</p> <p style="text-align: right;">[RTP-Nov. 19]</p>
19	<p><b>Direct financial interest or materially significant indirect financial interest in a client is an example of</b></p> <p>(a) Self-review threats  (b) Self-interest threats  (c) Advocacy threats  (d) Intimidation threats</p> <p style="text-align: right;">[MTP-May 20]</p>
20	<p><b>M/s. KYC &amp; Co. is a reputed Audit firm in Mumbai. They are appointed as Statutory Auditors of Blessed Ltd. Which of the below is the responsibility of M/s. KYC &amp; Co.</b></p> <p>(a) Preparation of financial statements.  (b) Designing, implementation and maintenance of internal control system.  (c) Reporting on true and fair view of financial statements.  (d) Compliance with the applicable law and regulation.</p> <p style="text-align: right;">[RTP-Nov. 20]</p>
21	<p><b>Mr. Salman, is an engagement partner of Khan &amp; Co. Chartered Accountants for an audit of Lava Ltd., he died of a stroke on 30.09.2022 after completing the entire routine audit work of Lava Ltd. Mr. Shoaib, one of the partners of Khan &amp; Co. will be signing the accounts of Lava Ltd. What is the course of action to be taken by Mr. Shoaib?</b></p> <p>(a) Sign the accounts of Lava Ltd. without reviewing the work of his partner  (b) Sign the balance sheet after reviewing the work of his partner  (c) Withdraw the audit as the person who has performed the audit is no more  (d) Issue an adverse report</p> <p style="text-align: right;">[RTP-Nov. 20]</p>
22	<p><b>..... is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism.</b></p> <p>(a) Familiarity threat  (b) Advocacy threat  (c) Self Review threat  (d) Intimidation threat</p> <p style="text-align: right;">[MTP-March 21, RTP Nov. 21]</p>
23	<p><b>As per SQC 1 the retention period for audit engagements ordinarily is no shorter than ..... from the date of the auditor's report.</b></p> <p>(a) ten years  (b) five years  (c) seven years  (d) four years</p> <p style="text-align: right;">[MTP-March 21, RTP- May 22]</p>
24	<p><b>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:</b></p> <p>(a) Monitoring  (b) Inspection  (c) Subsequent Audit procedures  (d) Compliance procedures</p> <p style="text-align: right;">[MTP-March 21, RTP-May 21, MTP-Sep. 22]</p>

25	<p><b>The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are:</b></p> <p>(a) management  (b) those charged with governance  (c) audit committee  (d) board of directors</p> <p style="text-align: right;">[MTP-March 21, RTP-May 21, Nov. 21]</p>
26	<p><b>If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:</b></p> <p>(a) Withdraw from the audit engagement where possible under applicable law or regulation.  (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.  (c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.  (d) Withdraw from the audit engagement where possible under applicable law or regulation or determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.</p> <p style="text-align: right;">[MTP-March 21, April 21, Nov. 21]</p>
27	<p><b>The Firm R K &amp; Associates has an extensive understanding of Code of Ethics that underlies the fundamental principles relevant to the Auditor when conducting an Audit of Financial Statements and provides a conceptual framework for applying these principles. Which of the following does not form part of the fundamental principle?</b></p> <p>(a) Integrity  (b) Professional Competence and due care  (c) Professional Skepticism  (d) Professional behaviour</p> <p style="text-align: right;">[MTP-April 21]</p>
28	<p><b>The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:</b></p> <p><b>(i) The objective and scope of the audit of the financial statements;</b>  <b>(ii) The responsibilities of the auditor;</b>  <b>(iii) The responsibilities of management;</b>  <b>(iv) Identification of the applicable financial reporting framework for the preparation of the financial statements; and</b>  <b>(v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. Which of the following is correct?</b></p> <p>(a) (i),(ii),(iii)  (b) (i),(ii),(iii), (iv), (v)  (c) (i),(ii), (iv), (v)  (d) (i),(ii),(iii), (iv)</p> <p style="text-align: right;">[MTP-March 22]</p>
29	<p><b>Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.</b></p>

	<p>(a) inherent, unavoidable  (b) inherit, complete  (c) management, unavoidable  (d) regulatory, control</p> <p style="text-align: right;">[MTP-March 22]</p>
30	<p><b>Which of the following is the responsibility of the auditor:</b></p> <p>(a) Preparation and presentation of the financial statements in accordance with applicable financial reporting  (b) Design, implementation and maintenance of internal controls  (c) Express an opinion on the Financial Statements  (d) To obtain limited assurance.</p> <p style="text-align: right;">[MTP-April 22]</p>
31	<p><b>..... is the threat which occurs when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised.</b></p> <p>(a) Familiarity threat  (b) Advocacy threat  (c) Self Review threat  (d) Intimidation threat</p> <p style="text-align: right;">[RTP-May 22]</p>
32	<p><b>Mr. A, auditor and Mr. B, Finance Manager of XYZ Pvt. Ltd. are friends. Mr. A prepares the audit report according to the wishes and directions of Mr. B. In this situation which essential quality of the auditor has been compromised:</b></p> <p>(a) Professional Competence  (b) Independence  (c) Professional Skepticism  (d) Due care</p> <p style="text-align: right;">[RTP-Nov. 20; MTP-Sep. 22]</p>
33	<p><b>Which of the following is not in accordance with spirit of "Professional Skepticism"?</b></p> <p>(a) Being alert to conditions that may indicate possible fraud.  (b) Overlooking unusual circumstances.  (c) Using appropriate assumptions in determining nature, timing and extent of audit procedures and evaluating results.  (d) Being alert to circumstances that suggest need for audit procedures in addition to those required by Standards on Auditing.</p> <p style="text-align: right;">[MTP-Oct. 22]</p>
34	<p><b>As per SA-210, preconditions for an audit do not include which of the following?</b></p> <p>(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.</p> <p style="text-align: right;">[MTP-Nov. 22]</p>
35	<p><b>An auditor signs a false audit report knowingly. Which of the following fundamental principles of professional ethics is violated in such a case?</b></p> <p>(a) Objectivity  (b) Integrity  (c) Professional Competence and due care  (d) Professional behaviour</p> <p style="text-align: right;">[RTP-Nov. 22]</p>

## Chapter – 2: Audit Strategy, Audit Planning and Audit Programming

36	<p><b>Planning is ____ process of an audit that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement:</b></p> <p>(a) continuous (b) discrete (c) neither continuous nor discreet (d) strategic</p>
37	<p><b>Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely interrelated.</b></p> <p><b>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</b></p> <p>(a) Only Statement 1 is correct. (b) Only Statement 2 is correct. (c) Both Statements 1 &amp; 2 are correct. (d) Both Statements 1 &amp; 2 are incorrect.</p>
38	<p><b>Which of the following is not addressed by the overall audit strategy:</b></p> <p>(a) Scope of the audit (b) Timing of the audit (c) Direction of the audit (d) Monitoring of the audit</p>
39	<p><b>The overall audit strategy and the audit plan remain the ____ responsibility</b></p> <p>(a) auditor's (b) management's (c) those charged with governance. (d) both management and those charged with governance.</p>
40	<p><b>Which of the following is not an example of benchmarks in determining materiality for the Financial Statements as whole:</b></p> <p>(a) Profit before tax (b) Total revenue (c) Audit programme (d) Total equity</p>
41	<p><b>Which of the following is correct:</b></p> <p>(a) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that guides the development of the overall audit strategy. (b) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and there is no need to guide the development of the audit plan. (c) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. (d) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that there is no need to guide the development of the overall audit strategy.</p>



42	<p><b>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.</b></p> <p>(a) audit strategy (b) audit plan (c) audit plan and audit strategy (d) audit note book</p>
43	<p><b>The auditor shall develop an audit plan that shall include a description of:</b></p> <p>(a) the nature, timing and extent of planned risk assessment procedures. (b) the nature, timing and extent of planned further audit procedures at the assertion level. (c) other planned audit procedures that are required to be carried out so that the engagement complies with SAs. (d) all of the above.</p>
44	<p><b>SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor_____.</b></p> <p>(a) should not consider materiality and its relationship with audit risk while conducting an audit. (b) should consider materiality and its relationship with audit risk while conducting an audit. (c) should not consider materiality but should consider its relationship with audit risk while conducting an audit. (d) should consider materiality but need not consider its relationship with audit risk while conducting an audit.</p> <p style="text-align: right;"><b>[MTP-March 19, March 21]</b></p>
45	<p><b>When planning the audit _____</b></p> <p>(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.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
46	<p><b>With reference to SA 300, the auditor shall document:</b></p> <p>(a) the overall audit strategy. (b) the audit plan. (c) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (d) all of the above.</p> <p style="text-align: right;"><b>[MTP-April 19]</b></p>
47	<p><b>Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____ .</b></p> <p>(a) Independence. (b) Professional Judgment. (c) Professional skepticism. (d) All of the above.</p> <p style="text-align: right;"><b>[MTP-April 19]</b></p>
48	<p><b>Planning an audit involves _____.</b></p> <p>(a) establishing the overall audit strategy for the engagement and developing an audit plan. (b) establishing the overall audit plan for the engagement and developing an audit strategy.</p>



	(c) establishing the overall audit plan for the engagement. (d) developing an audit strategy. <span style="float: right;">[MTP-Oct. 19]</span>
49	<b>As per SA 300 _____.</b> (a) planning is not a continual and iterative phase of an audit, but rather a discrete process. (b) planning is not a discrete phase of an audit, but rather a continual and iterative process. (c) planning is not continual and iterative process. (d) planning is not a discrete phase of an audit. <span style="float: right;">[MTP-Oct. 19]</span>
50	<b>The auditor shall update and change _____ as necessary during the course of the audit.</b> (a) overall strategy. (b) the overall audit strategy and the audit plan. (c) audit plan (d) audit program. <span style="float: right;">[MTP-May 20]</span>
51	<b>The concept of materiality is applied by the auditor _____.</b> (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. <span style="float: right;">[MTP-Oct. 20, RTP-May 21, MTP-Sep. 22]</span>
52	<b>CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here?</b> (a) Static Review (b) Mechanical Review (c) Periodic Review (d) Obsolete Review <span style="float: right;">[MTP-Oct. 21]</span>
53	<b>_____ sets the scope, timing &amp; direction of the audit and guides the development of the more detailed plan.</b> (a) Audit Programme (b) Overall Audit Strategy (c) Completion Memorandum (d) Audit Plan <span style="float: right;">[MTP-April 22]</span>
54	<b>Which of the following statement is MOST APPROPRIATE?</b> (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. <span style="float: right;">[RTP-Nov. 22]</span>

## Chapter – 3: Audit Documentation and Audit Evidence

55	<p><b>Statement 1: A response that indicates a difference between information requested to be confirmed and information provided by confirming party is Negative Confirmation.</b></p> <p><b>Statement 2: A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is exception.</b></p> <p>(a) Statement 1 is correct.  (b) Statement 2 is correct.  (c) Both 1 &amp; 2 are incorrect.  (d) Both 1 &amp; 2 are correct.</p>
56	<p><b>CA Vijay is the statutory auditor of XYZ Ltd. for the FY 2022-23. During the process of assembling the audit file, CA Vijay briefed his team as to what all changes can be made to the audit documentation at that stage. Which of the following changes cannot be made to the audit documentation during the final assembly process?</b></p> <p>(a) Sorting, collating &amp; cross referencing of working papers.  (b) Signing off completion checklists relating to the file assembly process.  (c) Deleting or discarding superseded documents.  (d) Recalculation of Depreciation.</p>
57	<p><b>Which of the following is not correct?</b></p> <p>(a) SA 230 - Audit Documentation  (b) SA 500 - Audit Evidence  (c) SA 505 - Written Representation  (d) SA 560 - Subsequent Events</p>
58	<p><b>Auditor's judgment as to sufficiency may be affected by the factors such as:</b></p> <p>(a) Materiality  (b) Risk of material misstatement  (c) Size and characteristics of the population.  (d) All of the above</p>
59	<p><b>_____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</b></p> <p>(a) Audit Techniques  (b) Audit evidence  (c) Audit Documentation  (d) Audit Procedures record</p>
60	<p><b>_____ may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.</b></p> <p>(a) Audit File  (b) Audit evidence  (c) Completion Memorandum  (d) Audit Folder</p>
61	<p><b>As per SQC-1 "An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than _____ days after the date of the auditor's report".</b></p>

	<p>(a) 30 (b) 60 (c) 90 (d) 45</p>
62	<p><b>Which of the following is not an Audit procedure to obtain audit evidence:</b></p> <p>(a) Inspection (b) Observation (c) External Confirmation (d) Internal Control</p>
63	<p><b>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.</b></p> <p>(a) professional judgment (b) professional skepticism (c) professional competence (d) professional integrity</p>
64	<p><b>The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-</b></p> <p>(a) evidence identified during the audit (b) the significant matters identified during the audit and how they were addressed (c) the significant evidence identified during the audit (d) the significant matters identified during the audit</p>
65	<p><b>When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:</b></p> <p><b>(i) Evaluate the competence, capabilities and objectivity of that expert.</b> <b>(ii) Obtain an understanding of the work of that expert.</b> <b>(iii) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.</b></p> <p>(a) (i) and (ii) (b) (ii) and (iii) (c) (i) and (iii) (d) (i), (ii) and (iii)</p>
66	<p><b>Which of the following is incorrect?</b></p> <p>(a) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. (b) Similar to responses to inquiries, written representations are audit evidence. (c) Written representations are requested from those responsible for the preparation and presentation of the financial statements. (d) Written representations provide necessary audit evidence and also they provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. <b>[MTP-March 19]</b></p>
67	<p><b>Audit documentation provides:</b></p> <p>(a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p>

	<p>(b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>(c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor.</p> <p>(d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. <b>[MTP-March 19, March 21, April 21, Nov. 21]</b></p>
<b>68</b>	<p><b>Which of the following is not an example of audit documentation?</b></p> <p>(a) Audit programmes</p> <p>(b) Summaries of significant matters</p> <p>(c) Audit file</p> <p>(d) Checklists. <b>[MTP-March 19]</b></p>
<b>69</b>	<p><b>Which of the following is incorrect?</b></p> <p>(a) Inquiry consists of seeking information of unknown persons, both financial and non-financial, within the entity or outside the entity.</p> <p>(b) Inquiry is used extensively throughout the audit in addition to other audit procedures.</p> <p>(c) Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.</p> <p>(d) Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. <b>[MTP-March 19]</b></p>
<b>70</b>	<p><b>Which of the following is correct?</b></p> <p>(a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.</p> <p>(b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.</p> <p>(c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.</p> <p>(d) The auditor shall not assemble the audit documentation in an audit file. <b>[MTP-April 19, Oct. 19]</b></p>
<b>71</b>	<p><b>Audit evidence includes_____.</b></p> <p>(a) information contained in the accounting records underlying the financial statements</p> <p>(b) both information contained in the accounting records underlying the financial statements and other information.</p> <p>(c) other information.</p> <p>(d) information contained in the accounting records underlying the financial statements or other information. <b>[MTP-April 19, Oct. 19, March 21, April 21, Nov.21]</b></p>
<b>72</b>	<p><b>Most of the auditor's work in forming the auditor's opinion consists of:</b></p> <p>(a) obtaining audit evidence.</p> <p>(b) evaluating audit evidence.</p> <p>(c) obtaining or evaluating audit evidence.</p> <p>(d) obtaining and evaluating audit evidence. <b>[MTP-April 19, Oct. 19]</b></p>

73	<p><b>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 is:</b></p> <p>(a) Misstatement (b) Error (c) Fraud (d) Any of the above</p> <p style="text-align: right;">[MTP-April 19, Oct. 19]</p>
74	<p><b>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:</b></p> <p>(a) Positive confirmation request (b) Non-response (c) Exception (d) Negative confirmation request</p> <p style="text-align: right;">[MTP-April 19, May 20]</p>
75	<p><b>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:</b></p> <p>(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</p> <p style="text-align: right;">[MTP-April 19, May 20, Oct. 19; RTP-Nov. 19]</p>
76	<p><b>The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:</b></p> <p>(a) Discuss the matter with management and, where appropriate, those charged with governance. (b) Determine whether the financial statements need amendment. (c) Inquire how management intends to address the matter in the financial statements. (d) All of the above.</p> <p style="text-align: right;">[MTP-April 19]</p>
77	<p><b>The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:</b></p> <p>(a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel. (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel. (c) Reviewing legal expense accounts. (d) All of the above.</p> <p style="text-align: right;">[MTP-April 19]</p>
78	<p><b>CA. Bobby is a recently qualified Chartered Accountant. He is appointed as an auditor of Droopy Ltd. for the current Financial Year 2017-18. He is quite conservative in nature which is also replicated in his professional work. CA. Bobby is of the view that he shall record all the matters related to audit, audit procedures to be performed, audit evidence obtained and conclusions reached. Thus, he maintained a file and recorded each and every of his findings during the audit. His audit file, besides other thing, includes audit programmes, notes reflecting preliminary thinking, letters of</b></p>

	<p><b>confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?</b></p> <p>(a) Audit programmes.  (b) Notes reflecting preliminary thinking.  (c) Letters of confirmation.  (d) E-mails concerning significant matters. <span style="float: right;">[RTP-May 19]</span></p>
79	<p><b>_____ 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.</b></p> <p>(a) Audit assessment procedures.  (b) Substantive procedures.  (c) Test of control  (d) Risk assessment procedures. <span style="float: right;">[RTP-Nov. 19]</span></p>
80	<p><b>A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called _____.</b></p> <p>(a) Negative confirmation request  (b) Non-response  (c) Exception  (d) Positive confirmation request <span style="float: right;">[RTP-Nov. 19]</span></p>
81	<p><b>Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.  Statement 2: Substantive procedures consist of test of details and analytical procedures.</b></p> <p>(a) Only Statement 1 is correct  (b) Only Statement 2 is correct  (c) Both 1 &amp; 2 are correct  (d) Both 1 &amp; 2 are incorrect <span style="float: right;">[RTP-May 20, MTP- Sep. 22]</span></p>
82	<p><b>Which of the following is not an example of an event or condition that may cast significant doubt on entity's ability to continue as a going concern?</b></p> <p>(a) Loss of key management without replacement  (b) Adverse key financial ratios  (c) Inability to pay creditors on due date  (d) Current year profit turns to loss after providing depreciation. <span style="float: right;">[MTP-Oct. 20, Oct. 21, MTP- March 22]</span></p>
83	<p><b>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:</b></p> <p>(a) External Confirmation.  (b) Observation.  (c) Inquiry.  (d) Inspection. <span style="float: right;">[RTP-Nov. 21]</span></p>
84	<p><b>Judging the significance of a matter requires _____ of the facts and circumstances.</b></p> <p>(a) objective analysis  (b) subjective analysis  (c) Both subjective and objective analysis  (d) qualitative analysis <span style="float: right;">[MTP-April 22]</span></p>

85	<p><b>Audit evidence is necessary to support the auditor's opinion and report. It is _____ in nature and is primarily obtained from audit procedures performed during the course of the audit.</b></p> <p>(a) cumulative (b) regressive (c) selective (d) objective</p> <p style="text-align: right;">[MTP-April 22]</p>
86	<p><b>_____ 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.</b></p> <p>(a) SA 220, audit evidence, six years (b) SA 200, audit documentation, seven years (c) SQC 1, engagement documentation, seven years (d) SA 230, documentation, six years</p> <p style="text-align: right;">[RTP-May 22]</p>
87	<p><b>_____ 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.</b></p> <p>(a) Internal control assessment procedures (b) Risk assessment procedures (c) substantive procedures (d) analytical procedures</p> <p style="text-align: right;">[RTP-May 22]</p>
88	<p><b>Mr. H and his team members in detail checked and evaluated the books of account and relevant documents of WT Limited. This is an example of which audit procedure:</b></p> <p>(a) Inspection. (b) Re-performance. (c) Recalculation. (d) Observation.</p> <p style="text-align: right;">[MTP-Sep. 22]</p>
89	<p><b>CA X, auditor of Green Shoots Private Ltd. is going through financial statements of the company. On perusing notes to accounts, he finds ageing of trade payables reflecting in accordance with requirements of Schedule III of Companies Act, 2013. He wants to be sure that ageing of trade payables forming part of notes of accounts is proper and carries out ageing independently to confirm its veracity. Identify audit procedure(s) being performed by CA X.</b></p> <p>(a) Analytical procedures (b) Recalculation (c) Re-performance (d) Observation</p> <p style="text-align: right;">[MTP-Oct. 22]</p>
90	<p><b>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?</b></p> <p>(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.</p> <p style="text-align: right;">[RTP-Nov. 22]</p>



## Chapter - 4: Risk Assessment and Internal Control

91	<p><b>Audit risk is a function of the risks of material misstatement and _____</b></p> <p>(a) detection risk.  (b) inherent risk.  (c) control risk.  (d) business risk.</p>
92	<p><b>For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.</b></p> <p>(a) direct  (b) inverse  (c) no relationship  (d) either (a) or (c)</p>
93	<p><b>Risk of material misstatement has _____ components.</b></p> <p>(a) one  (b) two  (c) three  (d) four</p>
94	<p><b>Controls can be _____ related to an assertion.</b></p> <p>(a) directly  (b) indirectly  (c) directly or indirectly  (d) no relationship between controls and assertion.</p>
95	<p><b>Which of the following is incorrect for the purpose of Identifying and assessing the risks of material misstatement, the auditor shall:</b></p> <p>(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;  (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;  (c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and  (d) Not consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.</p>
96	<p><b>_____ 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.</b></p> <p>(a) Misstatement  (b) Fraud  (c) Error  (d) Fraudulent financial reporting.</p>
97	<p><b>Latest and Vibrant Limited is an unlisted public limited company. For the above mentioned company, it will be required to appoint an internal auditor according to the provisions of Companies Act, 2013 only when during the preceding financial year, the paid-up share capital of the company would be:</b></p>

	<p>(a) Less than or equal to ₹ 50 crore.</p> <p>(b) More than or equal to ₹ 50 crore.</p> <p>(c) Less than or equal to ₹ 100 crore.</p> <p>(d) More than or equal to ₹ 100 crore.</p>
98	<p><b>Bright and Smart Private Limited will be required, according to the provisions of Companies Act, 2013 to appoint an internal auditor only if the turnover during the preceding financial year would be:</b></p> <p>(a) Less than or equal to ₹ 200 crore.</p> <p>(b) More than or equal to ₹ 200 crore.</p> <p>(c) Less than or equal to ₹ 150 crore.</p> <p>(d) More than or equal to ₹ 150 crore.</p>
99	<p><b>Components of risk of material misstatement at the assertion level are:</b></p> <p>(a) Inherent risk and detection risk</p> <p>(b) inherent risk and control risk</p> <p>(c) control risk and detection risk</p> <p>(d) inherent risk, control risk and detection risk</p>
100	<p><b>Because the assessment of the risk of material misstatement takes account of internal control, _____.</b></p> <p>(a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.</p> <p>(b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.</p> <p>(c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.</p> <p>(d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.</p>
101	<p><b>Risk of material misstatement may be defined as the risk _____</b></p> <p>(a) that the financial statements are materially misstated after audit.</p> <p>(b) that the financial statements are materially misstated during audit.</p> <p>(c) that the financial statements are materially misstated prior to audit.</p> <p>(d) all of the above.</p>
102	<p><b>The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is-</b></p> <p>(a) Control Risk</p> <p>(b) Inherent Risk</p> <p>(c) Detection Risk</p> <p>(d) Audit Risk</p>
103	<p><b>The assessment of risks is a _____.</b></p> <p>(a) matter capable of precise measurement rather than matter of professional judgment.</p> <p>(b) matter of professional judgment, rather than a matter capable of precise measurement.</p> <p>(c) matter of professional judgment as well as capable of precise measurement sometimes.</p> <p>(d) none of the above.</p>

104	<p>_____ exists when an internal control is either missing or not operating effectively to prevent or detect a misstatement in a timely manner by management.</p> <p>(a) Significant Deficiency  (b) Operating Deficiency  (c) Management Control Deficiency  (d) Control Deficiency</p>
105	<p><b>Which of the following is true?</b></p> <p>(a) The internal audit plan should be comprehensive enough to ensure that it helps in achieving the overall objectives of an internal audit.  (b) The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation.  (c) In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement.  (d) All of the above</p>
106	<p><b>SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement.</b></p> <p>(a) at the financial statement levels only.  (b) at the assertion levels only.  (c) at the financial statement and assertion levels.  (d) at the financial statement or assertion levels. <span style="float: right;">[MTP-March 19, Oct. 19]</span></p>
107	<p><b>The risks of material misstatement at the assertion level consist of two components:</b></p> <p>(a) Inherent risk and detection risk.  (b) Control risk and detection risk.  (c) Audit risk and detection risk.  (d) Inherent risk and control risk. <span style="float: right;">[MTP-March 19]</span></p>
105	<p><b>The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by_____.</b></p> <p>(a) ICAI  (b) SEBI  (c) MCA  (d) RBI <span style="float: right;">[MTP-March 19]</span></p>
109	<p><b>Audit risk is a function of the _____.</b></p> <p>(a) risks of material misstatement and detection risk.  (b) audit risk and detection risk.  (c) control risk and detection risk.  (d) inherent risk and detection risk. <span style="float: right;">[MTP-April 19, March 21, April 21]</span></p>
110	<p><b>Risk of material misstatement may be defined as the risk _____.</b></p> <p>(a) that the financial statements are materially misstated after audit.  (b) that the financial statements are materially misstated during audit.  (c) that the financial statements are materially misstated prior to audit.  (d) all of the above. <span style="float: right;">[MTP-April 19, Oct. 19, March 21, Nov. 21]</span></p>

111	<p><b>The assessment of the risks of material misstatement may be expressed in _____.</b></p> <p>(a) quantitative terms, such as in percentages, or in non-quantitative terms.  (b) quantitative terms, such as in percentages.  (c) non-quantitative terms.  (d) none of the above.</p> <p style="text-align: right;"><b>[MTP-Oct. 19]</b></p>
112	<p><b>When more persuasive audit evidence is needed regarding the effectiveness of a control, _____.</b></p> <p>(a) it may be appropriate to increase the extent of testing of the control and reduce the extent of the degree of reliance on controls.  (b) it may be appropriate to decrease the extent of testing of the control as well as the degree of reliance on controls.  (c) it may be appropriate to decrease the extent of testing of the control and increase the extent of the degree of reliance on controls.  (d) it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls.</p> <p style="text-align: right;"><b>[RTP-Nov. 19]</b></p>
113	<p><b>When deviations from controls upon which the auditor intends to rely are detected.</b></p> <p>(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.</p> <p style="text-align: right;"><b>[RTP-Nov. 19]</b></p>
114	<p><b>The risk that the financial statements are materially misstated prior to audit is called-</b></p> <p>(a) Risk of material misstatement  (b) detection risk  (c) audit risk  (d) significant risk</p> <p style="text-align: right;"><b>[MTP-March 21]</b></p>
115	<p><b>Risk of material misstatement may be defined as the risk that the financial statements are materially misstated _____.</b></p> <p>(a) after audit.  (b) during audit.  (c) prior to audit.  (d) All of the above.</p> <p style="text-align: right;"><b>[MTP-April 21]</b></p>
116	<p><b>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:</b></p> <p><b>(i) How the controls were applied at relevant times during the period under audit.</b>  <b>(ii) The consistency with which they were applied.</b>  <b>(iii) By whom or by what means they were applied. Which of the following is correct?</b></p> <p>(a) (i) and (ii)  (b) (ii) and (iii)  (c) (i),(ii) and (iii)  (d) (i) and (iii)</p> <p style="text-align: right;"><b>[MTP-March 22]</b></p>

117	<p><b>A company is engaged in manufacturing of wooden furniture. The auditor of company notes that company has identified emerging risks pertaining to probable reduction in demand of company's products due to procurement of imported furniture from South East Asian nations. It has also estimated how significant are those risks and their possibility of happening. Besides, it has also formulated an action plan to deal with the situation, in case these risks materialize. Which of the following options would be most appropriate to describe above situation?</b></p> <p>(a) An example of audit risk for auditor  (b) An example of component of internal control of company  (c) An example of control risk of company  (d) An example of inherent risk for auditor</p> <p style="text-align: right;"><b>[MTP-Oct. 22]</b></p>
118	<p><b>CA M is internal auditor of Crayon Products Limited. Which of the following is not TRUE about scope of internal audit?</b></p> <p>(a) Internal audit is an independent assurance activity.  (b) Internal audit helps in improving internal control of the company.  (c) Internal audit cannot review non-financial activities of company.  (d) Internal audit can review compliance of company with various laws and regulations.</p> <p style="text-align: right;"><b>[MTP-Oct. 22]</b></p>

### Chapter - 5: Fraud and Responsibilities of Auditor

119	<p><b>When credit purchases of ₹ 5,100 is recorded on credit side and credit sales of ₹ 5,100 is recorded on debit side, this kind of error is called _____.</b></p> <p>(a) error of omission  (b) compensating error  (c) error of principle  (d) error of commission</p>
120	<p><b>The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as:</b></p> <p>(a) Self-revealing errors.  (b) Intentional errors  (c) Concealed errors  (d) Unconcealed errors.</p>
121	<p><b>Which of the following is Incorrect?</b></p> <p>(a) An auditor conducting an audit in accordance with SAs is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.  (b) As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.  (c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.  (d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud</p>

122	<b>The factor which distinguishes an error from fraud and other irregularity is _____.</b> (a) whether it is caused by officer of the entity or employee of the entity (b) intention (c) materiality (d) whether it is caused by the auditor or the client
123	<b>Reporting on fraud is to be made by an auditor to Central Government when fraud amount is _____.</b> (a) exceeding ₹ 10 lakh (b) exceeding ₹ 50 lakh (c) exceeding ₹ 1 crore (d) ₹ 1 crore or above
124	<b>Reporting on fraud is made by auditor to Central Government in statement in the form _____.</b> (a) ADT - 1 (b) ADT - 2 (c) ADT - 3 (d) ADT - 4
125	<b>Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020.</b> (a) Clause (xi) (b) Clause (xii) (c) Clause (xiii) (d) Clause (xiv)
126	<b>Which of the following is an example of inflating cash payments?</b> (a) Making payments against purchase vouchers. (b) Teeming and lading. (c) Not accounting for cash sales fully. (d) Making payments against inflated vouchers. <span style="float: right;">[MTP-March 19]</span>
127	<b>The standard that requires auditors to analyse journal entries in an audit is:</b> (a) SA 260 (b) SA 230 (c) SA 315 (d) SA 240 <span style="float: right;">[MTP-March 19]</span>
128	<b>If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall_____.</b> (a) withdraw from the engagement immediately. (b) report to Audit team regarding withdrawal. (c) determine the professional and legal responsibilities applicable in the circumstances. (d) ask the management for his withdrawal. <span style="float: right;">[MTP-April 19, May 20]</span>
129	<b>Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud are called as _____:</b> (a) fraud risk factors. (b) misappropriation of assets. (c) fraud opportunities. (d) eventual fraud. <span style="float: right;">[MTP-March 21]</span>

130	<p><b>M/s. PQR &amp; Associates is appointed as the new auditors of M/s. Prince Ltd. On conducting the audit, the firm found that the accountant has entered fake invoices of credit purchases in the books of account aggregated of ₹ 75 Lakhs and cleared all the payments to the fake creditor. The auditor M/s. PQR &amp; Associates should report such fraud to_____ :</b></p> <p>(a) Central Government          (b) Reserve Bank of India          (c) Board of Directors/Audit Committee          (d) Comptroller &amp; Auditor General</p> <p style="text-align: right;"><b>[MTP-Oct. 21]</b></p>
131	<p><b>The auditor finds that there is something unusual about the balances outstanding in the receivables. Date wise verification of the bank reconciliation performed by the auditor has resulted in mismatch in dates in most of the receivable ledger. The auditor has identified a pattern in the mismatches. He suspects that there might be a misappropriation of cash and the detection of this misappropriation is being prevented by crediting the amount received subsequently to the account of customer who paid earlier.</b></p> <p><b>What is the kind of fraud that the auditor has faced in the above case?</b></p> <p>(a) Teeming and Lading          (b) Cash skimming          (c) Defalcation of cash by inflating cash payment          (d) Misappropriation of receivables</p> <p style="text-align: right;"><b>[MTP-March-22, Sep. 22]</b></p>
132	<p><b>Which of the following is not an example of inflation of payments:</b></p> <p>(a) Making payments against fictitious vouchers.          (b) Adjusting unauthorized or fictitious rebates, allowances, discounts, etc. to customer' accounts and misappropriating amount paid by them.          (c) Making payments against vouchers, the amounts whereof have been inflated.          (d) Manipulating total of wage rolls either by including therein names of dummy workers or by inflating them in any other manner.</p> <p style="text-align: right;"><b>[RTP-May 22]</b></p>

### Chapter – 6: Audit in an Automated Environment

133	<p><b>Which of the following is a General IT control?</b></p> <p>(a) IT Environment          (b) Application Control          (c) Access Security          (d) IT Dependent Control</p>
134	<p><b>Which of the following is an automated control?</b></p> <p>(a) Program change          (b) System generated report          (c) Application control          (d) Configurations</p>
135	<p><b>Who is mainly responsible for implementation of internal financial controls in a company?</b></p> <p>(a) Auditors          (b) Directors          (c) Employees          (d) Regulators</p>



136	<p><b>The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?</b></p> <p>(a) ICAI (b) SEBI (c) MCA (d) RBI</p>
137	<p><b>In WH Limited every business activity was being carried out manually. The top management of WH Limited decided to change the business environment of WH Limited by using computer systems and computer systems related technology to carry out all the major business activities of WH Limited. This business environment of WH Limited, where all the major business activities are done using computer systems and computers related technology is an example of:</b></p> <p>(a) Operational Environment. (b) Computational Environment. (c) Control Environment. (d) Automated Environment</p>
138	<p><b>_____ are also known as pervasive or indirect controls:</b></p> <p>(a) General IT Controls (b) Application Controls (c) IT dependent Controls (d) None of the above</p>
139	<p><b>_____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information:</b></p> <p>(a) Computer Assisted Audit Techniques (b) Automated Controls (c) Data Analytics (d) Combination Controls</p>
140	<p><b>_____ are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.</b></p> <p>(a) Application controls (b) General IT controls (c) Process controls (d) All of these</p>
141	<p><b>_____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.</b></p> <p>(a) Application (b) IT Dependent Controls (c) Automated Controls (d) General IT Controls</p>
142	<p><b>_____ is a logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.</b></p> <p>(a) Data Mining (b) Data Warehouse (c) Database (d) Data Analytics</p>

143	<p>_____ is a control deficiency or a combination of deficiencies in internal controls that is important enough to merit the attention of those charged with governance since there is a reasonable possibility that a material misstatement will not be prevented or detected in a timely manner by management.</p> <p>(a) Material weakness (b) Material deficiency (c) Control risk (d) Significant deficiency</p>
144	<p>Who among the following is required to comply with Section 149(8) read with Schedule IV to the Companies Act, 2013?</p> <p>(a) Board of Directors (b) Audit Committee (c) Statutory Auditor (d) Independent Directors</p>
145	<p>Which of the following Audit testing methods is most effective as an audit test and gives the best audit evidence?</p> <p>(a) Inquiry (b) Observation (c) Inspection (d) Re-performance</p>
146	<p>User Training is an activity related to which of the following General IT Controls?</p> <p>(a) Data center and network operations (b) Program change (c) Access security (d) Application system acquisition, development, and maintenance (Business Applications)</p>
147	<p>The Objective of establishing Security Policies and Procedures is _____.</p> <p>(a) to ensure that production systems are processed to meet financial reporting objectives. (b) to ensure that modified systems continue to meet financial reporting objectives (c) to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives. (d) to ensure that systems are developed, configured and implemented to meet financial reporting objectives.</p>
148	<p>IT related risks, if not mitigated, may put an impact on _____.</p> <p>(a) substantive audit (b) controls (c) reporting (d) all of above</p>
149	<p>Which of the following Audit Testing methods give the least audit evidence?</p> <p>(a) Inquiry (b) Inspection (c) Observation (d) Re-performance</p>
150	<p>Applying _____ gives the most effective and efficient audit evidence while using Audit testing methods.</p>

	<p>(a) Inquiry in combination with Inspection.</p> <p>(b) Inspection in combination with Observation</p> <p>(c) Observation in combination with re-performance</p> <p>(d) Re-performance in combination with Inquiry</p>
151	<p>_____ are needed to support the functioning of _____.</p> <p>(a) General IT Controls; Application Controls</p> <p>(b) Application Controls; General IT Controls</p> <p>(c) IT Dependent Controls; General IT Controls</p> <p>(d) Application Controls; IT Dependent Controls</p>
152	<p><b>The term Internal Financial Controls (IFC) basically refers to the policies and procedures put in place by companies for ensuring:</b></p> <p>(a) reliability of financial reporting</p> <p>(b) effectiveness and efficiency of operations</p> <p>(c) compliance with applicable laws and regulations</p> <p>(d) All of the above</p>
153	<p><b>The company and _____ shall abide by the provisions specified in Schedule IV which lays down the Code for Independent Directors.</b></p> <p>(a) independent directors</p> <p>(b) women directors</p> <p>(c) board of directors</p> <p>(d) executive directors</p>
154	<p><b>The tools and techniques that auditors use in applying the principles of data analytics are known as:</b></p> <p>(a) Data analytics tools</p> <p>(b) Computer Assisted Auditing Techniques or CAATs in short</p> <p>(c) Analytics tools and techniques</p> <p>(d) System generated tools</p>
155	<p><b>A type of super user access to information systems that enforces less or no limits on using that system is known as:</b></p> <p>(a) Super access.</p> <p>(b) Super user access.</p> <p>(c) Unlimited access.</p> <p>(d) Privileged access.</p> <p style="text-align: right;">[RTP-May 22]</p>

### Chapter – 7: Audit Sampling

156	<p><b>The main advantage of using statistical sampling techniques is that such techniques:</b></p> <p>(a) Mathematically measure risk</p> <p>(b) Eliminate the need for judgmental sampling</p> <p>(c) Defines the values of tolerable error</p> <p>(d) All of the them.</p>
157	<p><b>Which of the following factors is (are) considered in determining the sample size for tests of control?</b></p> <p>(a) Projected error</p> <p>(b) Tolerable error</p>

	(c) Expected error (d) Both (b) and (c)
158	<b>Tolerable error is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to</b> (a) Sample size (b) Audit risk (c) Materiality (d) Expected error
159	<b>Which of the following is source of Non Sampling risk?</b> (a) Human Mistakes (b) Applying audit procedures not appropriate to the objectives of audit (c) Misinterpreting the sample results (d) All of the above
160	<b>Which of the following is more scientific?</b> (a) Statistical (b) Non- statistical (c) Both (a) and (b) (d) None of the above
161	<b>As the number of transactions of WY Limited for the financial year 2018-19 were in very large number, the auditor of WY Limited decided to use the technique of Audit Sampling. Before selecting the sample from Repair and Maintenance Expenses, the auditor of WY Limited wished that entire data of Repair and Maintenance Expenses of WY Limited for financial year 2021-22 should have three characteristics. These three characteristics are:</b> (a) Simple, Completeness, Relevant. (b) Appropriateness, Simple, Relevant. (c) Reliable, Simple, Relevant. (d) Appropriateness, Completeness, Reliable.
162	<b>In random Sample, each item of population has:</b> (a) equal chance of selection (b) varying chance of selection depending upon placing of items. (c) may have a chance of selection based on auditors professional judgment (d) All of these
163	<b>The relationship between tolerable error and sample size is _____.</b> (a) inverse (b) direct (c) close (d) there is no relationship.
164	<b>Statistical sampling has the following characteristics:</b> (a) Random selection (b) Use of Probability theory (c) both (a) and (b) (d) Judgmental approach

165	<p><b>In the case of tests of details_____.</b></p> <p>(a) the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.</p> <p>(b) the projected misstatement is the auditor's best estimate of misstatement in the population.</p> <p>(c) the anomalous misstatement is the auditor's best estimate of misstatement in the population.</p> <p>(d) the projected misstatement plus anomalous misstatement, if any, cannot be the auditor's best estimate of misstatement in the population.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
166	<p><b>Which of the following is correct?</b></p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
167	<p><b>Value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts, is known as:</b></p> <p>(a) Haphazard sampling.</p> <p>(b) Monetary Unit Sampling.</p> <p>(c) Stratified Sampling.</p> <p>(d) Interval sampling.</p> <p style="text-align: right;"><b>[MTP-April 19]</b></p>
168	<p><b>_____ in which the auditor selects the sample without following a structured technique.</b></p> <p>(a) Haphazard selection.</p> <p>(b) Monetary Unit Sampling.</p> <p>(c) Block Sampling.</p> <p>(d) Structured Sampling.</p> <p style="text-align: right;"><b>[RTP-May 21]</b></p>

### Chapter – 8: Analytical Procedures

169	<p><b>When significant risk had been identified by the auditor, then:</b></p> <p>(a) Audit evidence obtained solely from substantive analytical procedures is sufficient.</p> <p>(b) Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.</p> <p>(c) Auditor will perform test of details also.</p> <p>(d) Both (b) and (c).</p>
170	<p><b>Substantive Analytical Procedures are generally more applicable to:</b></p> <p>(a) Large volumes of transactions.</p> <p>(b) Transactions predictable over time.</p> <p>(c) Both (a) and (b).</p> <p>(d) None of (a) and (b).</p>

171	<p>_____ is the comparison of current data with the prior period balance.</p> <p>(a) Ratio analysis (b) Trend analysis (c) Reasonableness test (d) Structural modelling</p>
172	<p><b>Statement1: Analytical procedures are more useful while conducting the audit and at the completion phase and are of no use at the planning stage.</b></p> <p><b>Statement 2: In the planning stage, audit procedures assist the auditor in understanding the client's business and identifying the areas of potential risks.</b></p> <p>(a) Statement 1&amp; 2 are correct. (b) Statement 1 &amp; 2 are incorrect. (c) Only Statement 1 is correct. (d) Only Statement 2 is correct.</p>
173	<p><b>What are analytical procedures?</b></p> <p>(a) Substantive tests designed to assess control risk. (b) Substantive tests designed to evaluate the validity of management's representation letter. (c) Substantive tests designed to study relationships between financial and non-financial data. (d) All of the above.</p>
174	<p><b>Analytical procedures issued in the planning stage of an audit, generally:</b></p> <p>(a) help to determine the nature, timing and extent of other audit procedures. (b) direct attention to potential risk areas. (c) indicate important aspects of business. (d) all of the above.</p>
175	<p><b>The basic assumption underlying the use of analytical procedures is:</b></p> <p>(a) It helps the auditor to study relationship among elements of financial information. (b) Relationship among data exist and continue in the absence of known condition to the contrary. (c) Analytical procedures will not be able to detect unusual relationships. (d) None of the above.</p>
176	<p><b>What is the primary objective of analytical procedures used in the overall review stage of an audit?</b></p> <p>(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.</p>
177	<p><b>Which of the following is correct?</b></p> <p>(a) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of financial data. (b) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of non-financial data. (c) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. (d) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through ratio analysis.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>

178	<p><b>Which of the following is not an analytical procedure?</b></p> <p>(a) Tracing of purchases recurred in the purchase book to purchase invoices.</p> <p>(b) Comparing aggregate wages paid to number of employees.</p> <p>(c) Comparing the actual costs with standard costs.</p> <p>(d) All of them are analytical procedure. <span style="float: right;">[MTP-Oct. 19]</span></p>
179	<p><b>Which of the following is correct?</b></p> <p>(a) Different types of analytical procedures provide different levels of assurance.</p> <p>(b) Different types of analytical procedures provide similar levels of assurance.</p> <p>(c) Similar type of analytical procedures provides different levels of assurance.</p> <p>(d) All are correct. <span style="float: right;">[MTP-Oct. 19]</span></p>
180	<p><b>Which of the following statement is correct?</b></p> <p>(a) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.</p> <p>(b) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time.</p> <p>(c) Substantive analytical procedures are generally more applicable to small volumes of transactions that tend to be predictable over time.</p> <p>(d) None of the above. <span style="float: right;">[RTP-Nov. 19]</span></p>
181	<p><b>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.</b></p> <p><b>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.</b></p> <p>(a) Only Statement I is correct.</p> <p>(b) Only Statement II is correct.</p> <p>(c) Both Statements are correct.</p> <p>(d) Both Statements are incorrect <span style="float: right;">[MTP-May 20, MTP-April 22, MTP-Sep. 22]</span></p>
182	<p><b>Which of the following is not an example of Analytical Procedures having consideration of comparisons of the entity’s financial information?</b></p> <p>(a) Comparable information for prior periods.</p> <p>(b) Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.</p> <p>(c) Similar industry information, such as a comparison of the entity’s ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.</p> <p>(d) Among elements of financial information that would be expected to conform to a predictable pattern based on the entity’s experience, such as gross margin percentages. <span style="float: right;">[RTP-May 20]</span></p>
183	<p><b>Auditor Compares Gross Profit Ratio with that of Previous year and it is discovered that there has been a fall in the ratio. This is an example of:</b></p>



	<p>(a) Analytical Procedure  (b) Test of Controls  (c) Walk Through Test  (d) Audit Sampling</p> <p style="text-align: right;">[RTP-Nov. 20, MTP-April 22]</p>
184	<p><b>_____ implies analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.</b></p> <p>(a) Trend analysis  (b) Ratio analysis  (c) Structural modelling  (d) Account fluctuations analysis</p> <p style="text-align: right;">[MTP-March 22]</p>
185	<p><b>The auditor of Vishwas Ltd. wants to know from you which of the following methods are analytical procedures:</b></p> <p><b>I. Comparison of client and industry data.</b>  <b>II. Comparison of client data with similar prior period data.</b>  <b>III. Comparison of client data with client-determined expected results.</b>  <b>IV. Comparison of client data with auditor-determined expected results.</b></p> <p>(a) I, II and III only  (b) I &amp; II only  (c) III &amp;, IV only  (d) I, II, III and IV</p> <p style="text-align: right;">[MTP-Sep. 22]</p>

### Chapter – 9: Audit of Items of Financial Statements

186	<p><b>Which assertion is common among the statement of profit and loss and balance sheet captions?</b></p> <p>(a) Existence  (b) Valuation  (c) Completeness  (d) Measurement</p>
187	<p><b>Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion:</b></p> <p>(a) Rights and obligations  (b) Existence  (c) Valuation  (d) Completeness</p>
188	<p><b>Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform:</b></p> <p>(a) No additional testing  (b) Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the customer's remittance advice.  (c) Additional testing including preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these revenue transactions actually occurred.  (d) Both (b) and (c)</p>

189	<p><b>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:</b></p> <p>(a) Valuation (b) Rights and obligations (c) Existence (d) Completeness</p>
190	<p><b>Observing inventory being counted and personally performing test counts to verify counts is performed during audit of inventory balances to address the following balance sheet assertion:</b></p> <p>(a) Rights and obligations (b) Valuation (c) Completeness (d) Existence</p>
191	<p><b>Wages paid to workers would qualify as:</b></p> <p>(a) Revenue expenditure (b) Capital expenditure (c) Revenue or capital expenditure depending upon facts and circumstances. (d) None of the above</p>
192	<p><b>During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised:</b></p> <p>(a) Development phase (b) Research phase (c) None of the above (d) Both (a) and (b)</p>
193	<p><b>Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion:</b></p> <p>(a) Valuation (b) Rights and obligations (c) Existence (d) Completeness</p>
194	<p><b>Cut-off testing is performed during audit of sales to address the following assertion:</b></p> <p>(a) Occurrence (b) Measurement (c) Cut-off (d) All of the above</p>
195	<p><b>ABC's investee company- XYZ declares final dividend for financial year 2022-23 in the meeting of board of directors held on April 10, 2023. In which financial year should ABC account for the dividend income:</b></p> <p>(a) Proportionately <i>i.e.</i> considering 10 days of financial year 2023-24 and 355 days of financial year 2022-23. (b) Financial year 2022-23. (c) Financial year 2023-24. (d) Equally between financial year 2022-23 and financial year 2023-24.</p>

196	<p><b>All inventory units held by the audit entity and that should have been recorded, have been recognized in the financial statements. The assertion involved is:</b></p> <p>(a) Existence (b) Completeness (c) Rights and Obligations (d) Valuation</p>
197	<p><b>Which of the following is not an example of revenue expenditure?</b></p> <p>(a) Salaries and wages of employees engaged directly or indirectly in production (b) Repairs, maintenance and renewals of fixed assets (c) Legal and professional expenses (d) Development expenditure on land</p>
198	<p><b>Useful life of assets is given in Schedule _____ of Companies Act, 2013.</b></p> <p>(a) II (b) IV (c) V (d) VII</p>
199	<p><b>_____ are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy.</b></p> <p>(a) Contingent Liabilities (b) Provision (c) Securities Premium Reserve. (d) Liabilities</p>
200	<p><b>Which of the following item should not be treated as an asset, as per provisions of Accounting Standard 26?</b></p> <p>(a) Computer software (b) Internally generated goodwill (c) Fishing License (d) Brand Names</p>
201	<p><b>One of your junior audit team members is confused with the term 'material misstatement'. You explain him that a material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement.</b></p> <p><b>(1) An error of ₹ 5,000 in relation to assets of ₹ 20 lakhs.</b> <b>(2) A payroll fraud of ₹ 100 in a company where profit before tax is ₹ 11,000.</b> <b>(3) Non-disclosure of a material uncertainty.</b> <b>(4) Financial statements have been prepared on a going concern basis when the company is in the process of being liquidated. Which of the abovementioned would constitute material misstatement?</b></p> <p>(a) (1) and (2) (b) (3) and (4) (c) (2) and (3) (d) (1) and (4)</p> <p style="text-align: right;"><b>[MTP-April 19]</b></p>

202	<p><b>ABC Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Ram was appointed as an auditor of the company for the Financial Year 2022-23. While examining the books of account of the company, auditor came to know about one of the major expenses of the company i.e. rent expense of ₹ 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would auditor perform substantive analytical procedure in the given scenario?</b></p> <p>(a) Auditor would inspect every single rent invoice per month of ₹ 1,20,000 and verify other elements appropriately.</p> <p>(b) Auditor would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.</p> <p>(c) Auditor would select the first month rent invoice of ₹ 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be ₹ 14,40,000 (<i>i.e.</i> ₹ 1,20,000*12). Thereafter, he would compare the actual with his prediction and follow-up for any fluctuation.</p> <p>(d) Both (a) and (b). <span style="float: right;">[RTP-May 19]</span></p>
203	<p><b>In July, 2022, M/s. ABC &amp; Co. entered into an agreement with M/s. X &amp; Co. under which a machinery would be let on hire and M/s. X &amp; Co. would have the option to purchase the machinery in accordance with the terms of the agreement. Thus, M/s. X &amp; Co. agreed to pay M/s. ABC &amp; Co. a settled amount in periodical instalments. The property in the goods shall be passed to M/s. X &amp; Co. on the payment of last of such instalments. While checking such hire-purchase transaction, what would the auditor examine?</b></p> <p>(a) That the periodical instalments paid are charged as an expenditure by M/s. X &amp; Co.</p> <p>(b) That M/s. ABC &amp; Co. charges depreciation throughout the life of the machinery.</p> <p>(c) That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.</p> <p>(d) All of the above. <span style="float: right;">[RTP-May 19]</span></p>
204	<p><b>The management of M Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Amar has been appointed as an auditor of the company for current Financial Year 2022-23. Before starting the audit, he wants to evaluate the internal control system of M Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Amar decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?</b></p> <p>(a) Are authorized signatories for purchases limited to elected officials?</p> <p>(b) Are payments approved only on original invoices?</p> <p>(c) Are monthly bank reconciliations implemented for each and every bank accounts of the company?</p> <p>(d) Does authorized officials thoroughly review the documents before signing cheques? <span style="float: right;">[RTP-May 19]</span></p>
205	<p><b>While auditing the books of accounts of ABC Ltd., CA. Sanyam, 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. Sanyam discussed with the management that according to AS 26, 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</b></p>

	<p><b>accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Sanyam explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples he must have given to the management?</b></p> <p>(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.</p> <p>(b) 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.</p> <p>(c) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.</p> <p>(d) Any of the above. <span style="float: right;">[RTP-May 19]</span></p>
206	<p><b>While auditing the accounts of Thought Co. Ltd., CA. Bliss, the auditor of the company came across certain accounts payable balances for which direct confirmation procedure needs to be applied. Thus, for the year ending on 31st March, 2022, he sent positive confirmation requests wherein the trade payables are requested to respond whether or not they are in agreement with the balance shown. The auditor received all the confirmation replies from the trade payables on time as correct except from five of them. What other option the auditor is left with regard to trade payables from which no reply for confirmation requests received?</b></p> <p>(a) Perform additional testing which may include agreeing the balance to subsequent cash paid.</p> <p>(b) Accept the balances as it is assuming other replies against received confirmation requests being correct.</p> <p>(c) Accept the balances as it is assuming that the trade payables must have replied in case of any discrepancies.</p> <p>(d) None of the above. <span style="float: right;">[RTP-May 19]</span></p>
207	<p><b>_____ 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.</b></p> <p>(a) Provisions</p> <p>(b) Reserves</p> <p>(c) Contingent Liabilities</p> <p>(d) Liability <span style="float: right;">[MTP-Oct. 20, RTP-May 21, MTP-April 22]</span></p>
208	<p><b>While conducting the audit of Saraswati Ltd., a packaged water making company, it was found that a purchase of motor car was made in the name of the company. Your Article Assistant has performed the following audit procedures. Identify which of the following procedure is incorrect.</b></p> <p>(a) Ascertain whether the purchase of car has been properly authenticated.</p> <p>(b) Check invoice of the car dealer to confirm the purchase price.</p> <p>(c) Examine registration with Transport Authorities to verify the ownership.</p> <p>(d) Ensure that the motor car has been included in the Closing inventory of goods. <span style="float: right;">[RTP-Nov. 20]</span></p>
209	<p><b>Which of the following is an example of revenue expenditure?</b></p> <p>(a) Wages on installation of Machinery.</p> <p>(b) Regular repairs incurred on PPE.</p> <p>(c) Legal expenses in purchase of land and building.</p> <p>(d) Freight inwards on purchase of PPE. <span style="float: right;">[MTP-March 21]</span></p>

210	<p>_____ refer to representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.</p> <p>(a) Assertions (b) Positive Confirmation (c) Written representation (d) Audit Evidence.</p> <p style="text-align: right;">[MTP-March 21]</p>
211	<p><b>Sec. 52 of the Companies Act, 2013 states that Security Premium Account can be applied by the Company for one of the purposes mentioned below. Which of the following is a CORRECT option?</b></p> <p>(a) To adjust loss on revaluation of Assets. (b) To pay dividend to equity shareholders. (c) Providing for the premium payable on redemption of Preference shares. (d) To use it as working capital for its business.</p> <p style="text-align: right;">[MTP-Oct. 21]</p>
212	<p><b>Statement I: A capital reserve cannot be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realized.</b></p> <p><b>Statement II: The amount of securities premium or capital redemption reserve account can be utilised only for the purposes specified in sections 52 and 55 of the Companies Act, 2013, respectively.</b></p> <p>(a) Only Statement I is correct. (b) Only Statement II is correct. (c) Both the statements are correct. (d) Both the statements are incorrect.</p> <p style="text-align: right;">[MTP-Nov. 21]</p>
213	<p><b>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:</b></p> <p>(a) Valuation (b) Rights and obligations (c) Existence (d) Completeness</p> <p style="text-align: right;">[MTP-Mar. 22]</p>
214	<p><b>Consider the following statements pertaining to nature and meaning of “assertions”:-</b></p> <p><b>Statement I—Assertions are representations by the management which are present in financial statements.</b></p> <p><b>Statement II —The assertions have to be necessarily explicit.</b></p> <p>(a) Only Statement I is true. (b) Only Statement II is true. (c) Both statements I and II are true. (d) Both statements I and II are false.</p> <p style="text-align: right;">[MTP-Mar. 22]</p>
215	<p><b>Which of the following is not correct?</b></p> <p>(a) AS 18 – Related Party Disclosures (b) AS 10 – Property, Plant &amp; Equipment (c) AS 28 – Impairment of Assets (d) AS 16 – Intangible Assets</p> <p style="text-align: right;">[MTP-April 22]</p>

216	<b>Consider the following data appearing in financial statements of a firm: -</b>		
	<b>Particulars</b>	<b>Amount in ₹</b>	<b>Amount in ₹</b>
	<b>Machinery (at cost)</b>	<b>XXX</b>	<b>10,00,000</b>
	<b>Less: Depreciation of earlier years</b>	<b>6,00,000</b>	<b>XXX</b>
	<b>Less: Depreciation of year</b>	<b>60,000</b>	<b>6,60,000</b>
	<b>WDV at the end of year</b>	<b>XXX</b>	<b>3,40,000</b>
<b>Read the following statements on basis of above: -</b>			
(i) The firm owns machinery.			
(ii) The machinery is being utilized in business of firm productively.			
(iii) The machinery physically exists.			
<b>Which of following would be obvious assertions on the basis of above data?</b>			
(a) Only assertions (i) and (ii) can be inferred.			
(b) Only assertions (ii) and (iii) can be inferred.			
(c) Only assertions (i) and (iii) can be inferred.			
(d) All assertions (i), (ii) and (iii) can be inferred.			
<b>[MTP-Oct. 22]</b>			

### Chapter – 10 : Company Audit

217	<p><b>PQR &amp; Associates, a firm of Chartered Accountants, has three partners P, Q and R. The firm is already having audit of 60 public companies. Now, the firm gets an offer from three company audits, out which one is a dormant company, second is a one-person company and third is a private company having paid-up share capital of ₹ 90 Crores. In this situation:</b></p> <p>(a) Auditor cannot accept any of the company audit being offered</p> <p>(b) Auditor can accept the audit of one-person company only</p> <p>(c) Auditor can accept the audit of one-person company and dormant company, but not that of private company</p> <p>(d) Auditor can accept audit of all three company audits being offered</p>
218	<p><b>Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within ____ days of occurrence of such vacancy and the company shall inform the central government in Form CRA-2 within 30 days of such appointment of cost auditor.</b></p> <p>(a) 30 Days</p> <p>(b) 45 Days</p> <p>(c) 60 Days</p> <p>(d) 90 Days</p>
219	<p><b>Section 139(1) of the Companies Act, 2013 provides that every company shall, at the first annual general meeting appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting _____.</b></p> <p>(a) till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.</p> <p>(b) till the conclusion of its sixth annual general meeting only.</p>



	<p>(c) till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every fifth meeting.</p> <p>(d) till the conclusion of its fifth annual general meeting and thereafter till the conclusion of every fifth meeting.</p>															
220	<p><b>Mr. Hitendra is acting as a Statutory Auditor of Kitex Ltd., for last 5 years. Kitex Ltd. is unlisted and has no public borrowings. Rotation of auditor will be required for Kitex Ltd., if:</b></p> <p>(a) its paid-up share capital is more than ₹ 10 crore.</p> <p>(b) its paid-up share capital is equal to or more than ₹ 10 crore.</p> <p>(c) its paid-up share capital is less than ₹ 50 crore.</p> <p>(d) its paid-up share capital is equal to or more than ₹ 50 crore.</p>															
221	<p><b>The first auditor of SW Limited was appointed by Board of Directors of SW Limited. One of the employees of SW Limited named Mr. Y was of the opinion that remuneration of first auditor of SW Limited would be decided only by the Members of SW Limited in First Annual General Meeting of SW Limited. The opinion of Mr. Y is incorrect because remuneration of first auditor of SW Limited may be decided by:</b></p> <p>(a) Only Members of SW Limited.</p> <p>(b) Only Members of SW Limited in Second Annual General Meeting of SW Limited.</p> <p>(c) Only in EGM of SW Limited.</p> <p>(d) Board of Directors of SW Limited.</p>															
222	<p><b>The information related to four companies is provided as follows:</b></p> <table border="1"> <thead> <tr> <th>Name of the Company</th> <th>Nature of the Company</th> <th>Turnover according to the Last Audited Financial Statements</th> </tr> </thead> <tbody> <tr> <td>Z1 Limited</td> <td>Public Limited Company</td> <td>160 crores</td> </tr> <tr> <td>Y2 Limited</td> <td>Public Limited Company</td> <td>180 crores</td> </tr> <tr> <td>N3 Private Limited</td> <td>Private Limited Company</td> <td>56 crores</td> </tr> <tr> <td>M4 Private Limited</td> <td>Private Limited Company</td> <td>43 crores</td> </tr> </tbody> </table> <p><b>Which of the above-mentioned company or companies is required to constitute an Audit Committee?</b></p> <p>(a) Only M4 Private Limited.</p> <p>(b) Both M4 Private Limited and N3 Private Limited.</p> <p>(c) Both Y2 Limited and N3 Private Limited.</p> <p>(d) Both Y2 Limited and Z1 Limited.</p>	Name of the Company	Nature of the Company	Turnover according to the Last Audited Financial Statements	Z1 Limited	Public Limited Company	160 crores	Y2 Limited	Public Limited Company	180 crores	N3 Private Limited	Private Limited Company	56 crores	M4 Private Limited	Private Limited Company	43 crores
Name of the Company	Nature of the Company	Turnover according to the Last Audited Financial Statements														
Z1 Limited	Public Limited Company	160 crores														
Y2 Limited	Public Limited Company	180 crores														
N3 Private Limited	Private Limited Company	56 crores														
M4 Private Limited	Private Limited Company	43 crores														
223	<p><b>A Partnership Firm of Chartered Accountants by the name of HK and Associates were the auditor of the company named TR Limited. Due to some reasons HK and Associates resigned from being the auditor of TR Limited. In this scenario who will appoint another auditor for TR Limited:</b></p> <p>(a) Members of TR Limited in Annual General Meeting.</p> <p>(b) Members of TR Limited in Extra Ordinary General Meeting.</p> <p>(c) Board of Directors of TR Limited but such appointment need not be approved by company TR Limited in the next Annual General Meeting.</p> <p>(d) Board of Directors of TR Limited but such appointment should be approved by company TR Limited in a General Meeting held within 3 months.</p>															
224	<p><b>There was a public limited company by the name of YW Limited. According to the last audited Financial Statements of YW Limited, the Paid-Up Capital was ₹ 20 crore. A Partnership Firm of</b></p>															

	<p><b>Chartered Accountants was required to be appointed as Auditor of YW Limited. In this scenario, which appropriate authority would consider the qualifications and experiences of Partnership Firm of Chartered Accountants for being appointed as an auditor of YW Limited considering the size and requirements of YW Limited:</b></p> <p>(a) Members of YW Limited.  (b) Audit Committee of YW Limited.  (c) Board of Directors of YW Limited.  (d) Independent Directors of YW Limited.</p>
225	<p><b>A private limited company by the name of WS Private Limited had a paid-up share capital of Rupees 65 crore for the financial year 2022-23. Which one of the following statement is correct relating to Rotation of Auditor of WS Private Limited?</b></p> <p>(a) Rotation of Auditor is applicable on WS Private Limited as WS Private Limited had a paid-up share capital of more than ₹ 40 crore.  (b) Rotation of Auditor is applicable on WS Private Limited as WS Private Limited had a paid-up share capital of more than ₹ 50 crore.  (c) Rotation of Auditor is not applicable on WS Private Limited as WS Private Limited had a paid-up share capital of less than ₹ 100 crore.  (d) Rotation of Auditor is not applicable on WS Private Limited as WS Private Limited had a paid-up share capital of less than ₹ 75 crore.</p>
226	<p><b>A Partnership Firm of Chartered Accountants by the name of HS and Associates completed its two terms of five consecutive years as auditor of Y65 Private Limited in the financial year 2022-23. Y65 Private Limited had a paid-up share capital of ₹ 58 crore. HS and Associates cannot be reappointed as auditor of Y65 Private Limited for how many years after completion of two terms of five consecutive years as auditor of Y65 Private Limited in the financial year 2022-23:</b></p> <p>(a) 10 years.  (b) 5 years.  (c) 3 years.  (d) 2 years</p>
227	<p><b>A director of YH Limited (which is not a Government Company) by the name of Mr. W was of the opinion that first auditors of YH Limited must be appointed by Members of YH Limited within 40 days from the date of registration of YH Limited. The opinion of Mr. W is incorrect because:</b></p> <p>(a) The first auditor of YH Limited shall be appointed by Board of Directors of YH Limited within 30 days from the date of registration of YH Limited.  (b) The first auditor of YH Limited shall be appointed by Board of Directors of YH Limited within 60 days from the date of registration of YH Limited.  (c) The first auditor of YH Limited shall be appointed by Members of YH Limited within 30 days from the date of registration of YH Limited.  (d) The first auditor of YH Limited shall be appointed by Members of YH Limited within 60 days from the date of registration of YH Limited.</p>
228	<p><b>Sec. 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.</b></p>

	<p>(a) within 60 days                  (b) within 30 days                  (c) within 90 days                  (d) within 45 days</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
229	<p><b>As per Sec. 139(8), any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India _____.</b></p> <p>(a) be filled by the Audit committee within 60 days.                  (b) be filled by the Audit committee within 30 days.                  (c) be filled by the Board of Directors within 60 days.                  (d) be filled by the Board of Directors within 30 days.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
230	<p><b>As per section 140(2), the auditor who has resigned from the company shall-</b></p> <p>(a) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar.                  (b) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar.                  (c) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.                  (d) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
231	<p><b>Which of the following is correct?</b></p> <p>(a) As per Sec. 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 Sec. 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting.                  (c) As per Sec. 142 of the Act, the remuneration of the auditor of a company shall be fixed in its extraordinary general meeting.                  (d) As per Sec. 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.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
232	<p><b>In case of a fraud involving less than ₹ 1 crore, the auditor shall _____.</b></p> <p>(a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.                  (b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.                  (c) report the matter to the Board within such time and in such manner as prescribed.                  (d) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
233	<p><b>Which of the following is incorrect?</b></p> <p>(a) According to Section 140(1), the auditor appointed u/s 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.</p>

	<p>(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.</p> <p>(c) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.</p> <p>(d) The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution. <b>[MTP-March 19]</b></p>
234	<p><b>Which of the following is correct?</b></p> <p>(a) A firm whereof all the partners practicing anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.</p> <p>(b) A firm whereof majority of partners practicing anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.</p> <p>(c) A firm whereof all the partners practicing in India are qualified for appointment may be appointed by its firm name to be auditor of a company.</p> <p>(d) A firm whereof majority of partners practicing in India are qualified for appointment may be appointed by its firm name to be auditor of a company. <b>[MTP-April 19]</b></p>
235	<p><b>As per Sec. 139(6), the first auditor of a company, other than a Government company, shall be appointed _____.</b></p> <p>(a) by the Board of Directors within 30 days from the date of registration of the company.</p> <p>(b) by the audit committee within 30 days from the date of registration of the company.</p> <p>(c) by the Managing Director within 30 days from the date of registration of the company.</p> <p>(d) by the shareholders within 30 days from the date of registration of the company. <b>[MTP-April 19]</b></p>
236	<p><b>Where a company is required to constitute an Audit Committee under section 177 _____.</b></p> <p>(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.</p> <p>(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.</p> <p>(c) appointment of first auditors shall be made after taking into account the recommendations of such committee.</p> <p>(d) appointment of subsequent auditors shall be made after taking into account the recommendations of such committee. <b>[MTP-April 19]</b></p>
237	<p><b>Which of the following is incorrect?</b></p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(d) Working papers not being his own property, auditor can exercise lien on working papers. <b>[MTP-April 19]</b></p>

238	<p><b>Springfield Hospital located in the rural area of Lonawala region is a government hospital run by the local doctors who are appointed by the government. The hospital was registered on 1st October 2022. Which of the following is correct in respect of the appointment of the first auditor for Springfield Hospital?</b></p> <p>(a) The Board of Directors of the hospital have appointed the first auditor on 5th November 2022.  (b) The Comptroller Auditor-General of India appointed the first auditor on 15th December 2022.  (c) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Director appointed the first auditor on 15th December 2022.  (d) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Director appointed the first auditor on 10th November 2022. <b>[MTP-April 19]</b></p>
239	<p><b>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-</b></p> <p>(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 ₹ 1,00,000.</p> <p><b>Which of the above is incorrect?</b></p> <p>(a) All statements are incorrect.  (b) (i) and (ii)  (c) (i) only  (d) (iv) only <b>[MTP-Oct. 19]</b></p>
240	<p><b>Which of the following is not an advantage of Joint Audit?</b></p> <p>(a) Sharing of expertise.  (b) General superiority complexes of some auditors.  (c) Lower workload.  (d) Displacement of the auditor of the company taken over in a takeover often obviated. <b>[MTP-Oct. 19]</b></p>
241	<p><b>Which of the following is correct as per section 143(10) of the Companies Act, 2013?</b></p> <p>(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) 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) 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.</p>

	(d) 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. <span style="float: right;">[MTP-Oct. 19]</span>
242	<p><b>Which of the following is not a duty of auditor to report under section 143(1)?</b></p> <p>(a) Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;</p> <p>(b) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;</p> <p>(c) Where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;</p> <p>(d) Whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report. <span style="float: right;">[MTP-Oct. 19]</span></p>
243	<p><b>Which of the following is correct?</b></p> <p>(a) U/s 128 of the Act, books of account of a company must be kept at the registered office.</p> <p>(b) U/s 128 of the Act, books of account of a company must be kept at the corporate office.</p> <p>(c) U/s 128 of the Act, books of account of a company must be kept at the Head office of the company.</p> <p>(d) U/s 128 of the Act, books of account of a company must be kept at the usual place of business. <span style="float: right;">[MTP-Oct. 19]</span></p>
244	<p><b>In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, _____, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.</b></p> <p>(a) Board</p> <p>(b) Any director</p> <p>(c) Managing director</p> <p>(d) Whole time director <span style="float: right;">[RTP-Nov. 19]</span></p>
245	<p><b>With respect to the forms specified by Companies (Cost Records &amp; Audit) Rule 2014, which of the following is incorrect combination?</b></p> <p>(a) Form CRA 1 - Maintenance of cost records by the Company.</p> <p>(b) Form CRA 2 - Intimation of appointment of another cost auditor to Central Government.</p> <p>(c) Form CRA 3 - Submission of Cost Audit Report to the Board of Directors of the company.</p> <p>(d) Form CRA 4 - Submission of Cost Audit Report by the company to the Registrar. <span style="float: right;">[MTP-May 20]</span></p>
246	<p><b>Statement I: A firm whereof majority of partners practicing in India are qualified for appointment may be appointed by its firm name to be auditor of a company.</b></p> <p><b>Statement II: Where a firm including a limited liability partnership is appointed as an auditor of a company, all the partners shall be authorised to act and sign on behalf of the firm.</b></p> <p>(a) Only Statement I is correct.</p> <p>(b) Only Statement II is correct.</p>



	<p>(c) Both statements are correct.</p> <p>(d) Both Statements are incorrect. <span style="float: right;">[RTP-May 20]</span></p>
247	<p><b>Which of the following is correct, in case of joint audit, where there is disagreement with regard to the opinion or any matters to be covered by the audit report.</b></p> <p>(a) The auditors shall express their opinion in separate audit report.</p> <p>(b) The audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).</p> <p>(c) Both (a) and (b) are correct.</p> <p>(d) The auditor who is having a separate opinion is bound by the opinion of the majority of the auditors and needs to issue a common audit report. <span style="float: right;">[MTP-March 21]</span></p>
248	<p><b>To jointly audit books of account of WZ Limited for the financial year 2022-23 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:</b></p> <p>(a) Principal Auditors of WZ Limited.</p> <p>(b) Branch Auditors of WZ Limited.</p> <p>(c) Individual Auditors of WZ Limited.</p> <p>(d) Joint Auditors of WZ Limited. <span style="float: right;">[RTP-Nov. 21]</span></p>
249	<p><b>Mr. Y is statutory auditor of "Always on Air Limited" under Companies Act, 2013 for the year 2022-23. He has to travel a lot in connection with professional audit work to different locations in India. While travelling, he prefers tickets of "Always on Air Limited". The tickets are booked by him through portal of the company at prevailing market prices. He has purchased tickets of ₹ 5,05,000 during year 2022-23 in above manner.</b></p> <p><b>Which of the following statement is most appropriate in this regard?</b></p> <p>(a) Mr. Y has become disqualified to be appointed as auditor of company by virtue of business relationship with the company.</p> <p>(b) Such a situation has no express disqualification under Companies Act. However, there is threat to independence of Mr. Y by virtue of self-interest threats. Therefore, he should withdraw from engagement.</p> <p>(c) Mr. Y has not incurred disqualification under Companies Act.</p> <p>(d) Such a situation has no express disqualification under Companies Act. However, there is threat to independence of Mr. Y by virtue of advocacy threats. Therefore, he should withdraw from engagement. <span style="float: right;">[MTP-Oct. 22]</span></p>
250	<p><b>During the course of audit of a listed company, CA P finds that solar power generating plant capitalized in books for ₹ 5 crore during the year does not exist. It became known that only bills were arranged and no assets were actually procured. Besides, financial statements also reflect depreciation of ₹ 1.50 crore on above. The bills of capitalized asset were approved by procurement head. The matter was reported to audit committee by CA P. However, no response was received. Considering above, choose the most appropriate option: -</b></p> <p>(a) The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO,2020.</p> <p>(b) The matter needs to be reported to MCA in ADT-4. It does not require reporting under CARO,2020.</p> <p>(c) The matter need not be reported to MCA. However, it requires reporting under CARO,2020.</p> <p>(d) The matter needs neither reporting to MCA nor under CARO,2020. <span style="float: right;">[MTP-Oct. 22]</span></p>



## Chapter - 11: Audit Reports

251	<p><b>Which of the following is not a type of modified opinion?</b></p> <p>(a) Qualified opinion (b) Adverse opinion (c) Disclaimer of opinion (d) Negative opinion.</p>
252	<p><b>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.</b></p> <p>(a) adverse (b) qualified (c) disclaimer (d) unmodified opinion with key audit matter paragraph.</p>
253	<p><b>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?</b></p> <p>(a) Key audit matters (b) Basis of opinion (c) Date (d) All of the above</p>
254	<p><b>The Opinion section of the auditor's report shall:</b></p> <p>(a) Identify the entity whose financial statements have been audited. (b) State that the financial statements have been audited. (c) Identify the title of each statement comprising the financial statements. (d) All of the above</p>
255	<p><b>Which of the following is correct?</b></p> <p>(a) The auditor shall express a qualified 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.</p> <p>(b) The auditor shall express a disclaimer 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.</p> <p>(c) The auditor shall express an adverse 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.</p> <p>(d) The auditor shall express an adverse opinion when 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. <b>[MTP-March 19]</b></p>
256	<p><b>Which of the following is correct?</b></p> <p>(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.</p>

	<p>(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.</p> <p>(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.</p> <p>(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. <b>[MTP-April 19]</b></p>
<p>257</p>	<p><b>Which of the following is incorrect?</b></p> <p>(a) Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.</p> <p>(b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised).</p> <p>(c) Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.</p> <p>(d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised). <b>[MTP-April 19]</b></p>
<p>258</p>	<p><b>CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?</b></p> <p>(a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>(b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p>

	<p>(c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>(d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework. <b>[RTP-May 19]</b></p>
259	<p><b>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_____.</b></p> <p>(a) a qualified opinion                  (b) an adverse opinion                  (c) a disclaimer of opinion                  (d) emphasis of matter paragraph <b>[MTP-Oct. 19]</b></p>
260	<p><b>An Audit report is:</b></p> <p>(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 account 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 account to make sure that the records are true and correct representation of the transactions they claim to represent. <b>[MTP-Oct 19]</b></p>
261	<p><b>Which of the following is not a Specific Evaluations by the Auditor?</b></p> <p>(a) The financial statements adequately disclose the significant accounting policies selected and applied.                  (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.                  (c) The accounting estimates made by management are reasonable.                  (d) The sufficient appropriate audit evidence has been obtained. <b>[MTP-Oct 19]</b></p>
262	<p><b>Which of the following is not correct?</b></p> <p>(a) SA 700 - Forming an Opinion and Reporting on Financial Statements.                  (b) SA 705 - Modified Opinion.                  (c) SA 701 - Communicating Key Audit Matters.                  (d) SA 706 - Comparative Information. <b>[MTP-Oct. 20]</b></p>
263	<p><b>Which of the following is FALSE regarding UDIN? (Unique document identification number)</b></p> <p>(a) It is to be generated on UDIN portal.                  (b) Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members.                  (c) It has to be generated and stated for each audit report signed by a Chartered Accountant.                  (d) It has to be generated and stated for each certificate signed by a Chartered Accountant. <b>[MTP-Oct. 22]</b></p>

## Chapter - 12: Audit of Banks

264	<b>Regulating body in case of banks is:</b> (a) SEBI (b) IRDA (c) RBI (d) ICAI
265	<b>Which of the following is fund-based advance?</b> (a) Term loans (b) Cash credits, (c) Demand Loans (d) All of the above
266	<b>Which of the following is not classification of NPA?</b> (a) Impaired (b) sub standard (c) doubtful (d) Loss
267	<b>Engagement Team Discussions are usually done at which stage of Bank audit?</b> (a) Appointment (b) Developing an Audit Plan (c) Framing an Audit Programme (d) Issuing Audit Report
268	<b>The auditor of a nationalised bank is to be appointed by:</b> (a) The Bank concerned through its Board of Directors (b) Shareholders in Annual General Meeting (c) Comptroller & Auditor General of India (d) Ministry of Corporate Affairs
269	<b>The LFAR is to be submitted before _____ every year.</b> (a) 30th April (b) 31st May (c) 30th June (d) 30th September
270	<b>In case of Frauds involving amount less than INR 1 crore, the auditor should report to the:</b> (a) Central Government (b) Reserve Bank of India (c) Bank's Board/Audit Committee (d) Comptroller & Audit General
271	<b>Which of the following is a non-funded facility as sanctioned by any bank?</b> (a) Bank Guarantee (b) Term Loan (c) Staff Advances (d) Bank Overdraft

272	<p><b>Drawing Power in case of consortium advances is computed and allocated to member banks by the:</b></p> <p>(a) Bank members proportionately                  (b) Lead bank                  (c) Borrower                  (d) Reserve Bank of India</p>
273	<p><b>Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Activa Scooter for INR 60,000. She is regular in depositing EMI of the Activa Loan but has not made any payments towards the Personal Loan due to low business during the year. In this case, which of the following facilities should be categorized as NPA?</b></p> <p>(a) Activa Loan                  (b) Personal Loan                  (c) Higher of the two                  (d) Both the Activa Loan &amp; the Personal Loan</p>
274	<p><b>Which of the following is correct in case of Banks?</b></p> <p>(a) The policy of income recognition should be objective.                  (b) The policy of income recognition should be subjective.                  (c) The policy of income recognition may be objective or subjective.                  (d) The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.</p> <p style="text-align: right;"><b>[MTP-March 19]</b></p>
275	<p><b>Which of the following is correct?</b></p> <p>(a) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a Firm of Chartered Accountants only.                  (b) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.                  (c) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a CAG Auditor only.                  (d) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under Banking Law.</p> <p style="text-align: right;"><b>[MTP-Oct. 19]</b></p>
276	<p><b>A Ltd. has been assigned a Cash Credit limit of INR 20 lacs as against its Book Debts furnished as security. What kind of Security creation is it?</b></p> <p>(a) Pledge                  (b) Mortgage                  (c) Assignment                  (d) Set-off</p> <p style="text-align: right;"><b>[MTP-Oct. 20, MTP-March 22]</b></p>
277	<p><b>The auditors should classify Credit card accounts as NPA, if _____ amount due, as mentioned in the credit card statement is not paid fully within _____ days from next statement date.</b></p> <p>(a) total, 90                  (b) minimum, 90                  (c) minimum, 30                  (d) minimum, 60</p> <p style="text-align: right;"><b>[MTP-March 22]</b></p>

278	<p><b>The term “Drawing Power” is associated with which of the following facilities as sanctioned by any Bank?</b></p> <p>(a) Letter of Credit (b) Term Loan (c) Staff Advances (d) Cash Credit Limit</p> <p style="text-align: right;">[MTP-Sep. 22]</p>														
279	<p><b>You are part of an engagement team conducting statutory audit of branch of a nationalized bank. It is noticed that branch has sanctioned a cash credit limit for meeting working capital requirements to a proprietary firm. The proprietor has also mortgaged his residential house in the city by depositing title deed with branch. Keeping in view above, consider the following table: -</b></p> <table style="width: 100%; border: none;"> <thead> <tr> <th style="text-align: center;">Column X</th> <th style="text-align: center;">Column Y</th> </tr> </thead> <tbody> <tr> <td>(1) Stocks of firm</td> <td>(A) Primary Security</td> </tr> <tr> <td>(2) Residential house</td> <td>(B) Secondary security</td> </tr> <tr> <td>(3) Mode of security creation for residential house</td> <td>(C) Registered Mortgage</td> </tr> <tr> <td>(4) Debtors of firm</td> <td>(D) Equitable Mortgage</td> </tr> <tr> <td>(5) Mode of security creation for stocks and debtors</td> <td>(E) Collateral security</td> </tr> <tr> <td></td> <td>(F) Hypothecation</td> </tr> </tbody> </table> <p><b>Identify the most appropriate combination by matching Column X with Column Y: -</b></p> <p>(a) 1-A, 2-B, 3-D, 4-A, 5-C (b) 1-A, 2-E, 3-D, 4-A, 5-F (c) 1-A, 2-B, 3-C, 4-B, 5-D (d) 1-A, 2-E, 3-D, 4-B, 5-D</p> <p style="text-align: right;">[MTP-Oct. 22]</p>	Column X	Column Y	(1) Stocks of firm	(A) Primary Security	(2) Residential house	(B) Secondary security	(3) Mode of security creation for residential house	(C) Registered Mortgage	(4) Debtors of firm	(D) Equitable Mortgage	(5) Mode of security creation for stocks and debtors	(E) Collateral security		(F) Hypothecation
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(5) Mode of security creation for stocks and debtors	(E) Collateral security														
	(F) Hypothecation														
280	<p><b>“Letters of credit” and “Foreign bills purchased and discounted” are examples of respectively:</b></p> <p>(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</p> <p style="text-align: right;">[RTP-Nov. 22]</p>														

### Chapter – 13: Audit of Different Types of Entities

281	<p><b>Public enterprises are required to maintain commercial accounts and are generally classified under three categories. Which of the following is not a category relating to above?</b></p> <p>(a) Departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies; (b) Statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and (c) Government companies set up under the Companies Act, 2013. (d) Charitable Trusts.</p>
282	<p><b>_____ aims at ascertaining that 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.</b></p> <p>(a) Audit against provision of funds (b) Propriety audit</p>

	(c) Audit of sanctions (d) Audit against rules and orders
283	<b>Every LLP would be required to file annual return in Form with ROC within 60 days of closer of financial year:</b> (a) Form 11 (b) Form 8 (c) Form 9 (d) Form DPIN
284	<b>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 _____.</b> (a) Internal Control Questionnaires (b) Audit Supplements (c) Audit Memos (d) Memorandum reports
285	<b>While conducting the audit of a local body, the auditor's areas of audit do not include?</b> (a) Budgetary Procedure (b) Expenditure Control (c) Accounting System (d) Dispute Resolution
286	<b>After a government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the:</b> (a) CAG (b) President (c) Public Accounts Committee (d) Parliament
287	<b>Under section 43(h) of the Central Act, who can frame rules prescribing the books and accounts to be kept by a cooperative society?</b> (a) Central Government. (b) State Government. (c) Management Committee of the Society. (d) Secretary of the cooperative Society. <span style="float: right;">[RTP-Nov. 21]</span>
288	<b>Article 151 requires that the reports of the C&amp;AG relating to the accounts of the Union/State shall be submitted to the _____ who shall cause them to be laid before House of Parliament/State Legislature.</b> (a) President/Governor (b) Prime Minister/ Chief Minister (c) Union Finance Minister/State Finance Minister (d) Union Cabinet <span style="float: right;">[MTP-April 22]</span>
289	<b>The Auditor of a Sole Proprietor Concern is appointed by _____.</b> (a) CAG (b) Bank (c) Sole Proprietor himself (d) District Administration <span style="float: right;">[MTP-April 22]</span>



<b>290</b>	<p><b>The office of C&amp;AG conducted audit in state of Gujarat to assess whether system for enforcement of the provisions of the Air (Prevention and Control of Pollution) Act, 1981 was efficient and effective. It also evaluated whether various schemes and initiatives taken by state government for abatement for air pollution were adequate. Besides, it also assessed adequacy of human resources in State pollution control Board to regulate and monitor air pollution. Which of the following terms best exemplifies such audit carried out by C&amp;AG?</b></p>
	<p>(a) Propriety audit          (b) Audit of sanctions          (c) Audit against rules and orders          (d) Performance audit</p>
	<b>[MTP-Oct. 22]</b>

Answer Key	
Q. No.	Answer
1	(a) Auditing
2	(b) Record and accounts
3	(c) Both (a) and (b)
4	(d) Professional competence and due care.
5	(b) independence
6	(b) Financial Statements of the Company.
7	(b) Material.
8	(c) (1), (2) and (3)
9	(d) Auditor
10	(c) reasonable assurance
11	(a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
12	(b) Familiarity threats
13	(a) the original engagement; or any procedures that may have been performed in the original engagement.
14	(a) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
15	(b) audit evidence
16	(c) Management or those charged with governance, as appropriate.
17	(a) objective
18	(c) professional judgment
19	(b) Self-interest threats
20	(c) Reporting on true and fair view of financial statements
21	(b) Sign the balance sheet after reviewing the work of his partner

22	(d)	Intimidation threat
23	(c)	seven years
24	(b)	Inspection
25	(b)	those charged with governance
26	(c)	Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
27	(c)	Professional Skepticism
28	(b)	(i),(ii),(iii), (iv), (v)
29	(a)	inherent, unavoidable
30	(c)	Express an opinion on the Financial Statements
31	(b)	Advocacy threat
32	(b)	Independence
33	(b)	Overlooking unusual circumstances
34	(d)	Integrity of key management personnel
35	(b)	Integrity
36	(a)	continuous
37	(c)	Both Statements 1 & 2 are correct
38	(d)	Monitoring of the audit
39	(a)	auditor's
40	(c)	audit programme
41	(c)	The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
42	(b)	audit plan
43	(d)	all of the above
44	(b)	should consider materiality and its relationship with audit risk while conducting an audit.
45	(a)	the auditor considers what would make the financial information materially misstated.
46	(d)	all of the above
47	(b)	Professional Judgment
48	(a)	establishing the overall audit strategy for the engagement and developing an audit plan.
49	(b)	planning is not a discrete phase of an audit, but rather a continual and iterative process
50	(b)	the overall audit strategy and the audit plan
51	(c)	both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit
52	(c)	Periodic Review
53	(b)	Overall Audit Strategy

54	(c)	Audit programme is a detailed plan of applying audit procedures
55	(c)	Both 1 & 2 are incorrect
56	(d)	Recalculation of Depreciation
57	(c)	SA 505- Written Representation
58	(d)	All of the above
59	(c)	Audit Documentation
60	(a)	Audit File
61	(b)	60
62	(d)	Internal Control
63	(a)	professional judgment
64	(b)	the significant matters identified during the audit and how they were addressed
65	(d)	(i),(ii) and (iii)
66	(d)	Written representations provide necessary audit evidence and also they provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
67	(b)	evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
68	(c)	Audit file
69	(a)	Inquiry consists of seeking information of unknown persons, both financial and non-financial, within the entity or outside the entity.
70	(a)	The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
71	(b)	both information contained in the accounting records underlying the financial statements and other information.
72	(d)	obtaining and evaluating audit evidence.
73	(a)	Misstatement
74	(d)	Negative confirmation request
75	(c)	a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
76	(d)	All of the above
77	(d)	All of the above
78	(b)	Notes reflecting preliminary thinking.
79	(d)	Risk assessment procedures.
80	(b)	Non-response
81	(c)	Both 1 & 2 are correct
82	(d)	Current year profit turns to loss after providing depreciation
83	(b)	Observation.

84	(a)	objective analysis
85	(a)	cumulative
86	(c)	SQC 1, engagement documentation, seven years
87	(b)	Risk assessment procedures
88	(a)	Inspection
89	(c)	Re-performance
90	(d)	Increase in cost of feed of chicks by 20% during the year
91	(a)	detection risk
92	(b)	inverse
93	(b)	two
94	(c)	directly or indirectly
95	(d)	Not consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement
96	(a)	Misstatement
97	(b)	More than or equal to ₹ 50 crore.
98	(b)	More than or equal to ₹ 200 crore.
99	(b)	inherent risk and control risk
100	(d)	the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.
101	(c)	that the financial statements are materially misstated prior to audit.
102	(b)	Inherent Risk
103	(b)	matter of professional judgment, rather than a matter capable of precise measurement.
104	(d)	Control Deficiency
105	(d)	All of the above
106	(c)	at the financial statement and assertion levels.
107	(d)	Inherent risk and control risk
108	(a)	ICAI
109	(a)	risks of material misstatement and detection risk.
110	(c)	that the financial statements are materially misstated prior to audit.
111	(a)	quantitative terms, such as in percentages, or in non-quantitative terms.
112	(d)	it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls.
113	(b)	the auditor shall make specific inquiries to understand these matters and their potential consequences
114	(a)	Risk of material misstatement

115	(c)	prior to audit
116	(c)	(i),(ii) and (iii)
117	(b)	An example of component of internal control of company
118	(c)	Internal audit cannot review non-financial activities of company.
119	(b)	Compensating error
120	(a)	Self-revealing errors
121	(a)	An auditor conducting an audit in accordance with SAs is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
122	(b)	intention
123	(d)	₹ 1 crore or above
124	(d)	ADT - 4
125	(a)	Clause (xi)
126	(d)	Making payments against inflated vouchers.
127	(d)	SA 240
128	(c)	determine the professional and legal responsibilities applicable in the circumstances.
129	(a)	fraud risk factors
130	(c)	Board of Directors/Audit Committee
131	(a)	Teeming and Lading
132	(b)	Adjusting unauthorized or fictitious rebates, allowances, discounts, etc. to customer' accounts and misappropriating amount paid by them.
133	(c)	Access Security
134	(d)	Configurations
135	(b)	Directors
136	(a)	ICAI
137	(d)	Automated Environment
138	(a)	General IT Controls
139	(c)	Data Analytics
140	(a)	Application controls
141	(b)	IT dependent Controls
142	(c)	Database
143	(a)	Material weakness
144	(d)	Independent Directors
145	(d)	Re-performance
146	(b)	Program change
147	(c)	To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives.

148	(d)	all of above
149	(a)	Inquiry
150	(a)	Inquiry in combination with Inspection.
151	(a)	General IT Controls; Application Controls
152	(d)	All of the above
153	(a)	independent directors
154	(b)	Computer Assisted Auditing Techniques or CAATs in short
155	(d)	Privileged access.
156	(a)	Mathematically measure risk
157	(d)	Both (b) and (c)
158	(c)	Materiality
159	(d)	All of the above
160	(a)	Statistical
161	(d)	Appropriateness, Completeness, Reliable.
162	(a)	equal chance of selection
163	(a)	inverse
164	(c)	both (a) and (b)
165	(a)	the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.
166	(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.
167	(b)	Monetary Unit Sampling
168	(a)	Haphazard selection
169	(d)	Both (b) and (c)
170	(c)	Both (a) and (b)
171	(b)	Trend analysis
172	(d)	Only Statement 2 is correct
173	(c)	Substantive tests designed to study relationships between financial and non-financial data
174	(d)	all of the above
175	(b)	Relationship among data exist and continue in the absence of known condition to the contrary
176	(a)	To help to corroborate the conclusions drawn from individual components of financial statements
177	(c)	As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
178	(a)	Tracing of purchases recurred in the purchase book to purchase invoices.

179	(a)	Different types of analytical procedures provide different levels of assurance.
180	(a)	Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time
181	(b)	Only Statement II is correct
182	(d)	Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
183	(a)	Analytical procedure
184	(a)	Trend analysis
185	(d)	I, II, III and IV
186	(c)	Completeness
187	(b)	Existence
188	(b)	Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the customer's remittance advice.
189	(a)	Valuation
190	(d)	Existence
191	(c)	Revenue or capital expenditure depending upon facts and circumstances.
192	(b)	Research phase
193	(d)	Completeness
194	(c)	Cut-off
195	(c)	Financial year 2023-24
196	(b)	Completeness
197	(d)	Development expenditure on land
198	(a)	II
199	(b)	Provision
200	(b)	Internally generated goodwill
201	(b)	(3) and (4)
202	(c)	Auditor would select the first month rent invoice of ₹ 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be ₹ 14,40,000 (i.e. ₹ 1,20,000 * 12). Thereafter, he would compare the actual with his prediction and follow-up for any fluctuation.
203	(c)	That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.
204	(c)	Are monthly bank reconciliations implemented for each and every bank accounts of the company?
205	(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.
206	(a)	Perform additional testing which may include agreeing the balance to subsequent cash paid.
207	(c)	Contingent Liabilities
208	(d)	Ensure that the motor car has been included in the Closing inventory of goods.



209	(b)	Regular repairs incurred on PPE
210	(a)	Assertions
211	(c)	Providing for the premium payable on redemption of Preference shares
212	(b)	only Statement II is correct
213	(a)	Valuation
214	(a)	Only Statement I is true.
215	(d)	AS 16 – Intangible Assets
216	(d)	All assertions (i), (ii) and (iii) can be inferred.
217	(d)	Auditor can accept audit of all three company audits being offered
218	(a)	30 Days
219	(a)	till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.
220	(b)	Its paid-up share capital is equal to or more than ₹ 10 crore
221	(d)	Board of Directors of SW Limited.
222	(d)	Both Y2 Limited and Z1 Limited.
223	(d)	Board of Directors of TR Limited but such appointment should be approved by company TR Limited in a General Meeting held within 3 months.
224	(b)	Audit Committee of YW Limited.
225	(b)	Rotation of Auditor is applicable on WS Private Limited as WS Private Limited had a paid-up share capital of more than ₹ 50 crore
226	(b)	5 years.
227	(a)	The first auditor of YH Limited shall be appointed by Board of Directors of YH Limited within 30 days from the date of registration of YH Limited.
228	(a)	within 60 days
229	(d)	be filled by the Board of Directors within 30 days.
230	(b)	file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
231	(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.
232	(a)	report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
233	(d)	The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution.
234	(d)	A firm whereof majority of partners practicing in India are qualified for appointment may be appointed by its firm name to be auditor of a company.
235	(a)	by the Board of Directors within 30 days from the date of registration of the company.
236	(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.

237	(d)	Working papers not being his own property, auditor can exercise lien on working papers.
238	(c)	Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Director appointed the first auditor on 15th December 2022.
239	(c)	(i) only
240	(b)	General superiority complexes of some auditors.
241	(d)	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.
242	(d)	Whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
243	(a)	U/s 128 of the Act, books of account of a company must be kept at the registered office.
244	(a)	Board
245	(d)	Form CRA 4- Submission of Cost Audit Report by the company to the Registrar.
246	(a)	Only Statement I is correct
247	(c)	Both (a) and (b) are correct
248	(d)	Joint Auditors of WZ Limited.
249	(c)	Mr. Y has not incurred disqualification under Companies Act.
250	(a)	The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO, 2020.
251	(d)	Negative opinion
252	(a)	adverse
253	(d)	All of the above
254	(d)	All of the above
255	(c)	The auditor shall express an adverse 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.
256	(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.
257	(d)	Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.
258	(a)	In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
259	(a)	a qualified opinion
260	(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.

261	(d)	The sufficient appropriate audit evidence has been obtained.
262	(d)	SA 706 - Comparative Information.
263	(b)	Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members.
264	(c)	RBI
265	(d)	All of the above
266	(a)	Impaired
267	(b)	Developing an Audit Plan
268	(a)	The Bank concerned through its Board of Directors
269	(c)	30th June
270	(c)	Bank's Board/Audit Committee
271	(a)	Bank Guarantee
272	(b)	Lead bank
273	(d)	Both the Activa Loan & the Personal Loan
274	(d)	The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.
275	(b)	Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.
276	(c)	Assignment
277	(b)	minimum, 90
278	(d)	Cash Credit Limit
279	(b)	1-A, 2-E, 3-D,4-A,5-F
280	(b)	Non-funded facility and funded facility
281	(d)	Charitable Trusts
282	(a)	Audit against provision of funds
283	(a)	Form 11
284	(c)	Audit Memos
285	(d)	Dispute Resolution
286	(c)	Public Accounts Committee
287	(b)	State Government
288	(a)	President/Governor
289	(c)	Sole Proprietor himself
290	(d)	Performance audit

# Integrated Case Studies

Integrated Case Study - 1	
<ul style="list-style-type: none"> <li>• M/s. TPR &amp; Associates have been appointed as the auditors of Octopus Ltd. for the FY 2022-23.</li> <li>• During the course of audit, the auditor notices that there is significant change in the number of debtors of the company. The auditor decided to check the debtors account in detail.</li> <li>• Further the company has made various provisions like the provisions for taxation, provision for bad &amp; doubtful debts.</li> <li>• Also, during the current Financial Year, the auditor attended the physical verification of the inventory being carried out by the management.</li> <li>• The auditor notices that there is no substantial change in the bifurcation of amount of items representing the liability side of the balance sheet of Octopus Ltd. Still the auditor understands that he needs to check the liability side in detail.</li> <li>• Further the company has also recognised various incomes like interest income and dividend income which auditor understands need to be checked in detail.</li> <li>• The auditor is of the understanding that certain matters need to be reported under Companies Auditors Report Order (CARO).</li> </ul>	
<p>Based on the above facts, answer the following: <span style="float: right;">[MTP-May 20]</span></p>	
Q. 1	<p>_____ 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.</p> <p>(a) Provision                      (b) Reserve                      (c) Contingent Liability                      (d) Liability</p>
Q. 2	<p><b>Which of the following is not correct with respect to the inventory held by Octopus Limited:</b></p> <p>(a) All inventory units held by the company should have been recorded and recognized in the financial statements.                      (b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.                      (c) Inventory should be recognized at cost or net realizable value whichever is lower.                      (d) Inventory balance as at the year-end does not include any element of next year.</p>
Q. 3	<p><b>If the management of Octopus Ltd. refuses to allow the auditor, to send the confirmation request to the debtors, the auditor should:</b></p> <p>(a) Withdraw from the engagement.                      (b) Not listen at all to any requests of the management.                      (c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.                      (d) Agree to management request and proceed with audit of other items of the financial statements.</p>

<b>Q. 4</b>	<b>Which of the following statements is not true so far as the liabilities of a company are concerned:</b>
	<p>(a) Liabilities are the financial obligations of a company including owner's funds.</p> <p>(b) Liabilities include borrowing, trade payable and other current liabilities and provisions.</p> <p>(c) Verification of liabilities is as important as that of assets.</p> <p>(d) All of the above.</p>
<b>Q. 5</b>	<b>Statement 1: Confirmations as well as undelivered letters should be given/returned to the auditor and not to the client.</b>
	<p><b>Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances.</b></p> <p>(a) Only statement 1 is correct</p> <p>(b) Only statement 2 is correct</p> <p>(c) Both 1 &amp; 2 are correct</p> <p>(d) Both 1 &amp; 2 are incorrect</p>

#### Answer - Integrated Case Study 1

Q. No.	Answer	
1	(c)	Contingent Liability
2	(b)	Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.
3	(c)	Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.
4	(a)	Liabilities are the financial obligations of a company including owner's funds.
5	(c)	Both 1 & 2 are correct

#### Integrated Case Study - 2

ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2023. The Gross turnover of the company is ₹ 105 crores, out of which turnover from one of its products namely coffee is of ₹ 95 crores during the immediately preceding Financial Year.

During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same needs to be reported under the relevant provisions of Companies (Auditors Report) Order 2020.

During the FY 2022-23, Mrs. X, wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act, 2013.

Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act, 2013.

During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.

Based on the above facts, answer the following:

[MTP-May 20]

<b>Q. 1</b>	<b>After the appointment of XYZ &amp; Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:</b>
	<ul style="list-style-type: none"> <li>(a) 60 days</li> <li>(b) 30 days</li> <li>(c) 15 days</li> <li>(d) 20 days</li> </ul>
<b>Q. 2</b>	<b>If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ &amp; Associates shall take corrective actions within _____ days. What is the prescribed limit:</b>
	<ul style="list-style-type: none"> <li>(a) 100 days, Market Value ₹ 1,00,000</li> <li>(b) 60 days, Face value ₹ 1,00,000</li> <li>(c) 90 days, Face value ₹ 1,00,000</li> <li>(d) 15 days, Market Value ₹ 1,00,000</li> </ul>
<b>Q. 3</b>	<b>Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:</b>
	<ul style="list-style-type: none"> <li>(a) Section 143(12), 1 crore &amp; above</li> <li>(b) Section 139(12), 1 crore &amp; above</li> <li>(c) Section 143(12), 2 crore &amp; above</li> <li>(d) None of the above</li> </ul>
<b>Q. 4</b>	<b>What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:</b>
	<ul style="list-style-type: none"> <li>(a) Maintenance of cost records is mandatory, in form CRA 1.</li> <li>(b) Maintenance of cost records is mandatory, in form CRA 2.</li> <li>(c) Maintenance of cost records is mandatory, in any general format.</li> <li>(d) No requirement of maintenance of cost records.</li> </ul>
<b>Q. 5</b>	<b>Under relevant clause of CARO, 2020, XYZ &amp; Associates is required to report the extent of arrears of outstanding Provident Fund as on the last day of the financial year for a period of:</b>
	<ul style="list-style-type: none"> <li>(a) Exceeding 9 months</li> <li>(b) Exceeding 3 months</li> <li>(c) Exceeding 6 months</li> <li>(d) Exceeding 12 months</li> </ul>

**Answer - Integrated Case Study 2**

Q. No.	Answer	
<b>1</b>	<b>(c)</b>	15 days
<b>2</b>	<b>(b)</b>	60 days, Face value ₹ 1,00,000
<b>3</b>	<b>(a)</b>	Section 143(12), 1 crore & above
<b>4</b>	<b>(a)</b>	Maintenance of cost records is mandatory, in form CRA 1.
<b>5</b>	<b>(c)</b>	Exceeding 6 months

## Integrated Case Study - 3

Mr. Laxman is appointed as statutory auditor of Best Limited for the Financial Year ended 31st March, 2023. During the course of audit, it was found that few doubtful transactions had been committed by finance manager who retired in March, 2023.

The fraud was going on since last 4-5 years and the total amount misappropriated is approximately ₹ 75 lacs.

Balance sheet of Best Ltd. reflected a cash balance of ₹ 7 crores. The company has taken a loan of ₹ 2 crores from the bank despite of the huge cash balance with the company.

Also, Companies Act bestows some duties on auditors to report matters to Central Government in case of fraud.

On the basis of above facts answer below questions in relation to Mr. Laxman's role and duties while conducting statutory audit of Best Limited. [MTP-Oct. 20]

Q. 1	<p>Mr. Laxman shall obtain _____ that the financial statements are free from fraud and misstatement.</p> <p>(a) Absolute assurance (b) Reasonable assurance (c) Management's assurance (d) Chief Financial Officer assurance</p>
Q. 2	<p>Mr. Laxman suspects that cash payments were inflated. Out of the below which could be probable reason for such inflated cash payments.</p> <p>(a) Not accounting for cash sales completely. (b) Making payments against purchase vouchers. (c) Making payments against inflated vouchers. (d) Teeming and Lading.</p>
Q. 3	<p>As per Section 143(12) of Companies Act, 2013 &amp; Rule 13 of CAAR, 2014; Mr. Laxman shall _____.</p> <p>(a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed. (b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed. (c) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed. (d) report the matter to the Board within such time and in such manner as prescribed.</p>
Q. 4	<p>Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.</p> <p>(a) Inherent, unavoidable (b) Inherent, complete (c) Management, unavoidable (d) Regulatory, control</p>
Q. 5	<p>As an auditor what conclusion can Mr. Laxman draw looking at the huge cash reserve of the company and corresponding bank loan?</p> <p>(a) Report this matter to the Central Government u/s 143(12) as there is a possibility of fraud. (b) Obtain sufficient and appropriate audit evidence of existence of fraud.</p>



(c) Report the matter under CARO, 2020.
(d) There is nothing to report as it's a normal financial decision.

**Answer - Integrated Case Study 3**

Q. No.	Answer	
1	(b)	Reasonable assurance
2	(c)	Making payments against inflated vouchers
3	(a)	report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
4	(a)	Inherent, unavoidable
5	(b)	Obtain sufficient and appropriate audit evidence of existence of fraud

**Integrated Case Study - 4**

**Roop & Co. are the auditors of Onda group of hotels. This is the first time the firm is auditing an industry in food and beverage and it is day one of the audit. The engagement partner along with his team wants to make a thorough understanding of the entity and its environment in order to identify and assess the risks of material misstatements, whether due to fraud or error. The following are some of the points identified by them on Day 1.**

- The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system.**
- The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods receipt note is automatically prepared and approved in the system once the quantity and price of goods is entered against specific vendor. This entry is on real-time basis and system does not allow back dated entries.**
- The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and error. The auditor finds there is no documented risk assessment process. With the help of the above facts, answer the following questions by choosing the correct option. [MTP-Oct. 20]**

<b>Q. 1</b>	<b>What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?</b>
	(a) Inherent risk in the class of transaction. (b) Control risk in the class of transaction. (c) Detection risk in the audit procedures. (d) Audit risk in the opinion on the financial statements.
<b>Q. 2</b>	<b>Which among the following statement is incorrect in the context of Audit Risk?</b>
	(a) The more extensive the audit procedures performed, the lower is the detection risk. (b) Greater the risk of material misstatement the auditor believes exist, less is the detection risk that can be accepted and accordingly more persuasive evidence is required by the auditor.

	<p>(c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.</p> <p>(d) Risk of material misstatement at the assertion level is of two kinds – control risk and inherent risk.</p>
<b>Q. 3</b>	<p><b>In the case of procurement of stores, the auditor has tested more than one control for the same assertion. In that given case, what should be his reliance on the control?</b></p> <p>(a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.</p> <p>(b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures.</p> <p>(c) Documentation in electronic medium cannot be accepted, hence, he cannot rely only on system control.</p> <p>(d) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion as well as associated assertions.</p>
<b>Q. 4</b>	<p><b>In the context of SA 315, which among the following is NOT a risk assessment procedure?</b></p> <p>(a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity.</p> <p>(b) Analytical Procedures.</p> <p>(c) Observation and Inspection.</p> <p>(d) External Confirmation.</p>
<b>Q. 5</b>	<p><b>What should be the course of action of the auditor for the entity not having a documented risk assessment process?</b></p> <p>(a) The auditor should obtain management written representations on how risks are identified.</p> <p>(b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.</p> <p>(c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.</p> <p>(d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial.</p>

**Answer – Integrated Case Study 4**

<b>Q. No.</b>	<b>Answer</b>	
<b>1</b>	<b>(b)</b>	Control risk in the class of transaction
<b>2</b>	<b>(c)</b>	Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.
<b>3</b>	<b>(a)</b>	Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.
<b>4</b>	<b>(d)</b>	External Confirmation
<b>5</b>	<b>(b)</b>	The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.

## Integrated Case Study - 5

M/s. JJ & associates having office in Chennai are statutory auditors under Companies Act, 2013 of a company viz. Sweet Aroma Private Limited engaged in business of obtaining and manufacturing rice from paddy catering to both domestic as well as international market mainly in Gulf nations. The company has a huge plant capacity for rice extraction in one of the states in Northern India. Needless to state that inventories are in huge quantity in such type of business consisting of raw material, work in progress and finished goods. The auditors want to obtain sufficient appropriate audit evidence regarding inventories.

In above context, answer the following questions: -

[RTP-Nov. 20]

Q. 1	<p><b>Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit evidence regarding existence and condition of inventory?</b></p>
	<p>(a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.</p> <p>(b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.</p> <p>(c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-à-vis company's plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.</p> <p>(d) The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting.</p>
Q. 2	<p><b>Below are given certain cluster of matters which are relevant in planning attendance of auditor at physical inventory counting. Which of the following clusters consists of a likely inappropriate combination?</b></p>
	<p>(a) Nature of inventory, timing of physical inventory counting and stages of completion of work in progress.</p> <p>(b) Nature of inventory, timing of physical inventory counting and valuation method of inventory.</p> <p>(c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system.</p> <p>(d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system.</p>
Q. 3	<p><b>Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?</b></p>
	<p>(a) Observance of performance of management's count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting.</p> <p>(b) Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting.</p> <p>(c) Performing test counts, inspection of inventory, Observance of performance of management's count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting.</p> <p>(d) Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts.</p>

<b>Q. 4</b>	<p><b>During attendance at physical inventory counting, the auditor inspects inventory. Following outcomes stated as I, II &amp; III are given below of this inspection procedure: -</b></p> <p><b>Outcome I --- Existence of inventory</b>  <b>Outcome II ---- Ownership of inventory</b>  <b>Outcome III ----- Condition of inventory</b></p> <p><b>Which of following statements is most likely true?</b></p> <p>(a) Outcomes I, II and III are all necessarily established after inspection.          (b) Only Outcomes I and III are established after inspection and Outcome II is never established.          (c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.          (d) Outcome II and III are established after inspection. However, outcome I may not be necessarily established.</p>
<b>Q. 5</b>	<p><b>It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/s. PQR, a proprietary concern which had sent paddy to this company's plant for extraction of rice. What would be treatment of this item in financial statements of company?</b></p> <p>(a) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.          (b) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern.          (c) The value of 67 quintals rice would not be reflected in company's financial statements.          (d) The value of 67 quintals rice would be reflected in proprietary concern's financial statements as per method of valuation adopted by the company.</p>

**Answer - Integrated Case Study 5**

Q. No.	Answer	Answer
<b>1</b>	<b>(d)</b>	The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting.
<b>2</b>	<b>(b)</b>	Nature of inventory, timing of physical inventory counting and valuation method of inventory
<b>3</b>	<b>(d)</b>	Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts
<b>4</b>	<b>(c)</b>	Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.
<b>5</b>	<b>(c)</b>	The value of 67 quintals rice would not be reflected in company's financial statements.

**Integrated Case Study - 6**

**A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditor of company UV Private Limited. The financial year for which YZ and Associates were to audit books of accounts of UV Private Limited began on 1 April, 2023 and ended on 31 March, 2023.**

**YZ and Associates consisted of four partners namely Mr. Y, Mr. Z, Mr. G and Mr. H.**

While auditing books of account of UV Private Limited for the period beginning on 1 April, 2022 and ending on 31 March, 2023, one of the partners of YZ and Associates namely Mr. H took up the expenses part for the purpose of audit.

The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. H as auditor of UV Private Limited was unable to understand. Some of the issues which Mr. H was unable to understand are mentioned as follows:

- (1) Machinery Insurance expense paid for one year ending on 31.05.2023 has been included in the Insurance Expense for the financial year 2022-23.
- (2) Personal Rent Expense of the son of one of the directors, Mr. T of UV Private Limited has been shown as Rent Expense of business of UV Private Limited.
- (3) Repair and Maintenance Expenses for the months of February 2023 and March 2023 were still outstanding and were not shown in Balance Sheet of UV Private Limited.
- (4) Repair and Maintenance Expenses for the financial year 1 April, 2022 to 31 March, 2023 were very high as compared to financial year 1 April, 2021 to 31 March, 2022. The auditor Mr. H asked the appropriate authority about the reasons for such huge differences in amounts of two financial years.
- (5) While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H.

The abovementioned five points were some of the issues which Mr. H was unable to understand. Answer the following questions: [RTP-Nov. 20]

<b>Q. 1</b>	<p>As per the point number (1) mentioned in the above case, the Power and Fuel Expenses paid for the months of April 2023 and May 2023 must be shown in the balance sheet of UV Private Limited as on 31st March, 2023 as:</p> <ol style="list-style-type: none"> <li>(a) Outstanding Insurance Expense</li> <li>(b) Prepaid Insurance Expense</li> <li>(c) Insurance Expense</li> <li>(d) Insurance Expense Payable</li> </ol>
<b>Q. 2</b>	<p>As per point number (2) mentioned above in the case, the Personal Rent Expense of the son of one of the directors Mr. T was added to Rent Expense of business of UV Private Limited. The amount of personal rent expense of the son of the director Mr. T must be:</p> <ol style="list-style-type: none"> <li>(a) Subtracted from Rent Expense of business of UV Private Limited.</li> <li>(b) Remain added to Rent Expense of business of UV Private Limited.</li> <li>(c) Again added to Rent Expense of business of UV Private Limited.</li> <li>(d) Subtracted twice from Rent Expense of business of UV Private Limited.</li> </ol>
<b>Q. 3</b>	<p>As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2023 and March 2023 must be shown in the balance sheet of UV Private Limited as on 31 March, 2023 as:</p> <ol style="list-style-type: none"> <li>(a) Prepaid Repair and Maintenance Expenses.</li> <li>(b) Repair and Maintenance Expenses.</li> <li>(c) Repair and Maintenance Expenses paid in advance.</li> <li>(d) Repair and Maintenance Expenses Payable.</li> </ol>
<b>Q. 4</b>	<p>As per point number (4) mentioned in the case above, the auditor Mr. H asked the appropriate authority for reasons of huge differences in the amount of two financial years of repair and maintenance expenses. By appropriate authority Mr. H was referring to:</p> <ol style="list-style-type: none"> <li>(a) All employees of UV Private Limited.</li> <li>(b) Management of UV Private Limited.</li> </ol>

	(c) Members of UV Private Limited. (d) Any one director of UV Private Limited.
<b>Q. 5</b>	<b>As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H with:</b> (a) Invalid Supporting (b) No Supporting (c) Lack of proper Supporting (d) Sufficient Appropriate Audit Evidence

Answer - Integrated Case Study 6		
Q. No.	Answer	
1	(b)	Prepaid Insurance Expense
2	(a)	Subtracted from Rent Expense of business of UV Private Limited
3	(d)	Repair and Maintenance Expenses Payable
4	(b)	Management of UV Private Limited
5	(d)	Sufficient Appropriate Audit Evidence

Integrated Case Study - 7	
<p>Ghan Shyam &amp; Associates have been appointed as the statutory auditors of ABC Ltd. for the FY 2022-23. The engagement partner, CA Ghan Shyam established the overall audit strategy and made the detailed plan with respect to the audit assignment of ABC Ltd. after discussing the same with the engagement team.</p> <p>The strategy adopted by Ghan Shyam &amp; Associates consisted of relying on the internal control system of the company and the audit plan and programme were developed accordingly &amp; executed by the engagement team. During the course of audit, the engagement partner, CA Ghan Shyam found that some internal control system of the company were not in place. So, he decided not to rely on the internal control system of the company and accordingly changed the firm's overall audit strategy, audit plan &amp; audit programme.</p> <p>While conducting audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of ABC Ltd. CA Ghan Shyam also asked for the addresses of various debtors from the management of ABC Ltd. to send balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of ABC Ltd. asked the debtors to send the responses to such confirmation request to General Manager of accounts department who will in turn provide such responses to the audit team. Also with respect to five random debtors, CA Ghan Shyam decided to confirm the terms of agreement also along with confirming the balance amount, by seeking responses to confirmation requests from such debtors.</p> <p>During the course of audit, the auditor found that the inventory of ABC Ltd. is kept at its factories and various other locations including warehouses. The audit team is unable to attend the physical verification activity undertaken by the management at all such locations.</p> <p>During the course of audit, the audit team found that legal cases have been filed against the company on account of customer complaint. CA Ghan Shyam discussed with his team regarding the audit procedures that can be performed by the audit team in this regard. CA Ghan Shyam also briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of ABC Ltd.</p> <p>Based on the above facts, answer the following: <span style="float: right;">[MTP-March 21]</span></p>	



Q. 1	<p><b>Is CA Ghan Shyam right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established &amp; plan so developed?</b></p> <p>(a) CA Ghan Shyam is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p> <p>(b) CA Ghan Shyam is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c) CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d) CA Ghan Shyam can change the overall audit strategy and audit plan only after discussing the same with the management of ABC Ltd.</p>
Q. 2	<p><b>Which of the following audit procedures should the audit team perform with respect to verification of debtors balance?</b></p> <p>(a) Ghan Shyam &amp; Associates can compare the debtors balance reflected in financial statement with the total balance of ledgers account in the books of ABC Ltd.</p> <p>(b) Ghan Shyam &amp; Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c) Ghan Shyam &amp; Associates can obtain management representations with respect to the debtors balance from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d) Both (a) &amp; (b).</p>
Q. 3	<p><b>Statement 1: The reliability of information to be used as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained.</b></p> <p><b>Statement 2: The audit evidence obtained from sources external to the entity are generally more reliable than the audit evidence from internal sources.</b></p> <p>(a) Only statement 1 is true</p> <p>(b) Only statement 2 is true</p> <p>(c) Both the statements are true</p> <p>(d) None of the statements is true</p>
Q. 4	<p><b>With respect to the inventory of ABC Ltd. kept in warehouse, which audit procedures can the audit team perform to obtain sufficient and appropriate audit evidence?</b></p> <p>(a) Checking of warehouse receipt with the inventory record of ABC Ltd.</p> <p>(b) Obtaining direct confirmation with respect to quantity &amp; condition of inventory of ABC Ltd. from the warehouse.</p> <p>(c) Both (a) &amp; (b).</p> <p>(d) Seeking a management representation regarding inventory valuation and mentioning the fact regarding inventory being kept at the warehouse in the audit report.</p>
Q. 5	<p><b>Is management correct in asking the debtors to provide the reply of confirmation request of auditor to the General Manager of accounts department of the company?</b></p> <p>(a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.</p> <p>(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.</p> <p>(c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation are provided to the auditors.</p> <p>(d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>



Answer – Integrated Case Study 7		
Q. No.	Answer	
1	(c)	CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.
2	(d)	Both (a) & (b).
3	(c)	Both the statements are true
4	(c)	Both (a) & (b)
5	(b)	No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.

Integrated Case Study - 8	
<p>M/s. RRM &amp; Associates have been appointed as the statutory auditors of UVW Ltd. for the FY 2022-23. The engagement partner is CA Raj and his engagement team consists of 2 articled assistants. CA Raj briefed his audit team regarding the factors affecting the sample selection and the sample size. The team was also told that the tolerable error should be zero and sample size should be selected accordingly. The various concepts like audit sampling, statistical sampling, non-statistical sampling etc. were discussed in detail.</p> <p>CA Raj gave a detailed audit programme to his team. The audit programme with respect to the checking of accounts receivable and accounts payable consisted of checking such accounts on sample basis. CA Raj asked the engagement team to divide the accounts receivables and account payable balances into following separate groups and to take sample from each of them.</p> <p>During the course of audit, the audit team noticed that certain internal control systems with respect to the accounts receivable were not operating effectively at few instances during the FY 2022-23.</p> <p>Also, while checking the payment transactions with respect to miscellaneous expenses on sample basis, the engagement team noticed that on 9th and 10th of every month, the miscellaneous expense vouchers were not signed by the authorised personnel. The engagement team discussed among themselves the implications of the same on their audit procedures to be performed in this regard.</p> <p>Based on the above facts, answer the following: <span style="float: right;">[MTP-March 21]</span></p>	
Q. 1	<p><b>With respect to selecting sample for accounts receivable and accounts payable which method of selecting of sample is advised by CA Raj to the engagement team?</b></p> <p>(a) Stratified Sampling method            (b) Monetary Unit Sampling method            (c) Haphazard Sampling method            (d) None of the above</p>
Q. 2	<p><b>With respect to the weakness in internal control system of accounts receivable during the FY 2022-23, the audit team:</b></p> <p>(a) Should consider a larger sample size or 100% examination of accounts receivables.            (b) Should consider a smaller sample size of accounts receivables.            (c) Should ignore such weakness in internal control system as M/s. RRM &amp; Associates have no responsibility towards the implementation and working of internal controls of the UVW Ltd.            (d) Should give an adverse opinion.</p>
Q. 3	<p><b>_____ means dividing heterogeneous population into homogeneous sub population, where samples are drawn from each sub population.</b></p>

	(a) Value Weighted Selection method (b) Non-Statistical Sampling (c) Random Sampling method (d) Stratification
<b>Q. 4</b>	<b>With respect to the deviation identified by the auditor occurring on 9th and 10th of every month, what course of action should the audit firm adopt?</b> (a) M/s. RRM & Associates should ignore such deviation as it exists only on a very few instances during the entire year under audit. (b) M/s. RRM & Associates should extend its audit procedures to such deviated transactions. (c) M/s. RRM & Associates shall investigate the nature and causes of such deviations as such deviations may be intentional and may indicate the possibility of fraud. (d) Both b & c
<b>Q. 5</b>	<b>Is the understanding of Mr. Tarun with respect to statistical and non-statistical sampling as mentioned in the case scenario as Point No. 1 and Point No. 2, correct?</b> (a) Only understanding as per point No. 1 is correct. (b) Only understanding as per point No. 2 is correct. (c) Understanding as per point No. 1 & point No. 2, both are correct. (d) Understanding as per point No. 1 & point No. 2, both are incorrect.

**Answer – Integrated Case Study 8**

Q. No.	Answer	
1	(a)	Stratified Sampling method
2	(a)	Should consider a larger sample size or 100% examination of accounts receivables.
3	(d)	Stratification
4	(d)	Both b & c
5	(d)	Understanding as per point No. 1 & point No. 2, both are incorrect.

**Integrated Case Study - 9**

- Mars Ltd. is a public company having a turnover exceeding ₹ 50 crores in the last 3 financial years including the current financial year which is FY 2022-23.
- The company comes under the class of companies specified under item (A) Regulated Sectors.
- M/s. XYZ & Associates have been appointed as the auditors of Mars Ltd. for FY 2022-23.
- Mars Ltd. has a branch office in Dubai for which a separate auditor has been appointed.
- M/s. XYZ & Associates understand that they need to communicate with another auditor appointed for the branch office in Dubai.
- Further Mars Ltd has taken a loan from a nationalized bank in 2018 amounting to ₹ 1 crore payable in 8 equal instalments of ₹ 12.50 lakhs each starting from 31st March 2019 onwards. It has repaid its 4 instalments; however, the company has defaulted in the current financial year. Mars Ltd has sought re-scheduling of loan from the bank.
- The auditors, XYZ & Associates understand that they have certain reporting requirements under Companies (Auditor's Report) Order, 2020.
- Further, the auditors also attended the physical verification of inventory conducted by the management at the year end.

Based on the above facts, answer the following:		[MTP-April 21]
<b>Q. 1</b>	<b>With respect to the forms specified by companies (Cost Records &amp; Audit) Rule 2014, which of the following is incorrect combination:</b>	
	(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.	
<b>Q. 2</b>	<b>Within how many days of the receipt of the copy of Cost Audit Report. Mars Ltd is required to forward the report to the Central Government:</b>	
	(a) 30 days (b) 60 days (c) 15 days (d) 90 days	
<b>Q. 3</b>	<b>Whether reporting about maintenance of cost records required by Companies (Auditors Report) Order, 2020. If yes, then under which clause and which is the relevant section under the Companies Act 2013:</b>	
	(a) Yes, Clause vi, Section 148(1) (b) No, -, Section 148(1) (c) Yes, Clause v, Section 143(1) (d) No, -, Section 143(1)	
<b>Q. 4</b>	<b>With respect to the branch office of Mars Ltd In Dubai, what is the duty of M/s XYZ &amp; Associates:</b>	
	(a) M/s. XYZ & Associates might discuss with the branch auditor the audit procedures applied by the branch auditor. (b) M/s. XYZ & Associates may also visit the branch auditor. (c) M/s. XYZ & Associates cannot advise the other auditor of accounting, auditing/reporting requirement as the other auditor is well versed with such provisions. (d) Both (a) & (b)	
<b>Q. 5</b>	<b>Which of the following is incorrect:</b>	
	(a) SA 200 - Overall objectives of Independent Auditor (b) SA 230 - Audit Documentation (c) SA 299 - Joint Audit of Financial Statements (d) SA 600 - Subsequent Events	

Answer - Integrated Case Study 9		
Q. No.	Answer	
1	(d)	Form CRA 4- Submission of Cost Audit Report by the company to the Registrar.
2	(a)	30 days
3	(a)	Yes, Clause vi, Section 148(1)
4	(d)	Both (a) & (b)
5	(d)	SA 600- Subsequent Events

## Integrated Case Study - 10

RS & Associates have been appointed as the statutory auditors of MNO Ltd. for the Financial Year 2022-23. CA Ramesh is the engagement partner for the assignment. The management of MNO Ltd. has duly given a written representation letter to CA Ramesh regarding acknowledgement of its responsibility for the implementation and operation of accounting system and the internal control system of the company. The management has assured the audit firm that such accounting and internal control systems are designed and implemented to prevent and detect any misstatement on account of fraud or error.

During the course of audit, the auditor found that the wages cost has increased substantially as compared to the last year. On detailed checking CA Ramesh found that many new workers have been added to the workers list which appear to be dummy workers to CA Ramesh.

Further the auditor found that there was a fraud amounting to ₹ 2 crores committed during the year under audit by an officer of the company. Such fraud has already been reported by the Cost Accountant of the company, Mr. Sudesh, to the Central Government. The statutory auditors are considering their reporting responsibilities in this regard.

The audit team also realized that there is inadequate Internal Control System with respect to the following:

- The system of authorization and approval of transactions specially in the process of making purchases.
- The system of record keeping with respect to the assets.

Based on the above facts, answer the following:

[RTP-May 21]

<b>Q. 1</b>	<p><b>As the management of MNO Ltd. has given a written representation regarding its responsibility for prevention and detection of misstatement on account of fraud and error, M/s RS &amp; Associates:</b></p> <p>(a) Should rely on such management representation and conduct its audit procedures without wasting much time and resources towards detection of fraud and error.</p> <p>(b) Should not consider such management representation as a substitute for obtaining sufficient and appropriate audit evidence and design its audit procedures accordingly.</p> <p>(c) Should not rely on such management representation and should obtain written representation from those charged with governance.</p> <p>(d) Should concentrate on audit of accounting system and accounting policies so used by the company as the prevention and detection of fraud and error is the responsibility of the management.</p>
<b>Q. 2</b>	<p><b>The inclusion of dummy workmen in the workmen list by the management of MNO Ltd. as noticed by CA Ramesh amounts to:</b></p> <p>(a) Suppressing cash receipts</p> <p>(b) Casting wrong total in cash book</p> <p>(c) Inflating cash payment</p> <p>(d) Misappropriation of goods</p>
<b>Q. 3</b>	<p><b>With respect to the fraud which has already been reported by The Cost accountant of the company, Mr. Sudesh, what is the responsibility of M/s. RS &amp; Associates in this regard?</b></p> <p>(a) Since the reporting has been done to the Central Government by the cost accountant of the company, the statutory auditor has no responsibility for such fraud and its reporting.</p> <p>(b) The cost accountant has detected and reported the fraud to the Central Government. The statutory auditor should not interfere in the work of the Cost Accountant.</p> <p>(c) CA Ramesh should review the steps taken by the management with respect to the reported fraud and if he is not satisfied with such steps, he should request the management to perform additional procedures to enable him to satisfy himself that the matter has been appropriately addressed.</p> <p>(d) CA Ramesh should obtain written representation from the management that once the matter is appropriately addressed, he will be duly informed by the management.</p>

<b>Q. 4</b>	<b>_____ refers to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud:</b>
	(a) Fraud Risk Factors (b) Misappropriation of assets (c) Incentives/Pressures (d) Fraud
<b>Q. 5</b>	<b>Statement 1: The risk of auditor not detecting a material misstatement resulting from employee fraud is greater than for management fraud.</b> <b>Statement 2: The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.</b>
	(a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect

**Answer - Integrated Case Study 10**

Q. No.	Answer	
1	(b)	Should not consider such management representation as a substitute for obtaining sufficient and appropriate audit evidence and design its audit procedures accordingly.
2	(c)	Inflating cash payment
3	(c)	CA Ramesh should review the steps taken by the management with respect to the reported fraud and if he is not satisfied with such steps, he should request the management to perform additional procedures to enable him to satisfy himself that the matter has been appropriately addressed.
4	(a)	Fraud Risk Factors
5	(b)	Only statement 2 is correct

**Integrated Case Study - 11**

**A Partnership Firm of Chartered Accountants by the name of HS and Associates was appointed to audit books of account of WT Limited for financial year 2022-23. HS and Associates consisted of two partners CA H and CA S.**

**While conducting audit of WT Limited for financial year 2022-23, CA H, one of the partners of HS and Associates used different audit procedures in order to obtain audit evidence. The different audit procedures used by CA H were as follows:**

- (1) As WT Limited was engaged in manufacturing business of wooden doors, CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. The counting of finished wooden doors was necessary for the purpose of verification of stock of finished wooden doors.**
- (2) In WT Limited the stock of finished wooden doors was valued manually by multiplying number of finished wooden doors with value per finished wooden door. A team member of CA H again did the calculation in order to verify the accuracy regarding valuation of stock of wooden finished doors.**
- (3) CA H with the help of his team members obtained information from people (who were experienced in manufacturing business of wooden doors) about the purchase price of raw materials required in manufacturing business of wooden doors and also obtained some non-financial information.**
- (4) CA H and his team members while conducting the audit of WT Limited for financial year 2022-23 in detail checked and evaluated the books of account and relevant documents of W Limited.**

<b>(5) CA H asked for written confirmations regarding account balances from Debtors and Creditors of WT Limited.</b>	
Keeping the basic concepts about various audit procedures in mind, answer the following multiple-choice questions: <span style="float: right;">[MTP-Oct. 21]</span>	
<b>Q. 1</b>	<p>CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. This is an example of which audit procedure:</p> <p>(a) External Confirmation.  (b) Observation.  (c) Inquiry.  (d) Inspection.</p>
<b>Q. 2</b>	<p>In order to verify the accuracy regarding valuation of stock of wooden finished doors, a team member of CA H again did the calculation. This is an example of which audit procedure:</p> <p>(a) Analytical Procedures.  (b) Inquiry.  (c) Inspection.  (d) Recalculation.</p>
<b>Q. 3</b>	<p>CA H with the help of his team members obtained information (both financial and non-financial information) from experienced people in manufacturing business of wooden doors. These experienced people provided the required information. This whole method of obtaining information is an example of which audit procedure:</p> <p>(a) inspection  (b) performance.  (c) Inquiry.  (d) investigation.</p>
<b>Q. 4</b>	<p>CA H and his team members in detail checked and evaluated the books of account and relevant documents of WT Limited. This is an example of which audit procedure:</p> <p>(a) Inspection.  (b) Re-performance.  (c) Recalculation.  (d) Investigation</p>
<b>Q. 5</b>	<p>Asking for written confirmations regarding account balances from Debtors and Creditors of WT Limited by CA H is an example of which audit procedure:</p> <p>(a) inquiry  (b) inspection  (c) investigation.  (d) external confirmation.</p>

**Answer - Integrated Case Study 11**

Q. No.	Answer	
<b>1</b>	<b>(b)</b>	Observation
<b>2</b>	<b>(d)</b>	Recalculation
<b>3</b>	<b>(c)</b>	Inquiry
<b>4</b>	<b>(a)</b>	Inspection
<b>5</b>	<b>(d)</b>	External Confirmation



## Integrated Case Study - 12

RM & Associates have been appointed as Auditors of Techblocks Consulting Ltd. for the year 2022-23. CA R and CA M were the Engagement partners.

## Para 1

The Firm has freshly appointed 2 Article Clerks who had no practical knowledge in the area of Auditing. They had to work to tight hard-headed factual issues and were baffling to understand the various terms and their objectives in the field of Auditing.

## Para 2

To make sure that the Article Clerk do not misplace or mis-handle the Working Papers, CA M also described the relevance of Audit File and clarified that working papers are the property of Auditor. Such Audit file should be preserved for a period of seven years.

## Para 3

CA R while scrutinizing Books of Account suspected some fictitious sales as a result of which he anticipated inflated Debtors. Management was reluctant to give the details. As CA R could not gather more evidence from the Management, he sought to obtain details from the third party.

## Para 4

On further perusal of Opening Balances, it is essential to perceive that Accounting Policies have been consistently applied in the current period's financial statements and whether any changes have been properly accounted for and disclosed. CA M assigned this duty to his article clerk. The Article clerk explained to CA M about how he had observed that accounting policies were not consistently applied in relation to opening balances in accordance with the financial reporting framework or a change is not properly accounted or not adequately disclosed.

## Para 5

Subsequently, the Auditors gathered from the Management that there was a fire in the Factory premises after the Balance Sheet date, as a result of which the company suffered loss of Inventories. It did not provide any conditions on the Balance Sheet date. SA 560 deals with such type of transactions. [MTP-Oct. 21]

Q. 1	<p><b>The Auditor explained his Audit team the purpose of Audit Documentation. Which of the following is incorrect with respect to the purpose of Audit Documentation?</b></p> <p>(a) It enables the conduct of quality control reviews and inspections in accordance with SQC-1.          (b) It helps in preparation of Financial Statements.          (c) It retains a record of matters of continuing significance to future audits.          (d) It enables the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.</p>
Q. 2	<p><b>An auditor strictly ensured that the audit team should document/assemble all the working papers in Audit file. The completion of assembling the Audit File is an administrative process and should be done in:</b></p> <p>(a) It should be within 30 days from the date of Audit Report.          (b) It should be within 60 days from the completion of Audit.          (c) It should not be more than 60 days after the date of Audit Report.          (d) It should be before 90 days from the completion of Audit.</p>
Q. 3	<p><b>With reference to para 3 of Case scenario, this is a case of obtaining External Confirmation by the Auditor. Which of the following is inappropriate with regard to External Confirmation?</b></p> <p>(a) External Confirmations are restricted to Account balances only.</p>



	<p>(b) It is also used in a case to obtain Audit evidence about the absence of certain conditions say, Side Agreement.</p> <p>(c) It can be also effective in obtaining Audit evidence about verification of Inventories held by third parties at bonded warehouses for processing or on consignment.</p> <p>(d) External Confirmation is also functional in case of Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the Balance Sheet date.</p>
<b>Q. 4</b>	<p><b>With reference to para 4, in such a situation CA M shall express a:</b></p> <p>(a) A Disclaimer Opinion</p> <p>(b) A qualified opinion</p> <p>(c) A qualified opinion or an adverse opinion in accordance with SA 705</p> <p>(d) An unmodified opinion</p>
<b>Q. 5</b>	<p><b>In respect to subject matter mentioned in Para 5, what procedures should Auditor perform to identify such events?</b></p> <p><b>Statement 1: Obtain an understanding of any procedures management has established as well as Inquiry with Management and those charged with governance procedures for identification of such subsequent events.</b></p> <p><b>Statement 2: Inspection of Minutes of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about the matters discussed at any such meetings for which minutes are not yet available.</b></p> <p><b>Statement 3: The Auditor should not read the entity's latest subsequent interim financial statements, if any.</b></p> <p>(a) Only Statement 1 is correct</p> <p>(b) Only Statement 2 is correct</p> <p>(c) Both Statements 1 and 2 are correct</p> <p>(d) Only Statement 3 is correct</p>

**Answer - Integrated Case Study 12**

Q. No.	Answer
1	(b) It helps in preparation of Financial Statements.
2	(c) It should not be more than 60 days after the date of Audit Report.
3	(a) External Confirmations are restricted to Account balances only.
4	(c) A qualified opinion or an adverse opinion in accordance with SA 705
5	(c) Both Statements 1 and 2 are correct

**Integrated Case Study - 13**

**Mars Ltd. is a public limited Company incorporated during the previous financial year 2022-23. RS Shah & Associates have been appointed as the Auditors of the Company.**

**Para 1**

**Its Authorized Capital was ₹ 75 Lacs. Subsequently it increased its Share Capital. They issued Shares at a premium of ₹ 25 per share. The Company has transferred the amount received as premium to the Securities Premium Account.**

**Para 2**

CA R recommended his Engagement Team to prepare an Audit Strategy as well as Audit plan for efficient conduct of audit. He advised to the team that they should include a series of verification procedures to be applied to Financial Statements of the Company for accomplishing the Audit objectives. CA R illustrated to his team the relationship between Audit strategy as well as Audit plan.

**Para 3**

Encompassed by a huge clientele, one of the Auditee firm was a LLP. It was in the name of Mangaldeep Geotech LLP. They conducted the business in a very efficient way but had allotted only the Audit and the Income Tax work to CA R S Shah & Associates. The Partners of the LLP were capable enough but however inadvertently bypassed the ROC Compliances. They had no knowledge about the Compliances and its related penalties. Thus, they approached CA R S Shah and Associates for their guidance. They were completely clueless as to filing of Annual Return with ROC.

**Para 4**

R S Shah and Associates have been appointed as Auditors of a large Enterprise namely Search Results Ltd. Considering the overhaul required in the Organization's Risk Management, Directors of the listed companies braced the subject of Internal Financial Control with much seriousness and rigour. The dawn of the Financial Year lays down the daunting task of establishing and implementing Internal Financial Control in an Enterprise.

**Para 5**

The Auditors are performing their Audit work in the Company Search Results Ltd by using CAAT's. The Company is completely automated and all the processes, operations are carried out using the computer systems. Testing is performed in an automated environment to increase the efficiency and allow for more robust tools to be built. There are four types of testing methods in an Automated environment. They are Inquiry, Observation, Inspection and Re-performance. [RTP-Nov. 21]

<b>Q. 1</b>	<p><b>Sec. 52 of the Companies Act states that Security Premium Account can be applied by the Company for one of the purposes mentioned below. Which of the following is an INCORRECT option?</b></p> <p>(a) To write off preliminary expenses of the Company</p> <p>(b) To pay dividend to equity shareholders</p> <p>(c) To provide premium on redemption of Preference share capital</p> <p>(d) To purchase its own shares or other securities under Sec 68 (Buyback)</p>
<b>Q. 2</b>	<p><b>In reference to para 2, which of the following Statement is inappropriate?</b></p> <p>(a) Once the overall audit strategy is established, an audit plan can be developed to address the various matters identified in the overall audit strategy.</p> <p>(b) The establishment of overall audit strategy as well as detailed audit plan is a discrete and sequential process.</p> <p>(c) Audit Strategy and Audit plan are inter-related as changes in one may result in consequential changes to the other.</p> <p>(d) The Audit plan is more detailed than the Audit Strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members.</p>
<b>Q. 3</b>	<p><b>In reference to para 3, which form from the following should be filed by the Partners to avoid penalty consequences?</b></p> <p>(a) Form 11 within 90 days of closer of financial year and Form 8 within a period of 60 days from the end of six months of the financial year.</p>

	<p>(b) Form 11 within 60 days of closer of financial year and Form 8 within a period of 30 days from the end of six months of the financial year.</p> <p>(c) Form 11 within 30 days of closer of financial year and Form 8 within a period of 60 days from the end of three months of the financial year.</p> <p>(d) Form 11 within 60 days of closer of financial year and Form 8 within a period of 90 days from the end of three months of the financial year.</p>
<b>Q. 4</b>	<p><b>With reference to para 4, which of the following point ensures implementation of policies and procedures with regard to Internal Financial Control by the Companies?</b></p> <p>(a) Reliability of Financial Reporting</p> <p>(b) Effectiveness and efficiency of operations</p> <p>(c) Compliance with applicable laws and regulations</p> <p>(d) All of the above.</p>
<b>Q. 5</b>	<p><b>Which of the following statement is inappropriate with regard to testing methods as mentioned in Para 5 above?</b></p> <p>(a) Inquiry in combination with Inspection gives the most effective and efficient audit evidence.</p> <p>(b) Re-performance is the most effective as an audit test and gives the best audit evidence.</p> <p>(c) Inquiry should always be used in combination with any other testing method.</p> <p>(d) which audit test to use and in what combination does not require professional judgment.</p>

**Answer - Integrated Case Study 13**

Q. No.	Answer	
1	(b)	To pay dividend to equity shareholders
2	(b)	The establishment of overall audit strategy as well as detailed audit plan is a discrete and sequential process.
3	(b)	Form 11 within 60 days of closer of financial year and Form 8 within a period of 30 days from the end of six months of the financial year.
4	(d)	All of the above.
5	(d)	which audit test to use and in what combination does not require professional judgment.

**Integrated Case Study - 14**

**A Partnership Firm of Chartered Accountants by the name of S K and Associates were appointed as the Auditors of the Company named Big Box Ltd.**

**Para 1**

**Big Box Ltd is a Public Listed Company. The CA Firm comprised of 2 partners namely CA S and CA K. Subsequently, a close relative of CA K, acquired security having face value ₹ 495000 of Big Box Ltd. As per the provisions of Sec. 141 of the Companies Act 2013, an Auditor will be disqualified from appointment, if the Auditor himself or his relative acquires the security exceeding the prescribed limit in the Company.**

**Para 2**

**Further, the Auditors, S K and Associates also had to bank on the policies and procedures adopted by the Company for ensuring the efficient conduct of its business. They have to state about the adequacy of Internal Financial Controls in the Company. The Company had a turnover of ₹ 60 Crores as per the latest Audited Balance Sheet and its Borrowings during the year were ₹ 20 Crores from Banks.**

**Para 3**

The CFO of the Company, Mrs. Darshana felt dubious in the Accounts department of the Company. She entreated the Auditors to perform a thorough investigation of the Accounts department. Mrs. Darshana was also anticipating a fraud in this situation. Both the Auditor as well as the CFO of the Company analysed the various risk factors. The Auditors observed that the Head Accountant of the Department has inflated the Sales amount to finish his targets. There was collusion between the Head Accountant & Employees of the Company. Employees were presented incentives on accomplishing their targets. This resulted in a fraud by the Head Accountant of amount aggregating to ₹ 75 Lacs.

**Para 4**

Mr. X, an acquaintance of CA S, wanted to form an LLP with his distant relatives. He wanted to possess in-depth knowledge about LLP. CA S explained him that LLP is a separate legal structure and is liable to full extent of its assets but the partners are liable to the extent of their agreed contribution in LLP. Mr. X additionally wanted to know the criteria for the accounts of LLP to be audited. CA S enlightened him that the accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009.

**Para 5**

Big Box Ltd. is expanding its business. Consequently, it requires many Computers. Purchasing computers may involve paying a huge upfront cost. Cash flow may get disrupted. Hence the Company came up with an idea of getting the computers on lease. It will allow the business to have access to the latest technology without harming any cash flow. The Auditors explained to the Directors that leasing computers would come under the purview of Operating Lease.

[MTP-Nov. 21]

<b>Q. 1</b>	<p>With reference to para 1, S K and Associates can take corrective actions within ____ days. The relative may hold security or interest in the company of face value not exceeding _____</p> <p>(a) 45 days, Face Value ₹ 100000            (b) 60 days, Market Value ₹ 500000            (c) 30 days, Face Value ₹ 500000            (d) 60 days, Face Value ₹ 100000</p>
<b>Q. 2</b>	<p>The Auditors of S K and Associates were doubtful concerning the applicability of Internal Financial Controls in the Company Big Box Ltd. With reference to details provided in Para 2 above, please guide them in this regard.</p> <p>(a) It will be applicable as turnover exceeds the threshold limit of ₹ 50 Crores.            (b) It is not applicable as the borrowings are less than 25 Crores during the financial year.            (c) It will be applicable as the company is a Public Listed Company.            (d) Reporting on Internal Financial Control is not under the scope of Auditors reporting. Hence, not applicable.</p>
<b>Q. 3</b>	<p>With reference to para 3, wherein a fraud was observed by the Auditor, what should be the course of action of the Auditor?</p> <p>(a) The Auditor should report the fraud details to Central Government.            (b) The Auditor shall report the fraud to the audit Committee or to the Board within the prescribed time.            (c) The Auditor shall disclose it in the Audit Report and report the fraud details to RBI too.            (d) Both a &amp; c above.</p>
<b>Q. 4</b>	<p>With regard to information provided in Para 4, which of the following is a CORRECT option?</p> <p>(a) Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs or whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited.            (b) Any LLP whose turnover does not exceed, in any financial year, ₹ 50 Lacs or whose contribution does not exceed ₹ 20 Lacs is not required to get its accounts audited.</p>

	(c) Any LLP whose turnover exceeds ₹ 25 Lacs in any financial year or whose contribution exceeds ₹ 10 Lacs in any financial year is required to get its accounts audited.
	(d) Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs and whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited.
<b>Q. 5</b>	<b>With reference to para 5, which among the following is an INCORRECT trait about the Operating Lease?</b>
	(a) The Lessee does not have the option to buy the asset during the lease period.
	(b) The Lessee cannot claim Depreciation on the leased asset.
	(c) The Lessee generally bears the Insurance, Maintenance and Taxes.
	(d) The Lease term generally extends to less than 75% of the projected useful life of the leased asset.

**Answer - Integrated Case Study 14**

Q. No.	Answer	
1	(d)	60 days, Face Value ₹ 100000
2	(c)	It will be applicable as the Company is a Public Listed Company.
3	(b)	The Auditor shall report the fraud to the audit Committee or to the Board within the prescribed time.
4	(a)	Any LLP whose turnover does not exceed, in any financial year, ₹ 40 Lacs or whose contribution does not exceed ₹ 25 Lacs is not required to get its accounts audited.
5	(c)	The Lessee generally bears the Insurance, Maintenance and Taxes.

**Integrated Case Study - 15**

Ms. Rhea was among the promoters who set up a public company by the name "Aksham Ltd.". The company appointed CA Rajendra as the auditor of Aksham Ltd. CA Rajendra is the brother of one of the directors of Aksham Ltd. After setting up of company, the company had a dispute with one customer of the company in year 2020-21 who took the company to court. There are probable chances that company will have to shelve out ₹ 50 lakhs as compensation but the case will likely to be finalised in year 2022-23.

CA Rajender considers the fact that Askham Ltd. has a present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate i.e. ₹ 50 Lakhs can be made of the amount of the obligation. Aksham Ltd. declared dividend of ₹ 10 per equity share on 10th April, 2022. The financial statements were approved on 30th June, 2022. Askham Ltd. took loan of ₹ 65 lakhs from Saksham Bank for a period of 10 years; the loan amount was guaranteed by Mr. Pramod, one of the directors of Aksham Ltd. The loan was completely secured against the fixed assets of the company.

Aksham Ltd. drew designs of one of the products of the company and this product constituted 9% sales of the company. The designs of the product were such that the sale of the company will increase every year for the next 5 years. Aksham Ltd. booked the designs of the company at a value of ₹ 1 crore in the books of account of the company as intangibles at its cost. Based on the above information, answer the following questions: [RTP-Nov. 21]

<b>Q. 1</b>	<b>State whether appointment of CA Rajendra is correct in law.</b>
	(a) Yes, it is correct in law as per Companies Act, 2013.
	(b) It is incorrect in law as per Companies Act, 2013 as the relative of director is not allowed to be appointed as an auditor of the company.

	(c) It is correct in law as per Companies Act, 2013 because brother is not covered under the definition of relative. (d) It is correct as appointment of auditor is not governed by any law in India.
<b>Q. 2</b>	<b>Advise the company regarding the course of action Aksham Ltd. will have to follow for the court case for financial statements prepared for year ending 31st March, 2022.</b> (a) Create provision. (b) Create revenue reserve. (c) Create capital reserve. (d) To be disclosed as contingent liability.
<b>Q. 3</b>	<b>What is the action which Aksham Ltd. is supposed to take with regard to treatment of dividend declared while preparing and finalizing financial statements for year ending 31st March, 2022?</b> (a) Recognise dividends as a liability. (b) Disclose the amount of dividend. (c) Both (a) and (b). (d) None of the above.
<b>Q. 4</b>	<b>State the disclosures Aksham Ltd. is required to make with respect to the long-term borrowings taken from Saksham Bank.</b> <b>I. Secured loan from Saksham Bank.</b> <b>II. The fixed assets are secured against the loan.</b> <b>III. The loan of ₹ 65 lakhs is guaranteed by director.</b> <b>IV. Repayment terms of the loan.</b> (a) I, II, III and IV (b) I, II (c) I, II, III (d) II, III
<b>Q. 5</b>	<b>State which of the following statement is true with respect to recording an intangible in the books of the company.</b> (a) Intangible is correctly booked by the company. (b) Intangible is wrongly booked by the company as an intangible cannot be booked as per the accounting standard of India. (c) Intangible is wrongly booked by the company as an intangible cannot be booked as per the auditing standards of India. (d) Intangible is wrongly booked by the company as an intangible cannot be booked as per the Companies Act, 2013.

**Answer - Integrated Case Study 15**

<b>Q. No.</b>	<b>Answer</b>	
<b>1</b>	<b>(b)</b>	It is incorrect in law as per Companies Act, 2013 as the relative of director is not allowed to be appointed as an auditor of the company.
<b>2</b>	<b>(a)</b>	create provision
<b>3</b>	<b>(b)</b>	disclose the amount of dividend
<b>4</b>	<b>(a)</b>	I, II, III and IV
<b>5</b>	<b>(a)</b>	Intangible is correctly booked by the company.



## Integrated Case Study - 16

Best Tea House is a Co-operative society formed as per the provisions of the Co-operative Societies Act, 1912. It runs a chain of restaurants serving mainly tea and snacks in Delhi. RAS & Associates, a Chartered Accountant firm, has been appointed to conduct the statutory audit of the society. None of the partners of the firm, CA R, CA A and CA S have ever conducted a Co-operative Society audit before and so familiarise themselves with the provisions of the particular Act governing the society before starting the audit.

During the audit, Best Tea House informs the auditors that they have been in operation for the last five years, and no audit was required earlier since their turnover had not exceeded the prescribed limit.

While examining the books of account of Best Tea House, RAS & Associates notice that as stated u/s 43(h) of the Central Act, certain rules were framed prescribing the books and accounts to be kept by Best Tea House.

The auditors also understand that according to section 5 of the Central Act, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of a certain percentage of the total number of shares or of the value of shareholding to a specified amount. RAS & Associates were concerned with this provision so as to watch any breach relating to holding of shares.

While examining the loans of Best Tea House, the auditors notice that the society has given a loan to a relative named Mr. P, of a member of the society, Mr. T, of an amount not exceeding ₹ 1000. RAS & Associates examined the overdue debts and checked its classification which they are required to report.

During the audit, RAS & Associates notice few transactions for personal profiteering by members of the management committee, which are ultimately detrimental to the interest of the society. RAS & Associates report this matter to the required authority to take necessary action.

After the conclusion of the audit, in addition to the audit certificate in the prescribed form and various schedules, RAS & Associates also answered two sets of questionnaires called audit memos. The auditors also submitted the audit report in a narrative form addressed to the Chairman of the society which was divided into two parts styled as part I and part II. Based on the above information, answer the following questions:

[RTP-Nov. 21]

Q. 1	<p>According to Sec. 5 of the Central Act, what is maximum percentage of the total number of shares and what is the maximum value of shareholding that RAS &amp; Associates were concerned with, so as to watch any breach relating to holding of shares?</p>
	<p>(a) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 5,000.            (b) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 5,000.            (c) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 1,000.            (d) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 1,000.</p>
Q. 2	<p>As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than:</p> <p>(a) A member and with the special sanction of the Registrar, relatives of the member not exceeding an amount of ₹ 1000.            (b) A member and with the special sanction of the Registrar, another registered society.            (c) A member and with the special sanction of the Registrar, relatives of the member.            (d) A member and with the special sanction of the Registrar, another registered society not exceeding an amount of ₹ 1000.</p>
Q. 3	<p>Overdue debts for a period from _____ to _____ and more than ____ were classified and reported by RAS &amp; Associates.</p> <p>(a) 3 months to 6 months and more than 6 months.            (b) 6 months to 3 years and more than 3 years.</p>



	(c) 6 months to 5 years and more than 5 years. (d) 3 months to 5 years and more than 5 years.
<b>Q. 4</b>	<b>To whom does RAS &amp; Associates report the few transactions noticed during audit?</b> (a) Registrar of Co-operative Societies. (b) Secretary of Best Tea House. (c) State Government. (d) Management Committee of Best Tea House.
<b>Q. 5</b>	<b>Mistakes having an impact on the profitability of society were pointed out by RAS &amp; Associates as it had a consequential effect on the financial position of society. In which of the following submissions was this information included?</b> (a) Part I of the audit report. (b) Part II of the audit report. (c) Schedules to the audit report. (d) Audit memos.

**Answer - Integrated Case Study 16**

Q. No.	Answer	
1	(d)	Twenty percent of the total number of shares or of the value of shareholding upto ₹ 1,000
2	(b)	A member and with the special sanction of the Registrar, another registered society.
3	(c)	6 months to 5 years and more than 5 years.
4	(a)	Registrar of Co-operative Societies
5	(a)	Part I of the audit report

**Integrated Case Study - 17**

Honest Limited is a listed Company engaged in the construction business. The Company constructs residential buildings after purchasing vacant land and then sells ready flats to customers. The Company has not been earning good profits and so no dividend was declared in the last financial year for which the statutory audit is to be conducted.

XYZ & Company has been appointed as the statutory auditor of Honest Limited. The audit firm has seven partners and is a reputed firm with the partners having expert knowledge in various areas.

While conducting the audit, the engagement partner, CA Z suspects some fraudulent activities undertaken by the officers and employees of the Company. CA Z is aware that for the purpose of SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. He understands that misstatements in the financial statements can arise from either fraud or error.

On detailed verification by the audit team, it was observed that accounts were manipulated with a view to presenting a false state of affairs. The fraud was committed to avoid incidence of income-tax and withhold declaration of dividend. There was also an incidence of cash receipts being suppressed which came to the notice of the audit team.

CA Z had enough reasons to believe that the offence of fraud, involved individually an amount of ₹ 1 crore, and had been committed against the company by its officers or employees. The audit team discussed the reporting requirements of the fraud committed.

One of the audit team members puts forward his recommendations on reporting which includes disclosure in the Board's Report. He states that sub-section (12) of section 143 of the Companies Act, 2013 prescribes that the companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

CA Z discusses the reporting under Companies (Auditor's Report) Order, 2020 [CARO, 2020] wherein the auditor is required to report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, about fraud by the company or any fraud on the Company.

Based on the above information, answer the following questions:

[MTP-March 2022]

Q. 1	<p><b>Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is:</b></p> <p>(a) Fraud causes a material misstatement in the financial statements.</p> <p>(b) Fraud is an intentional act.</p> <p>(c) Fraud is easier to detect than error.</p> <p>(d) Fraud can be committed by only the management, those charged with governance, and the employees.</p>
Q. 2	<p><b>Which of the following is not a technique of suppressing cash receipts?</b></p> <p>(a) Writing down asset values in entirety, selling them subsequently and misappropriating the proceeds.</p> <p>(b) Adjusting unauthorized or fictitious rebates, allowances, discounts, etc. to customer's accounts and misappropriating amount paid by them.</p> <p>(c) Manipulating totals of wage rolls either by including therein names of dummy workers or by inflating them in any other manner.</p> <p>(d) Writing off as debts in respect of such balances against which cash has already been received but has been misappropriated.</p>
Q. 3	<p><b>To whom should XYZ &amp; Company report the fraud committed in Honest Limited?</b></p> <p>(a) Report the matter only to the Audit Committee constituted under section 177 since the amount of fraud has not exceeded 1 crore.</p> <p>(b) Report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days and on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations.</p> <p>(c) Report the matter only to the Board since the amount of fraud is not less than 1 crore.</p> <p>(d) Report the matter either to the audit committee constituted under section 177 or the Central Government since the amount of fraud is neither less nor more than 1 crore.</p>
Q. 4	<p><b>Sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the auditor is required to disclose in the Board's Report details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year. Which of the following details is not required to be disclosed in the Board's Report?</b></p> <p>(a) Nature of Fraud with description.</p> <p>(b) Parties involved, if remedial action taken.</p> <p>(c) Approximate Amount involved</p> <p>(d) Remedial actions taken.</p>

<b>Q. 5</b>	<b>For reporting under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, which of the following points the auditor may consider?</b>
	<p>(a) Fraud by the company or on the company by its officers, employees or third parties to be reported.</p> <p>(b) Only suspected frauds shall be included here and not the noticed frauds.</p> <p>(c) Principles of materiality outlined in Standards on Auditing.</p> <p>(d) The auditor's withdrawal from the engagement and the reasons for the withdrawal.</p>

**Answer - Integrated Case Study 17**

Q. No.	Answer	
<b>1</b>	<b>(b)</b>	Fraud is an intentional act.
<b>2</b>	<b>(c)</b>	Manipulating totals of wage rolls either by including therein names of dummy workers or by inflating them in any other manner.
<b>3</b>	<b>(b)</b>	Report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days and on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations.
<b>4</b>	<b>(b)</b>	Parties involved, if remedial action taken.
<b>5</b>	<b>(c)</b>	Principles of materiality outlined in Standards on Auditing.

**Integrated Case Study - 18**

**AA & Associates, an audit firm based in New Delhi, was appointed as the Statutory Auditor of Success Ltd., a listed Company having branches all over India. Success Limited is engaged in the business of manufacturing furniture items from timber which is imported from South Africa. The audit firm has six partners and partner CA A is the engagement partner for Success Ltd.**

**The audit team consisting of CA A and five more members prepared an audit strategy and audit plan before commencing the audit. CA A was aware of the fact that the understanding of the internal control of the organisation would assist the team in various ways. So, it was decided that the team would first obtain an understanding of the internal control relevant to the audit before commencing the audit.**

**CA A explained to the team that there is a direct relationship between an entity's objectives and the controls it implements to provide reasonable assurance about their achievement. The entity's objectives, and therefore controls, relate to financial reporting, operations and compliance; however, not all of these objectives and controls are relevant to the auditor's risk assessment. CA A educated the team about the factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit. The team then applied its professional judgment to decide whether a control, individually or in combination with others, is relevant to the audit.**

**One of the team members, CA P scheduled a meeting with the Director of Success Ltd., Mr. D, to understand the risk assessment process of the entity. The entity's risk assessment process formed the basis for the risk to be managed. CA P, on the basis of his judgment, found the process to be appropriate, and it helped him in identifying the risks.**

**Once the risks were identified, CA P had to determine whether any of the risk identified is, in his judgment, a significant risk. CA P considered all the factors which he should have considered to exercise his judgment as to which risks are significant risks. He was aware that significant risks often relate to certain type of transactions and matters.**

In the meanwhile, CA A met the CFO of the Company, Mr. C to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting. Mr. C explained to CA A the various monitoring activities undertaken by the management to monitor the internal control performance of the company.

Based on the above information, answer the following questions:

[MTP-April 2022]

Q. 1	<p>CA A was aware of the fact that the understanding of the internal control of the organization would assist the team in various ways. Which of the following is not achieved by an understanding of the internal control system?</p> <p>(a) Identifying breakdown due to human error.          (b) identifying types of potential misstatements.          (c) designing the nature, timing, and extent of further audit procedures.          (d) identifying factors that affect the risks of material misstatement.</p>
Q. 2	<p>Which of the following factors is not relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit?</p> <p>(a) The diversity and complexity of the entity's operations.          (b) Applicable legal and regulatory requirements.          (c) The nature of the entity's business, including its organization and ownership characteristics.          (d) Nature, timing, and extent of further audit procedures.</p>
Q. 3	<p>CA P obtained an understanding of the risk assessment process of the entity. Which of the following is a risk assessment process to be followed by an entity?</p> <p>(i) Identifying business risks relevant to financial reporting objectives.          (ii) Estimating the significance of the risks.          (iii) Assessing the likelihood of their occurrence.          (iv) Deciding about actions to address those risks.</p> <p>(a) (i), (ii), (iii),          (b) (i), (ii)          (c) (i), (ii), (iii), (iv)          (d) (ii), (iii)</p>
Q. 4	<p>CA P considered all the factors which he should have considered to exercise his judgment as to which risks are significant risks. Which of the following is a factor which he would have considered to determine the same?</p> <p>(a) Whether the risk is a risk of error.          (b) The complexity of transactions.          (c) Whether the risk involves significant transactions with non-related parties.          (d) The degree of objectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty.</p>
Q. 5	<p>Which among the following is incorrect with reference to last para of the case study regarding the auditor to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting:</p> <p>(a) It involves assessing the efficiency of controls on a timely basis and taking necessary remedial actions.          (b) Management accomplishes it through ongoing activities, separate evaluations etc.          (c) Management's monitoring activities may include using information from communications from external parties.          (d) In small entities, management's monitoring of control is often accomplished by management's or the owner-manager's close involvement in operations.</p>

Answer - Integrated Case Study 18		
Q. No.	Answer	
1	(a)	Identifying breakdown due to human error.
2	(d)	Nature, timing, and extent of further audit procedures.
3	(c)	(i), (ii), (iii), (iv)
4	(b)	The complexity of transactions.
5	(a)	It involves assessing the efficiency of controls on a timely basis and taking necessary remedial actions.

Integrated Case Study - 19	
<p>Suresh Rana &amp; Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller &amp; Auditor General for the FY 2022-23. 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.</p> <p>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.</p> <p>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.</p> <p>Based on the above facts, answer the following: <span style="float: right;">[MTP-April 22]</span></p>	
Q. 1	<p><b>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.</b></p> <p><b>Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanor to its logical end.</b></p> <p>(a) Only statement 1 is correct            (b) Only statement 2 is correct            (c) Both 1 &amp; 2 are correct            (d) Both 1 &amp; 2 are incorrect</p>
Q. 2	<p>_____ 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.</p> <p>(a) Propriety audit            (b) Audit against Rules and orders            (c) Performance Audit            (d) Audit against Provision of funds</p>
Q. 3	<p><b>While conducting audit against provision of funds, the statutory auditors, M/s. Suresh Rana &amp; Associates must check:</b></p> <p>(a) That each item of expenditure is covered by a sanction either general or special of a competent authority.</p>

	<p>(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.</p> <p>(c) That the expenditure conforms to the relevant provision of the constitution.</p> <p>(d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.</p>
<b>Q. 4</b>	<p><b>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?</b></p> <p>(a) Propriety Audit</p> <p>(b) Audit against provision of funds</p> <p>(c) Audit of sanctions</p> <p>(d) Performance Audit</p>
<b>Q. 5</b>	<p><b>While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?</b></p> <ol style="list-style-type: none"> <li><b>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.</b></li> <li><b>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.</b></li> <li><b>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.</b></li> <li><b>Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.</b></li> </ol> <p>(a) Only statement 1 is correct</p> <p>(b) Statements 1 &amp; 2 are correct</p> <p>(c) Statements 1, 2, 3 and 4 are correct</p> <p>(d) Statements 1, 2 and 3 are correct</p>

**Answer - Integrated Case Study 19**

<b>Q. No.</b>	<b>Answer</b>	
<b>1</b>	<b>(a)</b>	Only statement 1 is correct
<b>2</b>	<b>(c)</b>	Performance Audit
<b>3</b>	<b>(b)</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.
<b>4</b>	<b>(a)</b>	Propriety Audit
<b>5</b>	<b>(b)</b>	Statements 1 & 2 are correct

**Integrated Case Study - 20**

Save Lives Limited is a listed Company which deals in the manufacture of Sanitizers, floor cleaners, dish and fabric cleaners etc. In spite of spread of COVID-19 in the country, the company's sales have been very high in the last financial year due to essential products it deals in. The Company is highly automated and is driven by IT systems and applications that are used in the preparation of the financial statements of the Company. The Company uses an integrated enterprise resource planning system since last five years.



KRAN & Associates has been appointed to conduct the statutory audit of the Company. The firm consists of eight partners, and CA N has been appointed as engagement partner for the audit of Save Lives Limited.

CA N briefed the team about the audit and also how IT would be relevant to the audit of Save Lives Limited. The team obtained an understanding of the entity and its automated environment which involved an understanding of how the IT department was organised, IT activities, IT dependence and the relevant risks and controls.

One of the team members wanted to understand the importance of different types of controls in an automated environment viz., General IT Controls, Application Controls and IT- Dependent Controls. Same was discussed in detail along with the relationship between different controls.

The Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on the internal controls for a company. So, CA N decided to himself evaluate and validate the design and operating effectiveness of Internal Financial Controls over Financial Reporting (IFC-FR) of the company as at the Balance Sheet date. Internal Financial Controls (IFC) refers to the policies and procedures put in place by Save Lives Limited for ensuring adequacy and also the operating effectiveness of such controls.

The audit team decided to use the tools and techniques that auditors use in applying the principles of data analytics which are known as CAATs. Data analytics could also 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 various functions.: [RTP-May 22]

Q. 1	<p><b>Under which situation is IT not relevant to an audit?</b></p> <p>(a) Increased complexity of transactions            (b) Hi-tech nature of business            (c) Volume of transactions is low            (d) Company Policy (Compliance).</p>
Q. 2	<p><b>Which of the following is a risk that arises from the use of IT systems?</b></p> <p>(a) Direct data changes (backend changes).            (b) Limited/Monitored access.            (c) Adequate segregation of duties.            (d) Authorized access to data.</p>
Q. 3	<p><b>The relationship between two controls is such that _____ are needed to support the functioning of _____, and both are needed to ensure complete and accurate information processing through IT systems.</b></p> <p>(a) IT Dependent Controls, General Controls            (b) Application Controls, General Controls.            (c) General Controls, IT Dependent Controls.            (d) General IT Controls, Application Controls.</p>
Q. 4	<p><b>The term Internal Financial Controls (IFC) refers to the policies and procedures put in place by companies for ensuring which of the following:</b></p> <p>(a) reliability of financial transactions.            (b) effectiveness and efficiency of operations.            (c) safeguarding of human resources.            (d) prevention and detection of errors.</p>
Q. 5	<p><b>Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialized audit tools viz., IDEA and ACL to perform which of the following:</b></p>



(a)	Evaluating impact of control deficiencies.
(b)	Compliance with applicable laws and regulations.
(c)	Authorized changes to system or programs.
(d)	Providing latest information.

### Answer - Integrated Case Study 20

Q. No.	Answer
1	(c) Volume of transactions is low.
2	(a) Direct data changes (backend changes).
3	(d) General IT Controls, Application Controls.
4	(b) effectiveness and efficiency of operations.
5	(a) Evaluating impact of control deficiencies.

### Integrated Case Study - 21

You are a partner in ABC & Company, a Chartered Accountant firm based in New Delhi. ABC & Company has been appointed as the statutory auditor of onetime Limited, a public limited company which manufactures and sells wall and table clocks and has many branches all over India. Onetime Limited has been exporting the clocks since past two years. However, the domestic sales have contributed towards major source of revenue for the Company.

You being the engagement partner have started the audit for the year ended 31.03.2022 along with your five team members. One of the team members, CA B started verification of inventory. In addition to other procedures, he also checked that valuation of Inventory had been recognised in accordance with AS-2. During detailed checking, he noticed that the amount spent on salary of administrative employees and normal wastage on production of the clocks, had not been added to the valuation of Inventory. The contention of XYZ Limited was that since the cost was not directly related to the production cost and so not added to the cost of inventory.

CA B also noticed that one of the suppliers of onetime Limited, Mr. AM had sent some raw material to the Company for storage in their warehouse in March 2022. Due to renovation going on at his warehouse, his stock could be damaged and so he had requested Onetime Limited to keep the same in their warehouse. Onetime Limited contended that since the raw material was anyway billed to the Company the next month, so the same had been included in the valuation of stock, since physically the stock was present in the warehouse of Onetime Limited as on 31.03.2022.

The Company had issued shares at premium, and the premium received on the shares had been transferred to a "securities premium account". The same was then applied in writing off the expenses of selling the clocks, writing off the preliminary expenses of the Company and also writing off the commission paid to the sales agents. You have verified the same in detail.

While verifying debtors, team member C noticed that there were a few trade receivables pertaining to export sales mainly to England. Mr. C verified the same with respect to the invoices issued and other supporting documents. The amount booked as on 31.03.2022 was based on the exchange rate as on the date of the invoice.

Mr. T, another team member verified the fixed assets of the Company. Onetime Limited had purchased few cars for its directors during the year of audit. The same were appearing in the fixed assets schedule of the Company. Mr. T verified the same with respect to the invoices as well as physically verified the assets in the

Company's premises. Since the cars were for the official use of the Directors, they were purchased in the name of the Directors of the Company. Mr. T verified the amount with the Invoice and checked the registration and insurance documents.

One of the article clerks was assigned the work of verification of "Provisions" appearing in the Balance sheet. He wanted to understand from you the circumstances in which a provision is recognised in the books of account. You explained him the situations in which an entity recognises Provisions in its books.

Onetime Limited has invested in the shares of other companies. One of the Companies has declared dividend on its shares. Onetime Limited has not recognised the same in the profit & loss account. Team Member R has asked you to look into the matter since she is unable to understand the reasons for the same.

The Company had spent a huge amount on repair and maintenance of the machinery used for the production of the clocks. The amount was accounted for in two parts: repairs were booked as a revenue expenditure and annual maintenance charges were capitalised and added to the machinery cost. Ms. R has verified the same in detail and raised her observations. [RTP-May 22]

<b>Q. 1</b>	<b>Is the raw material lying in the warehouse of onetime Limited accounted for correctly in its books of account?</b>
	<ul style="list-style-type: none"> <li>(a) No, since the same belongs to Mr. AM and should appear in his books.</li> <li>(b) Yes, since the same is in possession of onetime Limited and was billed to it the following month.</li> <li>(c) It should be shown in the books of both onetime Limited and Mr. AM.</li> <li>(d) It should not appear in the books of onetime Limited or Mr. AM and the raw material should be disclosed as a note in the final accounts of both the entities.</li> </ul>
<b>Q. 2</b>	<b>Which exchange rate is considered for accounting of foreign debtors at the year end?</b>
	<ul style="list-style-type: none"> <li>(a) Exchange Rate on the date of the invoice.</li> <li>(b) Exchange Rate on the last day of the financial year.</li> <li>(c) Exchange Rate on the date of shipment of the products to the customer.</li> <li>(d) Exchange Rate on the date of delivery of the products to the customer.</li> </ul>
<b>Q. 3</b>	<b>Which of the following assertions with respect to fixed assets has not been complied with by the Company?</b>
	<ul style="list-style-type: none"> <li>(a) Existence</li> <li>(b) Valuation</li> <li>(c) Cut-Off</li> <li>(d) Rights and Obligations</li> </ul>
<b>Q. 4</b>	<b>Which of the following condition is not required to be met for recognizing a provision?</b>
	<ul style="list-style-type: none"> <li>(a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</li> <li>(b) When an entity has a present obligation (legal or constructive) as a result of a past event.</li> <li>(c) A reliable estimate can be made of the amount of the obligation.</li> <li>(d) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.</li> </ul>
<b>Q. 5</b>	<b>Dividends are recognized in the statement of profit and loss only on fulfilment of which condition:</b>
	<ul style="list-style-type: none"> <li>(a) the entity's right to receive payment of the dividend is established.</li> <li>(b) it is probable that the economic benefits associated with the dividend will flow to the entity.</li> <li>(c) the amount of the dividend can be measured reliably.</li> <li>(d) All of the above</li> </ul>

Answer – Integrated Case Study 21		
Q. No.	Answer	
1	(a)	No, since the same belongs to Mr. AM and should appear in his books.
2	(b)	Exchange Rate on the last day of the financial year.
3	(d)	Rights and Obligations
4	(a)	When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
5	(d)	All of the above

Integrated Case Study - 22	
<p><b>GSR &amp; Company have been appointed as the statutory auditors of Raj Textiles Ltd. for the FY 2022-23. The engagement partner, CA Rahul Dhawan established the overall audit strategy and made the detailed plan with respect to the audit assignment of Raj Textiles Ltd. after discussing the same with the engagement team. The strategy adopted by GSR &amp; Company consisted of relying on the internal control system of the company and the audit plan and program were developed accordingly and the audit team started to work in accordance with the developed audit plan and program. During the course of audit, the engagement partner, CA Rahul Dhawan found that some internal controls implemented by the company were not operating effectively. So, he decided not to rely on the internal control system of the company &amp; accordingly changed the overall audit strategy, audit plan &amp; audit program.</b></p> <p><b>While conducting the audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of the company. CA Rahul Dhawan asked for the addresses of various debtors from the management of Raj Textiles Ltd. for the purpose of sending balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of Raj Textiles Ltd. asked the debtors to send the responses of such confirmation requests to General Manager of accounts department of the company, who will in turn provide such responses to the audit team.</b></p> <p><b>Further, the audit team found that a legal case has been filed against the company on account of customer complaint. CA Rahul Dhawan discussed with his team regarding the audit procedures that can be performed by the audit team to verify the implications of such litigation on the financial statements of the company. One of the audit team members, Mr. Girish had the following understanding with respect to the audit file to be maintained by the audit team with respect to the audit assignment:</b></p> <p><b>Point no. 1: The completion of assembly of final audit file after the date of the auditor's report is an administrative process involving the performance of new audit procedures or drawing of new conclusions.</b></p> <p><b>Point no. 2: After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.</b></p> <p><b>CA Rahul Dhawan briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of Raj Textiles Ltd. and also discussed with his team in detail regarding the various aspects of audit file.</b> <span style="float: right;">[MTP-Sep. 2022]</span></p>	
Q. 1	<p><b>Is CA Rahul Dhawan right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established &amp; plan so developed?</b></p> <p>(a) CA Rahul Dhawan is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p>

	<p>(b) CA Rahul Dhawan is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c) CA Rahul Dhawan is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d) CA Rahul Dhawan can change the overall audit strategy and audit plan only after taking due permission from the management of Raj Textiles Ltd.</p>
<b>Q. 2</b>	<p><b>Which of the following audit procedures should the audit team perform with respect to verification of debtors' balances?</b></p> <p>(a) GSR &amp; Company can compare the debtors' balance reflected in financial statements with invoices, debit notes, credit notes, monthly accounts statement sent to the customers.</p> <p>(b) GSR &amp; Company can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c) GSR &amp; Company can obtain management representations with respect to the debtors' balances from the management of ABC Ltd. and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d) Both (a) &amp; (b).</p>
<b>Q. 3</b>	<p><b>Is management correct in asking the debtors to provide the reply of confirmation request directly to the General Manager of accounts department of the company?</b></p> <p>(a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.</p> <p>(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.</p> <p>(c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation is provided to the auditors.</p> <p>(d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>
<b>Q. 4</b>	<p><b>For confirming/verifying the litigation going against the company which of the following audit procedures is not correct?</b></p> <p>(a) GSR &amp; Company can enquire the management including in house legal counsel.</p> <p>(b) GSR &amp; Company should review the minutes of meetings of those charged with governance.</p> <p>(c) GSR &amp; Company can review the legal expense account.</p> <p>(d) GSR &amp; Company need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.</p>
<b>Q. 5</b>	<p><b>Is the understanding of Mr. Girish regarding the assembly of audit file with respect to an audit assignment, mentioned as point no. 1 &amp; point no. 2 in the case scenario, correct?</b></p> <p>(a) Only understanding as per point no. 1 is correct.</p> <p>(b) Only understanding as per point no. 2 is correct.</p> <p>(c) Understanding as per point no. 1 &amp; point no. 2 both are correct.</p> <p>(d) Understanding as per point no. 1 &amp; point no. 2, both are incorrect.</p>

**Answer - Integrated Case Study 22**

Q. No.	Answer
1	(c) CA Rahul Dhawan is right in making changes to the overall audit strategy and the audit plan.

2	(d)	Both (a) & (b).
3	(b)	No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.
4	(d)	GSR & Company need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.
5	(b)	Only understanding as per point no. 2 is correct.

### Integrated Case Study - 23

Star Private Limited is a newly formed private limited company, engaged in the manufacturing of solar panels. Company has appointed Rajan Mehta and Associates, a Partnership Firm of CA Rajan Mehta and CA Piyush Mehta - as their First Auditors. Rajan Mehta and Associates accepted the assignment and CA Rajan Mehta being the engagement Partner, started their Audit.

During the course of Audit, CA Rajan Mehta asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, CA Rajan Mehta found that the Gross Margin of the Company is lower than the Industry Standard/Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. CA Rajan Mehta advised them that he can provide working but cannot give them the working papers as they are the property of the Firm.

Management agreed to that and asked CA Rajan Mehta to go into detail and tell him about the reasons for lower Gross Margin to which he agreed. During the detailed audit, CA Rajan Mehta came to know about the fact that the company dispatched its solar panels to its distributors on delivery challans and once the goods were accepted, sales bills were raised. Checking each challan against sales invoices, CA Rajan Mehta found that there were many challans for which no invoices were raised and thus sales was grossly understated and there was no mechanism where unbilled challans were recorded or tracked. Company employed a person to reconcile all the challans and prepared a list where bills are yet to be sent to the customers. In addition, company was also asked to seek confirmation of balances from all its customers. The management assured CA Rajan Mehta that inventories are physically verified and hence there will be no impact on them.

[MTP-Sep. 22]

<b>Q. 1</b>	<b>CA Rajan Mehta asked about other Companies, he was intending to perform which audit procedure?</b>
	<ul style="list-style-type: none"> <li>(a) Analytical Procedures</li> <li>(b) Substantive Procedures</li> <li>(c) Random Sampling</li> <li>(d) Statistical Sampling</li> </ul>
<b>Q. 2</b>	<b>What was the initial procedure carried on by CA Rajan Mehta?</b>
	<ul style="list-style-type: none"> <li>(a) Trend Analysis</li> <li>(b) Ratio Analysis</li> <li>(c) Statistical Modelling</li> <li>(d) Random Sampling</li> </ul>
<b>Q. 3</b>	<b>Who has the right to retain the audit working papers of the Company in current case?</b>
	<ul style="list-style-type: none"> <li>(a) Audit Committee</li> <li>(b) Board of Directors</li> </ul>

	(c) Auditor (d) Chairman of the Audit Committee
<b>Q. 4</b>	<b>When CA Rajan Mehta decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence?</b> (a) Test of Transactions (b) Test of Balances (c) Both (a) and (b) (d) Analytical Procedures.
<b>Q. 5</b>	<b>The impact of the exercise carried on by the Company for unbilled challans will have an impact on?</b> (a) Gross Receipts and Debtors (b) Gross Receipts and Inventory (c) Debtors (d) Inventory

**Answer - Integrated Case Study 23**

Q. No.	Answer	
1	(a)	Analytical Procedures
2	(b)	Ratio Analysis
3	(c)	Auditor
4	(c)	Both (a) and (b)
5	(a)	Gross Receipts and Debtors

**Integrated Case Study - 24**

Meeta, Neeta, Rita and Babita are friends and all of them have joined office of an auditing firm for undergoing articulated training. It is still early days in the office. However, all of them are curious about different issues of auditing. They have also studied auditing subject. They were going through one audit file of a large manufacturing company as part of their training. In the file are included some audit working papers and other related documents.

A. Some papers contained in file reflect following: -

- (i) Are budgets for capital expenditure approved by the Board?
- (ii) Are approved budgets communicated in writing to accounts department and to department originating the request?
- (iii) Is the authority to incur capital expenditure restricted to specified officials?
- (iv) Are receipts of capital items subject to controls as in case of purchases of raw material, stores?
- (v) Is there proper check to see that amounts expended do not exceed the amount authorised?
- (vi) Further, "Yes", "No" and "Not applicable" along with remarks/notes have been provided by the employees of company against items stated at serial no. [i] to [v].

B. Also included in audit working papers is a detailed note on process of employee recruitment followed by company along with practices on related matters such as orientation, training, evaluation, compensation and promotion of employees. In particular, it seemed that auditors had shown keen interest in standards followed by the company in recruiting most qualified individuals.



<p><b>C.</b> The audit file also includes documentation on how customs duty paid by company on imported raw material was verified. The engagement team had examined the payment of custom duty with reference to bill of entry available in client records. It was verified that customs duty was in accordance with applicable duty rate on goods. In cases where duty was paid by clearing and forwarding agent, bill of entry with reference to bill of forwarder was verified.</p> <p><b>D.</b> The audit file includes a document, signed by CEO of company addressed to auditors, extract of which is as under:</p> <p><b>We have provided you with:</b></p> <p>(i) Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;</p> <p>(ii) Additional information that you have requested from us for the purpose of the audit;</p> <p>(iii) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.</p> <p>(iv) All transactions have been recorded in the accounting records and are reflected in the financial statements.</p> <p><b>E.</b> The audit file included following draft to be included in audit report: -</p> <p>“Revenue is one of the main profit drivers and is, therefore, susceptible to misstatement. Cut-off is the main relevant assertion insofar as revenue recognition is concerned, since an inappropriate cut-off can result in material misstatement of results for the year.</p> <p>Our audit procedures with regard to revenue recognition included testing controls, automated and manual- around deliveries, inventory reconciliations and substantive testing for cut-offs and analytical review procedures.”</p> <p>The issues pertaining to above for audit period under consideration were communicated with responsible persons in management.</p> <p style="text-align: right;">[MTP-Oct. 22]</p>
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<b>Q. 1</b>	<p><b>Regarding description of expenditure on capital items reflected in Para A, which of the following views is Most appropriate?</b></p> <p>(a) Meeta is of view that such a document is in nature of a checklist for evaluating internal control over capital items.</p> <p>(b) Neeta is of view that such a document is in nature of audit programme for verification of capital items.</p> <p>(c) Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items.</p> <p>(d) Rita considers it to be specific audit plan in relation to capital items.</p>
<b>Q. 2</b>	<p><b>On reading description in Para B, what were the auditors trying to do by studying employee recruitment and related HR matters?</b></p> <p>(a) Auditors were trying to gain an understanding of how the company is monitoring controls.</p> <p>(b) Auditors were gaining knowledge to understand how employee pay rolls are prepared and whether there could be any misstatements in pay rolls due to non- inclusion of promotion increments</p> <p>(c) Auditors were trying to understand control environment of the company.</p> <p>(d) Auditors were trying to assess the control activities relevant to audit to assess risk of material misstatement.</p>
<b>Q. 3</b>	<p><b>On the basis of description provided in Para C, identify audit procedure(s) performed by auditors.</b></p> <p>(a) Test of Controls</p> <p>(b) Vouching</p> <p>(c) Analytical Procedures</p> <p>(d) Verification</p>



<b>Q. 4</b>	<b>What would the most appropriate nomenclature to extract of document described in Para D?</b>
	<ul style="list-style-type: none"> <li>(a) Engagement letter</li> <li>(b) Written Representation</li> <li>(c) External confirmation</li> <li>(d) Offer letter to auditor</li> </ul>
<b>Q. 5</b>	<b>Given draft in Para E, which of the following views is Most appropriate in accordance with relevant Standards on Auditing?</b>
	<ul style="list-style-type: none"> <li>(a) Meeta is of the view that draft in Para E needs emphasis in audit report. Therefore, its inclusion under heading "Emphasis of Matter" is proper.</li> <li>(b) Neeta is of the view that draft in Para E is a residuary matter. Therefore, its inclusion under heading "Other Matters" is proper.</li> <li>(c) Rita is of the view that draft in Para E provides the basis on which opinion is to be given. Therefore, its inclusion under heading "Basis for Opinion" is proper.</li> <li>(d) Babita is of the view that draft in Para E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading "Key Audit Matters" is proper.</li> </ul>

**Answer - Integrated Case Study 24**

Q. No.	Answer	
<b>1</b>	<b>(c)</b>	Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items.
<b>2</b>	<b>(c)</b>	Auditors were trying to understand control environment of the company.
<b>3</b>	<b>(b)</b>	Vouching
<b>4</b>	<b>(b)</b>	Written Representation
<b>5</b>	<b>(d)</b>	Babita is of the view that draft in Para E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading "Key Audit Matters" is proper.

**Integrated Case Study - 25**

Rohan is part of an engagement team conducting statutory audit of branch of a nationalized bank. The financial statements to be audited include Balance sheet and Profit & Loss account of the branch drawn up in accordance with Form A and Form B respectively of the Third Schedule to the Banking Regulation Act, 1949. Besides, various advances and other returns are also to be verified as part of audit.

Rohan was part of all audit work pertaining to verification of deposits, advances, income and expenditure of the branch.

While verifying different items of profit and loss account, it was noticed that income included income on account of interest earned and other income.

The team also verified system of branch prior to sanction of advances like verifying creditworthiness of borrower etc. It was also verified whether there exists system for bringing to the notice of higher authorities, accounts which exceed the sanctioned limits or drawing power. Besides, the team also verified whether there exists a system for review of operations in accounts once a year and more frequently in case of large advances.

During the course of audit, it was noticed that one advance, consisting of a term loan, having outstanding balance of ₹ 20 crore as on balance sheet date has been guaranteed by Uttar Pradesh government. The interest of term loan has remained overdue for more than 90 days. The branch has classified advance as non-performing asset and made applicable provision and reversed unrealized income. Rohan is perplexed as to whether classification, provisioning and reversal of unrealized income made by branch is proper.

The auditee branch is a CBS branch and uses FINACLE software. The Core Banking System (CBS) is the set of basic software components that manage the services provided by a bank to its customers through its branches. The bank's customers can execute their transactions from any branch, ATM, Service Outlets, Internet, Phone at their disposal. It helps banks to reduce risk that can result from manual data entry and out of date information. It also helps banks to improve service delivery quality and time to its customer. The software is accessed from different branches of bank via communication lines like telephones, satellite, internet, etc.

The engagement team has kept record of audit documentation in accordance with SA 230. [MTP-Oct. 22]

<b>Q. 1</b>	<b>Which of the following does not constitute "Other income" in the profit and loss account of branch of a bank?</b>
	<ul style="list-style-type: none"> <li>(a) Discount on Bills purchased</li> <li>(b) Commission on Bills sent for collection</li> <li>(c) Loan processing fees</li> <li>(d) Credit card fees</li> </ul>
<b>Q. 2</b>	<b>Identify what the engagement team is trying to do in respect to advances of the branch.</b>
	<ul style="list-style-type: none"> <li>(a) The engagement team is carrying out analytical procedures in respect of advances.</li> <li>(b) The engagement team is carrying out substantive procedures in respect of advances.</li> <li>(c) The engagement team is evaluating internal control over advances.</li> <li>(d) The engagement team is trying to select samples for verification of advances.</li> </ul>
<b>Q. 3</b>	<b>Considering state government guaranteed advance of ₹ 20 crore and its NPA classification made by branch, which of the following statements is most appropriate?</b>
	<ul style="list-style-type: none"> <li>(a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh government guarantee has no effect on provisioning and income recognition.</li> <li>(b) The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee.</li> <li>(c) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee without having recourse to provisioning and reversal of unrealized income.</li> <li>(d) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee. No provisioning is required. However, for purposes of income recognition, it should be treated as NPA and unrealized income should be reversed.</li> </ul>
<b>Q. 4</b>	<b>The branch is operating in CBS environment. In view of above, which of the following statements is most appropriate?</b>
	<ul style="list-style-type: none"> <li>(a) Due to CBS environment, substantive procedures alone are effective to reduce audit risk to an acceptably low level.</li> <li>(b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management.</li> <li>(c) The extensive use of IT systems in CBS environment substantially reduces need to assess inherent and control risks.</li> <li>(d) Low level of branch staff sensitisation to the control expectations of management requires fewer audit procedures.</li> </ul>

<b>Q. 5</b>	<b>With regards to audit documentation, consider the following: -</b>
	<p><b>(P) NOC from previous auditor</b></p> <p><b>(Q) Management certified trial balance of branch for year under consideration</b></p> <p><b>(R) KYC verification details</b></p> <p><b>(S) Latest RBI master directions/circulars</b></p> <p><b>Which of the following statements is correct as regards to audit documentation?</b></p> <p>(a) Only documents stated at Q and R form part of audit documentation.</p> <p>(b) Only documents stated at Q, R and S form part of audit documentation.</p> <p>(c) Only documents stated at Q and S form part of audit documentation.</p> <p>(d) All documents stated at P, Q, R and S form part of audit documentation.</p>

<b>Answer - Integrated Case Study 25</b>		
<b>Q. No.</b>	<b>Answer</b>	
<b>1</b>	<b>(a)</b>	Discount on Bills purchased
<b>2</b>	<b>(c)</b>	The engagement team is evaluating internal control over advances.
<b>3</b>	<b>(a)</b>	The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee.
<b>4</b>	<b>(b)</b>	In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management.
<b>5</b>	<b>(d)</b>	All documents stated at P, Q, R and S form part of audit documentation.

<b>Integrated Case Study - 26</b>	
<p><b>SAM &amp; Company, a Chartered Accountant firm, is in the process of finalising the audit of Health is Wealth Limited which is a Company listed on the Bombay Stock Exchange. Health is Wealth Limited has made its presence felt in over 10 countries, including India, making it a leader in the global fitness industry. It runs a chain of fitness centres that offers energetic group workouts and multiple workout formats to choose from. It also offers the best equipment, knowledgeable staff and personal advice in a welcoming environment.</b></p> <p><b>SAM &amp; Company being a very reputed firm, was appointed for the statutory audit of Health is Wealth Limited. The Engagement Partner CA A and her team of 8 members have conducted the audit in an efficient and effective manner. The senior manager in the team, CA K is of the opinion that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. One of the articled clerks, Mr. N, is a fresher and this audit is his first experience as an auditor in a limited company. He is a sharp boy and has grasped all the concepts and techniques very well. However, the term "pervasive" confused him so CA K patiently explained to Mr. N the pervasive effects on the financial statements as per the auditor's judgment. He explained that -</b></p> <p><b>Pervasive effects on the financial statements are those that, in the auditor's judgment:</b></p> <p><b>(i) Are not confined to specific elements, accounts or items of the financial statements;</b></p> <p><b>(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or</b></p> <p><b>(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.</b></p> <p><b>(iv) Are confined to specific elements, accounts or items of the financial statements.</b></p> <p><b>Mr. N understood the term well and thanked CA K for clearing all his doubts.</b></p>	

CA A disagreed with CA K that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. So, the entire team held various meetings and discussions, and finally reached to a conclusion. They concluded that they have obtained reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion took into account:

- (a) Whether sufficient appropriate audit evidence had been obtained.
- (b) Whether uncorrected misstatements were material, individually or in aggregate.
- (c) The evaluations.

The Auditor's Report was prepared in writing and it was decided that an unmodified opinion would be expressed. The first section of the auditor's report included the auditor's opinion and had the heading "Opinion". Following the Opinion section was a section with the heading "Basis for Opinion". When expressing an unmodified opinion on financial statements, the auditor's opinion used the following phrase, "In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]."

During the audit, the audit team had observed that there was uncertainty in Health is Wealth Limited relating to the future outcome of a regulatory action. So, a paragraph was included in the auditor's report that referred to this matter which was appropriately disclosed in the financial statements and that, in the auditor's judgment, was of such importance that it was fundamental to users' understanding of the financial statements.

CA A also determined whether the financial statements included the comparative information required by the applicable financial reporting framework and whether such information was appropriately classified. One team member, Mr. R was curious to know whether the auditor's opinion referred to the corresponding figures or not, whenever the corresponding figures are presented. CA A explained the circumstances to Mr. R in which, when the corresponding figures are presented, auditor's opinion referred to the corresponding figures.

Based on the above information, answer the following questions:

[RTP-Nov. 22]

<b>Q. 1</b>	<p>CA K explained to Mr. N the pervasive effects on the financial statements in the auditor's judgment. Which of the following combination best answers as explained by CA K?</p> <ol style="list-style-type: none"> <li>(a) (i) and (ii)</li> <li>(b) (ii) and (iii)</li> <li>(c) (iii) and (iv)</li> <li>(d) (i), (ii) and (iii)</li> </ol>
<b>Q. 2</b>	<p>When expressing an unmodified opinion on financial statements, SAM &amp; Company used the following phrase:</p> <p>"In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]."</p> <p>Which is the other phrase which is regarded as being equivalent to the above phrase and could also be used by SAM &amp; Company?</p> <ol style="list-style-type: none"> <li>(a) In our opinion, the accompanying financial statements give a true and correct view of [...] in accordance with [the applicable financial reporting framework];</li> <li>(b) In our opinion, the accompanying financial statements present correctly, in all material respects, [...] in accordance with [the applicable financial reporting framework];</li> <li>(c) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];</li> </ol>

	(d) In our opinion, the accompanying financial statements give a correct and fair view of [...] in accordance with [the applicable financial reporting framework].
<b>Q. 3</b>	<p><b>Which of the following statements is not included in the section with the heading “Basis for Opinion” in the Auditor’s Report?</b></p> <p>(a) Audit was conducted in accordance with the Accounting Standards.                  (b) Auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.                  (c) Description of the auditor’s responsibilities under the SAs.                  (d) States whether the auditor believes that the audit evidence the auditor has obtained, is sufficient and appropriate to provide a basis for the auditor’s opinion.</p>
<b>Q. 4</b>	<p><b>A paragraph was included in the Auditor’s Report of Health is Wealth Limited that referred to a matter which was appropriately disclosed in the financial statements that, in the auditor’s judgment, was of such importance that it was fundamental to users’ understanding of the financial statements. What is this section of the Auditor’s Report called?</b></p> <p>(a) Other Matters.                  (b) Emphasis of Matters.                  (c) Key Audit Matters.                  (d) Auditor’s Responsibilities for the Audit of the Financial Statements.</p>
<b>Q. 5</b>	<p><b>CA A explained the circumstances to Mr. R in which, when the corresponding figures are presented, auditor’s opinion referred to the corresponding figures. Which of these circumstances did he mention to Mr. R?</b></p> <p>(a) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which a modified opinion has been previously issued.                  (b) If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved.                  (c) Prior Period Financial Statements are audited by another auditor.                  (d) Prior Period Financial Statements not audited.</p>

**Answer - Integrated Case Study 26**

Q. No.	Answer	
1	(d)	(i), (ii) and (iii)
2	(c)	In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
3	(a)	Audit was conducted in accordance with the Accounting Standards.
4	(b)	Emphasis of Matters.
5	(d)	Prior Period Financial Statements not audited.

**Integrated Case Study - 27**

**Bharat Bank, a nationalised bank, has branches all over India and has been the most popular public sector bank in India for the past few years. The bank is governed by the Banking Regulation Act, 1949 and the Central Statutory Auditors of the bank, ABC & Associates, were appointed according to the provisions of the**

relevant enactments. The engagement partner CA C commenced the audit with his team of seven members so that the audit is completed on time and all the documents are submitted before the due date. The audit at all the branches also started simultaneously and ABC & Associates was in constant touch with all the branch auditors to ensure timely completion of the audit.

As per the audit strategy and plan, CA Q along with Ms. R and Mr. P were assigned the audit of the advances of Bharat Bank. Advances constituted the largest item on the assets side of the balance sheet of the bank. Since audit of advances is one of the most important areas covered by auditors in a bank audit, it was assigned to CA Q since he was aware of the various functional areas of the bank/branches, its processes, procedures, systems and prevailing internal controls with regard to advances.

CA Q started with verifying whether the advances were classified as per RBI Prudential Norms. There were five categories of advances which were available to CA Q for verification. They were: Standard Regular, Sub Standard, Doubtful, Loss and Special Mention Accounts. An ageing analysis was available for doubtful advances and Special Mention Accounts which was examined in detail by CA Q. Ms. R, on being instructed by CA Q, verified the securities offered by the borrowers for the bank finance. For a particular customer named Aquabross Pvt. Ltd., the security was in the form of delivery of goods by Aquabross to Bharat Bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remained with Aquabross. In case of another customer named Prism Works, there was a transfer of a life insurance policy in favour of the bank as security. The bank had absolute right over the policy.

Ms. R examined all the relevant documents for the above two cases in detail. She continued with her examination of other securities based on the sample selected by her.

While checking the classification of NPA, Mr. P came across a customer named Trustworthy whose term loan instalment was overdue for 90 days at the year-end, but it was 100% secured against the office building. The same was classified as a sub-standard asset. There was another customer named Super40, who had a cash credit account and a term loan with the bank. Super40 had been paying the instalments on the term loan as well as the interest on the cash credit account regularly and there was no overdue amount. Mr. P verified the drawing power of Super40 and found it to be less than the sanctioned limit throughout the year. The outstanding balance of Super40 during the whole year exceeded the drawing power but was less than the sanctioned limit. Both the advances to Super40 were classified as Standard Advances since the recoveries were regular and outstanding balance in the cash credit was less than the sanctioned limit.

On examination of large advances, CA Q noticed that a customer named Stylish N Smart Private Limited had one funded loan (term loan) and one non funded loan (bank guarantee) sanctioned from the bank. CA Q checked in detail whether commission earned by the bank on the bank guarantee was provided for on accrual basis.

CA Q along with Ms. R and Mr. P verified the advances in detail and also recommended a few changes in the classification/provisions based on the examination of the sample selected by them.

Based on the above information, answer the following questions:

[RTP-Nov. 22]

<b>Q. 1</b>	<b>What are the sub categories of the special mention accounts?</b>
	<p>(a) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p> <p>(b) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)</p> <p>(c) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p> <p>(d) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)</p>



<b>Q. 2</b>	<b>Creation of security of Aquabross Private Ltd. and Prism Works was in the form of:</b>
	<p>(a) Mortgage and Hypothecation.</p> <p>(b) Lien and Set-off.</p> <p>(c) Hypothecation and Pledge.</p> <p>(d) Pledge and Assignment.</p>
<b>Q. 3</b>	<b>In your opinion is Trustworthy a standard asset or a sub-standard asset?</b>
	<p>(a) Though it is due for 90 days, it is 100% secured so it is a standard asset.</p> <p>(b) Since it is due for 90 days, it is a sub-standard asset irrespective of the security.</p> <p>(c) Since it is not due for more than 90 days, it is a standard asset irrespective of the security.</p> <p>(d) Since it is not due for more than 90 days and it is 100 % secured, it is a standard asset.</p>
<b>Q. 4</b>	<b>Is Super40 correctly classified as a standard asset?</b>
	<p>(a) Yes, since the recoveries in both term loan and cash credit were regular and outstanding balance in the cash credit was less than the sanctioned limit.</p> <p>(b) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, so both the advances, that is, the term loan and cash credit facility will be classified as NPA.</p> <p>(c) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, the cash credit facility will be classified as NPA and term loan as standard.</p> <p>(d) Yes, since the recoveries in both term loan and cash credit were regular, there is no relevance of sanctioning power/drawing power.</p>
<b>Q. 5</b>	<b>Which among the following is a non- funded loan?</b>
	<p>(a) Demand Loans</p> <p>(b) Bills Discounted and Purchased</p> <p>(c) Letter of Credit</p> <p>(d) Participation on Risk Sharing basis</p>

**Answer - Integrated Case Study 27**

Q. No.	Answer	
1	(a)	SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)
2	(d)	Pledge and Assignment.
3	(c)	Since it is not overdue for more than 90 days, it is a standard asset irrespective of the security.
4	(b)	No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, so both the advances, that is, the term loan and cash credit facility will be classified as NPA.
5	(c)	Letter of Credit