

CA-Inter

Auditing & Ethics

New Course

Booster No-44

(MCQ's, Correct/Incorrect)



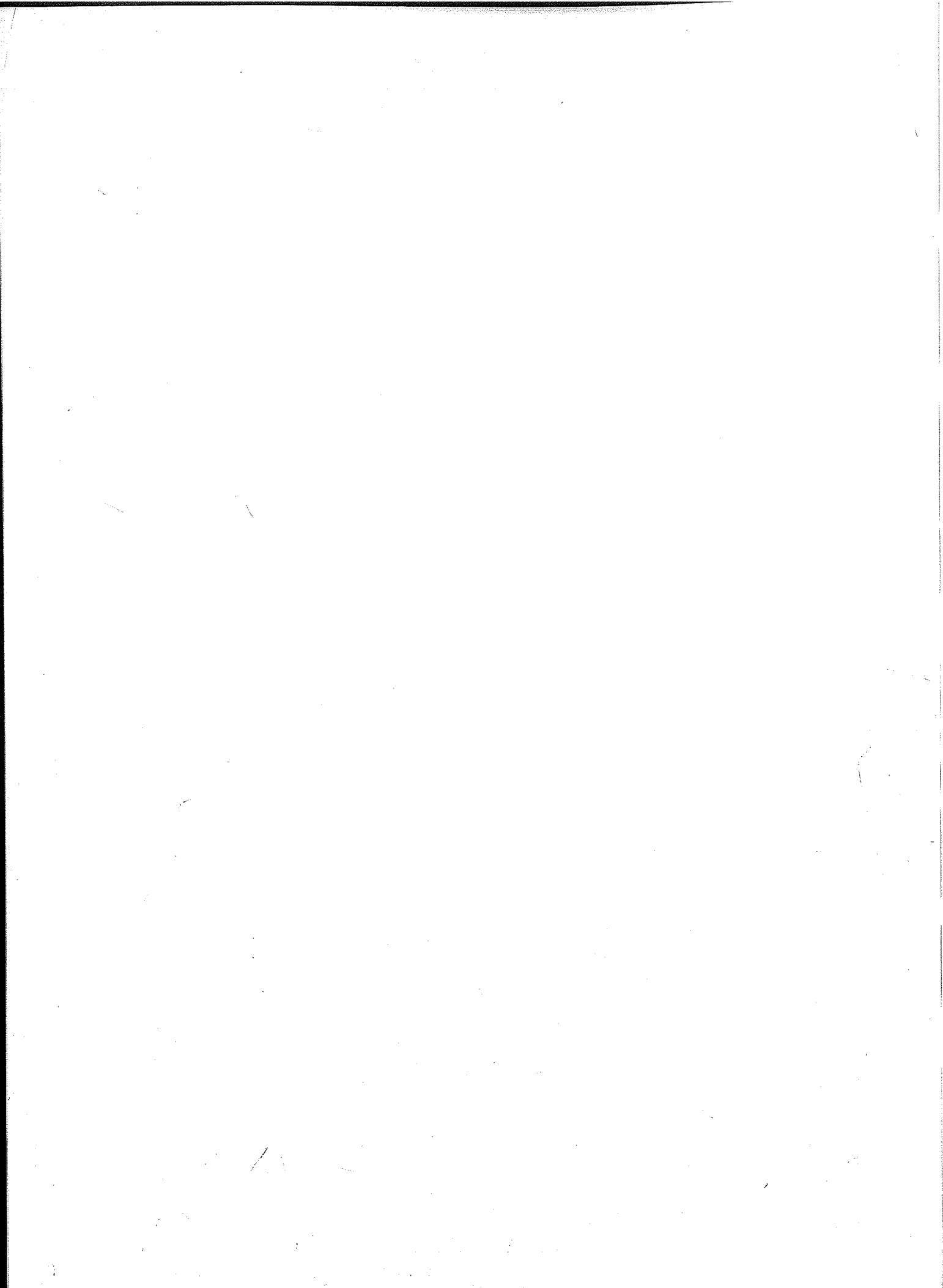
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CA - INTERMEDIATE

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Auditing & Ethics

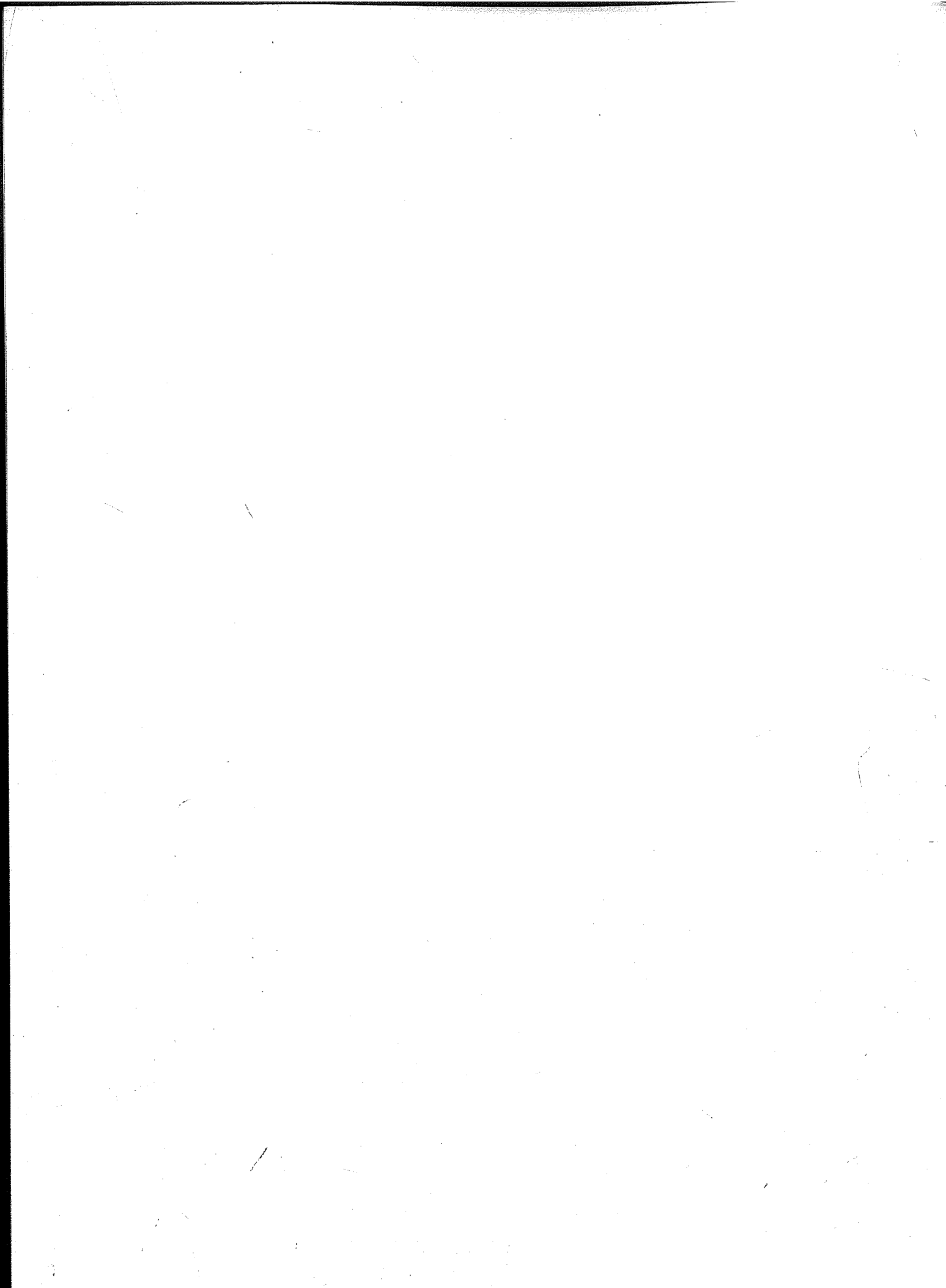
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Chapter 1 | NATURE, OBJECTIVE & SCOPE OF AUDIT

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. The basic objective of audit does not change with reference to nature, size or form of an entity
2. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements
3. 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.

Answers:-

1. Correct

An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. It is clear that the basic objective of auditing, i.e., expression of opinion on financial statements does not change with reference to nature, size or form of an entity.

2. Correct

As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

3. Correct

As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", 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. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

STUDY MATERIAL OLD

1. An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity.
2. Mr. S, one of the new team members of the auditor of Extremely Effective Limited was of the view that for the purpose of conducting an audit, only knowledge of direct tax is required whereas no knowledge of indirect tax is required.

3. According to Mr. H, one of the team members of the auditor of Very Essential Limited was of the view that no relation exists between accounting and auditing from the point of view of a company.

Answers:-

1. Correct

As per section 141(3)(d), a person shall not be eligible for appointment as an auditor of a company namely- a person, 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. From the above it can be concluded that if the partner deals with shares and securities of the audited entity, he would be lacking independence, hence, disqualified to be appointed as an auditor.

Further, the Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats and if partner of the firm deals with shares and securities of the audited firm then such threat is known as the Advocacy Threats and auditor will be lacking independence.

2. Incorrect

The viewpoint of Mr. S is incorrect because for the purpose of conducting an audit, proper knowledge of both direct tax as well as indirect tax is required.

3. Incorrect

The viewpoint of Mr. H is incorrect because there exists a proper relation between accounting and auditing from the point of view of a company. Audit is conducted for financial statements of a company and those financial statements are prepared with the help of books of accounts of that company. In order to properly conduct an audit of a company, an auditor is required to be aware of accounting principles and accounting policies of that company.

PREVIOUS YEAR QUESTIONS

1. The primary objective of an audit is to detect fraud and error in the financial statements. **(Nov.14)**

2. The basic objective of audit does not change with reference to nature, size or form of the entity. **(May 15 , Nov.17)**

3. An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity. **(May 18)**

1. Incorrect

2. Correct

3. Correct

RTP

1. The objective of audit is to obtain absolute assurance and to report on the financial statements. **[May 18]**

2. The preparation of financial statements does not involve judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. **[Nov 18]**

- 3. An audit is an official investigation into alleged wrongdoing. [Nov 18]
- 4. The matter of difficulty, time, or cost is involved in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative. [Nov 18]
- 5. There is no difference between “audit” and “review.” [NOV-22]
- 6. For auditor’s opinion, reasonable assurance is an absolute level of assurance. [NOV-22/NOV-23]

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Incorrect
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MTP

- 1. The auditor is expected to and can reduce audit risk to zero. [May 20]
- 2. The preparation of financial statements involves judgment by management. [NOV 21]
- 3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. [MARCH-23]

1. Incorrect	2. Correct	3. Correct			
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Chapter 2 | AUDIT STRATEGY, PLANNING & AUDIT PROGRAMME

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.

1. Incorrect

Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable

STUDY MATERIAL OLD

1. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

2. The audit plan is more detailed than the overall audit strategy

Answers:-

1. Correct

Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

2. Correct

The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members.

Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

PREVIOUS YEAR QUESTIONS

1. A well designed and drafted audit plan and audit strategy which takes care of all the uncertainties and conditions need not be changed during the course of audit. (Nov. 18)

2. Under a properly framed audit program by the auditor, the danger is significantly less and audit can proceed systematically **(Nov. 19)**

3. It is not necessary for the auditor to periodically review the audit programme. **(Nov. 20)**

1. Incorrect	2. Correct	3. Incorrect			
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MTP

1. A detailed Audit Program once prepared for a business can be used for all business under all circumstances. **[Oct 20]**

2. Evolving one audit programme applicable to all business under all circumstances is not practicable **[NOV 21]**

3. The auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation. **[SEPT-22]**

4. A detailed Audit Programme once prepared for a business can be used for all business under all circumstances. **[MTP-OCT 22]**

5. Understanding the Internal Control of a company will not help the auditor in developing an Audit Programme. **[MARCH-23]**

1. Incorrect	2. Correct	3. Correct	4. Incorrect	5. Incorrect	
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Chapter 3 | RISK ASSESSMENT & INTERNAL CONTROL

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.
2. Tests of control are performed to obtain audit evidence about the effectiveness of Internal Controls Systems.
3. Maintenance of Internal Control System is the responsibility of the Statutory Auditor.
4. Inquiry alone is sufficient to test the operating effectiveness of controls.

Answers:-

1. Incorrect

Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls. Control risk, on the other hand is the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

2. Correct

Tests of Control are performed to obtain audit evidence about the effectiveness of:

- (a) the design of the accounting and internal control systems that is whether, they are suitably designed to prevent or detect or correct material misstatements and
- (b) the operation of the internal controls throughout the period.

3. Incorrect

The management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. Maintenance of Internal Control System is responsibility of management because the internal control is the process designed, implemented and maintained by those charged with governance/management to provide reasonable assurance about the achievement of entity's objectives.

4. Incorrect

When auditor inquires the management as part of audit procedures such inquiries may range from formal written inquiries to informal oral inquiries.

STUDY MATERIAL OLD

1. Mr. W, one of the team members of auditor of Different Limited was of the view that understanding the Internal Control of Different Limited will not help in developing an Audit Programme.
2. Information obtained by performing risk assessment procedures shall not be used by the auditor as audit evidence to support assessments of the risks of material misstatement.
3. 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.
4. General IT controls support the functioning of Application controls.
5. Inquiry is often the most efficient audit testing method, but least effective.
6. Specialised audit tools like IDEA, ACL are required to perform data analytics.
7. A combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is known as meaningful data.
8. During the assessment of Internal Controls, if the auditor can test Compensating controls, he should obtain evidence of other mitigating factors.
9. An automated environment basically refers to a business environment where the processes, operations, accounting except the decisions are carried out by using computer systems.
10. The Company auditor need not report on the efficacy of Internal Financial controls in his Audit Report in the case of a One Person Company.
11. Generally, applying inquiry in combination with reperformance as audit testing method gives the most effective and efficient audit evidence.

Answers:-

1. Incorrect

Understanding the Internal Control of Different Limited will help in developing an Audit Programme because it will assist the auditor and his team to understand as to how much they can rely on internal control of the company and what audit procedures would be appropriate to be used during the course of audit.

2. Incorrect

Information obtained by performing risk assessment procedures and related activities may be used by the auditor as audit evidence to support assessments of the risks of material misstatement.

3. Correct

As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", 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. This is because there are inherent limitations of an audit, which result

in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive

4. Correct

General IT controls support the functioning of automated application controls and IT dependent controls.

5. Correct

Inquiry is the most efficient but least effective. Moreover, testing through inquiry alone is not sufficient. Inquiry should be corroborated by applying any one or a combination of observation, inspection or reperformance.

6. Incorrect

Even though specialised audit tools are very useful, such tools are not always required or necessary to carry out data analytics. More commonly available spreadsheet applications like MS-Excel can also be effectively used for carrying out data analytics.

7. Incorrect

A combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is known as Data Analytics.

8. Incorrect

If the auditor can test Compensating controls, he should obtain additional evidence that may be required. Obtaining evidence of other mitigating factors is required when he can't test compensating controls during his assessment of the Internal Controls.

9. Incorrect

An automated environment basically refers to a business environment where the processes, operations, accounting and even decisions are carried out by using computer systems

10. Correct

A One Person Company and Small Company are exempted from this requirement as per proviso to Section 143(3)(i).

11. Incorrect

Generally, applying inquiry in combination with inspection gives the most effective and efficient audit evidence.

PREVIOUS YEAR QUESTIONS

1. Inherent and Control Risk, and detection risk have the same meaning. (Nov.13)
2. Maintenance of internal Control system is responsibility of Auditor. (May 14)
3. Internal control questionnaires are a good source of identifying weakness in internal control system. (May 16)
4. There is no relation between Inherent risk, Control risk and Detection risk. (Nov.17)

5. A satisfactory Control environment is not an absolute deterrent to fraud. **(May 19)**
6. The auditor's reporting on internal financial control will be applicable with respect to interim financial statements. **(Nov.19)**
7. For an auditor, the Risk assessment procedure provides sufficient appropriate audit evidence to base the audit opinion. **(Nov. 19)**
8. Risks of material misstatement may be greater for significant judgmental matters that require the development of accounting estimates **(Nov. 20)**
9. The Auditor is expected to, reduce audit risk to zero and can therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. **(Jan 21)**
10. Internal control cannot eliminate risk of material misstatements in the financial statements. **(Dec 21)**
11. Misstatement in the financial statements is always because of a fraud. **[July-21]**
12. With reference to General IT control, the objective of Data Center and Network Operations is to ensure that systems are developed, configured and implemented to meet financial reporting objectives. **[JULY-21]**
13. Inquiry alone is sufficient to test the operating effectiveness of controls. **(May 18)**
14. When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method. **(Nov. 18)**
15. Inappropriate management can override internal controls of any organization. **[May-22]**
16. Internal controls over financial reporting is required where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting. **[Nov-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Correct	4. Incorrect	5. Correct	6. Incorrect
7. Incorrect	8. Correct	9. Incorrect	10. Correct	11. Incorrect	12. Incorrect
13. Incorrect	14. Incorrect	15. Correct	16. Correct		

RTP

1. The assessment of risks is a matter capable of precise measurement. **[Nov 19]**
2. Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls **[May 18]**
3. When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall not perform substantive procedures that are specifically responsive to that risk. **[May 19]**
4. The SAs ordinarily refer to inherent risk and control risk separately. **[May 19]**

5. Risk assessment procedures are not performed to obtain an understanding of the entity and its environment. **[May 20]**
6. When we are designing audit procedures to address an inherent risk or “what can go wrong “, we consider the nature of the risk of material misstatement. **[Nov 20]**
7. There is an inverse relationship between detection risks and the combined level of inherent and control risks. **[Nov-22]**
8. There is direct relationship between detection risks and the combined level of inherent and control risks. **[NOV-23]**
9. Control environment can prevent, detect and correct a material misstatement. **[NOV-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Correct
7. Correct	8. Incorrect	9. Incorrect			

MTP

1. The fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven. **[March 18, Oct 18 , March 19]**
2. Application controls include manual controls only that operate at a business process level. **[March 18, Aug 18, Oct 18]**
3. The auditor is expected to, and can, reduce audit risk to zero and can therefore obtain absolute assurance. **[OCT-21]**
4. Satisfactory Control environment is an absolute deterrent to fraud. **[OCT-21]**
5. When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method. **[OCT-21]**
6. Inquiry alone ordinarily does not provide sufficient audit evidence. **[NOV-21]**
7. The SAs do not ordinarily refer to inherent risk and control risk separately **[NOV-21]**
8. A combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is known as meaningful data. **[NOV-21]**
9. When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method. **[NOV-21]**
10. Misstatements in the financial statements can arise from either fraud or error. **[SEPT-22]**
11. The internal control questionnaire is a series of instructions/ questions which a member of the auditing

staff must follow and/or answer. [OCT-22]

12. The Auditor is expected to reduce audit risk to zero and can therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. [OCT-22]

13. Narrative record is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer. [MARCH-23]

14. The Complexity of a business environment depends on the level of automation i.e., if a business environment is more automated, it is likely to be less complex. [APRIL-23]

15. The auditor's reporting on internal financial control will be applicable with respect to interim financial statements. [APRIL-23]

Answers:-

1. Correct	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Correct
7. Correct	8. Incorrect	9. Incorrect	10. Correct	11. Incorrect	12. Incorrect
13. Incorrect	14. Incorrect	15. Incorrect			

Chapter 4 | AUDIT OF FINANCIAL STATEMENT

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. Employee benefits expenses represent the sum an entity pays to its employees for their labour/ efforts only.
2. Dividends are recognised in the statement of profit and loss only when the entity's right to receive payment of the dividend is established.
3. "Sweat Equity Shares" means equity shares issued by the company to employees or directors at a premium or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.
4. Capital reserves represent profits that are available for distribution to shareholders held for the time being or any one or more purpose.
5. A capital reserve, generally, can be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realised.
6. If Company X's balance sheet shows building with carrying amount of ` 100 lakh, the auditor shall assume only one point that the management has only asserted that the building recognized in the balance sheet exists as at the period-end.
7. The securities premium account may only be applied by the Company towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares.
8. Material and wages are considered to be revenue expenditure when incurred for construction of building.
9. PPE are depreciated when the asset is actually put to active use.
10. Increase in authorised capital of the company requires special resolution to be passed at the general meeting.
11. Capital redemption reserve can be used for distribution of dividends.
12. Dividends are recommended by the Board, and declared by the Shareholders.
13. In verifying Trade Receivables balance, Direct Confirmation Procedure is one of the important audit activities.

14. Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur.

Answers:

1. Incorrect

Employee benefits expenses, commonly called payroll expenses, represent the aggregate sum an entity pays to its employees for their labour/ efforts, as well as associated expenses such as perquisites/ benefits, post- employment benefits like gratuity, superannuation, leave encashment, provident fund contribution etc. as well as towards their hiring, their welfare and training.

2. Incorrect

Dividends are recognised in the statement of profit and loss only when:

- (i) the entity's right to receive payment of the dividend is established;
- (ii) It is probable that the economic benefits associated with the dividend will flow to the entity; and
- (iii) The amount of the dividend can be measured reliably.

3. Incorrect

"Sweat Equity Shares" means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.

4. Incorrect

Revenue reserves represent profits that are available for distribution to shareholders.

5. Correct

A capital reserve, generally, can be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realised. But the amount of share premium or capital redemption reserve account can be utilised only for the purpose specified in Sections 52 and 55 respectively of the Companies Act, 2013.

6. Incorrect

If Company X's balance sheet shows building with carrying amount of ` 100 lakh, the auditor shall assume that the management has claimed/ asserted that:

- a. The building recognized in the balance sheet exists as at the period- end (existence assertion);
- b. Company X owns and controls such building (Rights and obligations assertion);
- c. The building has been valued accurately in accordance with the measurement principles (Valuation assertion);

All buildings owned and controlled by Company X are included within the carrying amount of ` 100 lakh (Completeness assertion).

7. Incorrect

The securities premium account may be applied by the Company:

- a) towards the issue of unissued shares of the company to the members of the company as fully
- b) paid bonus shares;
- c) in writing off the preliminary expenses of the Company;
- d) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;

- e) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
f) for the purchase of its own shares or other securities under section 68.

8. Incorrect

Material and Wages incurred on construction of building qualify to be capital expenditure as per AS 10 "Plant, Property and Equipment". Therefore, these have to be added to the cost of the asset i.e building and shall not be expensed off to Statement of Profit and Loss.

9. Incorrect

Depreciation is a fall in value of asset due to obsolescence, usage and effluxion of time, Therefore, depreciation is charged when the asset is ready for use . Active use of asset is not a mandatory criteria for charge of depreciation.

10. Incorrect

Increase in Authorised capital requires alteration of capital clause of memorandum of Association. Therefore, ordinary resolution is passed for increase in authorised capital of the company as per the Companies Act, 2013.

11. Incorrect

Capital Redemption reserve is not a free reserve. It is a restrictive reserve and can be used only for purposes given in the Act. Since it is not a free reserve, it cannot be utilised for payment of dividends. CRR can be used only for the purpose of issuing fully paid up bonus shares.

12. Correct

The dividends are recommended by the Board of Directors by passing a resolution at the board meeting. The Shareholders declare the dividends at the AGM by passing an ordinary resolution. Declaration of dividend is an item of ordinary business. However, the shareholders can decrease the amount of dividends recommended by the board but cannot increase it.

13. Correct

While auditing trade receivable balance, direct confirmations as per SA 505, is considered to be the most important audit activity. Direct confirmation can be sought from the debtors directly confirming their balance due. The replies to the confirmation can be then matched with the records maintained by the client. Any discrepancies so revealed, can be investigated and checked in detail for possibility of any risk of material misstatement. Auditor selects few debtors' balances and ask the client to prepare the confirmations properly addressed to the debtors. Auditor maintains strict control over this process

14. Incorrect

Assertions refer to representations by management that are embodied in the financial statements as used by the auditor to consider the different types of the potential misstatements that may occur.

PREVIOUS YEAR QUESTIONS

1. A Special Resolution is required by company to authorize issue of shares at a discount. (Nov.09)
2. The Statutory Auditor is required to verify inventory physically. (Nov. 14)

3. Depreciation is charged by the company on purchase of stand - by depreciable assets which are ready to use. **(Nov. 17)**
4. Vouching of payments is merely check proof that money has been paid. **(Nov. 17)**
5. Negative balances of ' Reserves & Surplus ' are shown on the Assets side of Balance Sheet. **(Nov. 17)**
6. Dividends are recognized in the statement of profit and loss only when the amount of dividend can be measured reliably. **(Nov.20)**
7. If the purpose of an audit procedure is to test for understatement in the existence or valuation of accounts payable then testing the recorded accounts payable may be relevant audit procedure. **(Jan 21)**
8. Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur. **(July 21)**
9. When inventory under the custody and control of a third party is material to the financial statements, the auditor can obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by taking written representation from management. **(Dec 21)**
10. Amortization represents systematic allocation of the depreciable amount of an item of property, Plant and Equipment (PPE) over its useful life. **[May-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Correct	5. Correct	6. Correct
7. Incorrect	8. Incorrect	9. Incorrect	10. Incorrect		

RTP

1. According to Section 53 of the Companies Act, 2013, a company can issue shares at a discount. **[Nov 19]**
2. An intangible asset is an identifiable monetary asset. **[Nov 19]**
3. One of the key principles of accrual basis of accounting requires that an asset's cost is proportionally expensed based on the period over which the asset is expected to be used. **[Nov 20]**
4. No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the Bank. **[MAY-22]**
5. Negative assertions, encountered in the financial statements, may be expressed or implied. **[NOV-22]**
6. An unexplained decrease in GP Ratio may result due to fictitious sales. **[NOV-22/NOV-23]**
7. Internally generated Goodwill can be recognized as an asset. **[NOV-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Correct	4. Incorrect	5. Correct	6. Incorrect
7. Incorrect					

MTP

1. Depending on how the business operates, the management may value inventory using weighted average basis. **[May 20]**
2. Mr. Z, a team member of auditor of Grateful and Competent Limited was of the opinion that while conducting an audit of a company no distinction is required to be made between revenue expenditure and capital expenditure. **[Oct 20]**
3. Tangible assets are depreciated when the asset is actually put to active use. **[Oct 20]**
4. Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur. **[Oct 20/MARCH-23]**
5. As per AS 26, internally generated goodwill is not recognised as an asset **[March-21]**
6. No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the Bank. **[March-21/SEPT-22]**
7. When inventory under the custody and control of a third party is material to the financial statements, the auditor can obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by taking written representation from management. **[APRIL-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Correct	6. Incorrect
7. Incorrect					

Chapter 5 | AUDITOR'S REPORT

CORRECT OR INCORRECT

STUDY MATERIAL

1. The auditor shall express a qualified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
2. There is no need of addressee in the Auditor's report.
3. The auditor shall modify the opinion in the auditor's report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
4. The auditor shall express a disclaimer of opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
5. Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.
6. When the auditor has to express an adverse opinion, he need not communicate with those charged with governance as this may have an impact on payment of his audit fees.
7. Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.
8. The concept of "joint audit" has legal foothold under the Companies Act, 2013.

Answers:-

1. Incorrect

The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

2. Incorrect

The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

3. Incorrect

The auditor shall modify the opinion in the auditor's report when

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

4. Incorrect

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.

5. Incorrect

Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. 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.

6. Incorrect

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

7. Incorrect

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).

8. Correct

Under provisions of section 139(3), the members of a company may resolve to provide that audit shall be conducted by more than one auditor. Hence, the concept of "joint audit" has legal foothold also under Companies Act, 2013.

PREVIOUS YEAR QUESTIONS

1. An adverse report is one where an auditor gives an opinion subject to certain reservation. (MAY 2007)
2. Where the accounts of the company do not present a "true and fair" view, the auditor should express disclaimer of opinion. (Nov.2007)
3. AAS 25 (SA 710) on 'comparatives' is applicable to corresponding previous year figures and not to Comparative Financial statements. (June 2009)
4. Disclaimer of opinion is issued when an auditor confronts a different stand by management in respect of a material issue which auditor does not approve of. (June 09)
5. The auditor disagreed with the management with regards to the acceptability of the Accounting Policies and the inadequacy of disclosures in the financial statements and issued a disclaimer. (Nov. 09)
6. Emphasis of Matter paragraph in the Auditor's Report is a substitute of Disclaimer of Opinion. (Nov.14)

7. The auditor shall not modify the opinion in the auditor's report. **(May 15)**
8. If Financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion. **(May 17)**
9. The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements. **(May 18)**
10. An auditor should issue disclaimer of opinion when there is difference of opinion between him and the management on a particular point. **(Nov. 18)**
11. Communicating Key Audit Matters is a substitute for the auditor expressing a modified audit opinion when required by the circumstances of a specific audit engagement in accordance with SA 705. **(Jan 21)**
12. The Location of the description of the auditor's responsibilities for the audit of the financial statements is always within the body of the auditor's report. **(July 21)**
13. Pervasive is a term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or he possible effects on the financial statements of misstatements. If any, that are detected by obtaining sufficient appropriate audit evidence. **[May-22]**
14. Communicating key audit matters in the auditor's report is a separate opinion on individual matters. **[May-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Incorrect
7. Incorrect	8. Incorrect	9. Incorrect	10. Incorrect	11. Incorrect	12. Incorrect
13. Incorrect	14. Incorrect				

RTP

1. An Audit report is 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. **[May 20]**
2. In considering the qualitative aspects of the entity's accounting practices, the auditor may not be aware of possible bias in management's judgements. **[Nov 20]**
3. Communicating key audit matters in the auditor's report is 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. **[MAY-22]**
4. The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. **[NOV-23]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect		
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MTP

1. The auditor shall express an adverse opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. **[March 18, Aug 18]**

2. Other matter paragraph is paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. **[March 18, Aug 18, Oct 18, March 19]**

3. The auditor shall express a qualified opinion when:

- (i) The auditor concludes that misstatements are material but not pervasive to the financial statements **[Oct 18, March 19]**

4. The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. **[March-21]**

Answers:-

1. Incorrect	2. Incorrect	3. Correct	4. Incorrect		
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Chapter | CARO, 2020

6

CORRECT OR INCORRECT

PREVIOUS YEAR QUESTIONS

1. CARO, 2016/2020 does not apply to a foreign company. (May 2013)
2. CARO, 2016/2020 shall not apply to a Private Limited Company who's paid up capital and reserves are not more than 50 Lacs. (May 2014)
3. Provisions of Companies (Auditor's Report) Order, 2016/2020, apply to clubs, chambers of commerce, research institutes etc., which have been established under Section 8 of the Companies Act, 2013. (Nov.2009)
4. Provision of CARO, 2016/2020 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid Capital and Reserves & Surplus of Rs. 50 Lakhs, Secured loan from bank of Rs.90 Lakhs and Turnover of Rs. 5 Crore, for the financial year 2020-21 (Nov.2019)
5. According to CARO 2020, the company auditor is required to state that whether the title deeds of all immovable properties held in the name of the company are disclosed in its financial statements. [May-22]

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	
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RTP

1. According to Para 3(1)(d) of CARO, 2020, an auditor needs to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 5% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets. [MAY-22]

Answers:-

1. Incorrect					
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Chapter 7 | SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the finance minister may on the advice of the C&AG prescribe
2. According to 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.
3. Expenditure incurred by the municipalities and corporations can be broadly classified under the following heads: (a) general administration and revenue collection, (b) public health, (c) public safety, (d) education, (e) public works, and (f) others such as interest payments.
4. The external control of municipal expenditure is exercised by the Central Government through the appointment of auditors to examine municipal accounts.
5. NGOs may be defined as non-profit making organisations which raise funds from members, donors or contributors apart from receiving donation of time, energy and skills for achieving their social objectives.
6. The accounts of every LLP shall be audited in accordance with rule 24 of LLP Rules 2009.
7. The auditor of an LLP may be appointed by the Designated Partners or other Partners whosoever is available at the time of appointment.
8. The Comptroller and Auditor General does not have any authority to audit the accounts of stores and inventory kept in any office or department of the Union or of a State.
9. An Operating Lease is a kind of Financing arrangement.
10. An auditor should ensure that proper valuation of occupancy-in-progress at the balance sheet date is made and included in the accounts in the case of audit of a hotel.
11. The first auditor of a Multi-State co-operative Society will be appointed in Annual General Meeting.
12. Small LLPs are mandatorily required to get their Books of account audited.

Answers:-

1. Incorrect

Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.

2. Correct

According to 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations

3. Correct

Expenditure incurred by the municipalities and corporations can be broadly classified under the following heads: (a) general administration and revenue collection, (b) public health, (c) public safety, (d) education, (e) public works, and (f) others such as interest payments, etc.

4. Incorrect

The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts.

5. Correct

NGOs can be defined as non-profit making organisations which raise funds from members, donors or contributors apart from receiving donation of time, energy and skills for achieving their social objectives like imparting education, providing medical facilities, economic assistance to poor, managing disasters and emergent situations.

6. Incorrect

Rule 24 of LLP Rules 2009 provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty five lakh rupees, is not required to get its accounts audited. However, if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rules.

7. Incorrect

The auditor is to be appointed by the designated partners of the LLP. However, the Partners may appoint the auditors only if the Designated Partners have failed to appoint them.

8. Incorrect

The Comptroller and Auditor General shall have authority to audit and report on the accounts of stores and inventory kept in any office or department of the Union or of a State.

9. Incorrect

A Finance Lease is a Financing arrangement. An Operating lease, on the other hand, is a simple arrangement where, in return for rent, the lessor allows the lessee to use the asset for a certain period.

10. Correct

The auditor should ensure that proper valuation of occupancy-in-progress at the balance sheet date is made and included in the accounts for proper recording of closing and opening entries and maintenance of accounts on Accrual basis as per the Matching concept.

11. Incorrect

Section 70 of the Multi-State Co-operative Societies Act, 2002 provides that the first auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting. If the board fails to exercise its powers under this sub-section, the Multi-State Co-operative Society in the general meeting may appoint the first auditor or auditors.

12. Incorrect

The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009, which provide that any LLP whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty-five lakh rupees, is not required to get its accounts audited. Further, a Small LLP is any LLP the Contribution of which, does not exceed twenty-five lakh rupees (INR 25,00,000) or such higher amount, not exceeding five crore rupees, as may be prescribed; and the Turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees (INR 40,00,000) or such higher amount, not exceeding fifty crore rupees, as may be prescribed; Hence, the provisions of audit are not applicable on Small LLP's. Therefore, the Small LLPs can prepare its financial statement merely with the signatures of the Designated Partners.

PREVIOUS YEAR QUESTIONS

1. Comptroller and Auditor General of India can be removed by the Prime Minister of India on the recommendation of his Council of Ministers. **(Nov. 2009)**
2. The accounts of every LLP shall be audited in accordance with rule 24 of LLP Rules 2009. **(May 19)**
3. Every LLP is required to submit Statement of Account and Solvency in Form 8, which shall be filed within a period of sixty days from the end of three months of the financial year to which the Statement of Account and Solvency relates. **(Nov.20)**
4. The first auditor of a multi-State co-operative Society will be appointed in Annual General Meeting **(July 21)**
5. In the case of Co-operative societies, contribution to Education fund is a charge on profits and not an appropriation. **[May-23]**
6. The relationship between individual financial statements items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities. **[Nov-23]**
7. NGOs registered under the companies Act, 2013 are not allowed to maintain accounts on cash basis. **[Nov-23]**
8. Under 'finance lease' term generally extends to less than 75% of the projected useful life of the leased asset. **[Nov-23]**
9. In government expenditure audit, audit against provision of funds aims at ensuring that each item of expenditure is covered by sanction, either general or special of the competent authority. **[Nov-23]**

Answers:-

1. Incorrect	2. Correct	3. Incorrect	4. Incorrect	5. Correct	6.
7.	8.	9.			

RTP

1. The Constitution of India contains no specific provisions regarding the appointment, salary and duties and powers of the C & AG. Moreover, the constitution does not guarantee the independence of the C & AG of India. [Nov. 20]
2. The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of government companies shall be performed and exercised by him in accordance with the provisions of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. [MAY-22]
3. Before holding inquiry by the Central Registrar thirty days' notice must be given to the Multi-State co-operative society. [MAY-22]

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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MTP

1. Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the finance minister may on the advice of the C & AG prescribe. [May 20]
2. LLP need not file a "Statement of Accounts and Solvency ". [May 20]
3. All Non-Governmental Organisations (NGOs) are allowed to maintain accounts either on accrual basis or cash basis. [Oct-21]
4. According to 'Audit of sanctions', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. [MARCH-23]

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect		
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Chapter 8 | AUDIT OF BANKS

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. RBI has been entrusted with the responsibility of regulating the activities of commercial banks only.
2. In the computerised environment, the auditor need not be familiar with latest applicable RBI guidelines.
3. The auditor can assume that the system generated information is correct and relied upon.
4. Collateral security refers to the security offered by the borrower for bank finance or the one against which credit has been extended by the bank.
5. Registered mortgage is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof
6. Any amount due to the bank under any credit facility is 'overdue' if it is not paid within 90 days of becoming due.
7. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
8. Banks recognize income on Non-Performing Assets on accrual basis.
9. Auditor of a Nationalised bank is to be appointed at the annual general meeting of the shareholders.
10. Reporting of fraud of INR 150 Lakhs by auditor will be done within three days of the fraud coming to the knowledge of the auditor to the Board or the Audit Committee along with remedial action taken in case of audit of ABA Bank Ltd.
11. Central Govt. guaranteed Advances, where the guarantee is not invoked/ repudiated would be classified as Standard Assets.

Answers:-

1. Incorrect

RBI has been entrusted with the responsibility of regulating the activities of commercial and other banks.

2. Incorrect

In the Computerised environment, it is imperative that the auditor is familiar with, and is satisfied that, all the norms/parameters as per the latest applicable RBI guidelines are incorporated and built into the system that generates information/data having a bearing on the classification/ provisions and income recognition.

3. Incorrect

The auditor should not go by the assumption that the system generated information is correct and can be relied upon without evidence that demonstrates that the system driven information is based on validation of the required parameters for the time being in force and applicable.

4. Incorrect

Primary security refers to the security offered by the borrower for bank finance or the one against which credit has been extended by the bank. This security is the principal security for an advance.

5. Incorrect

Equitable mortgage, on the other hand, is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof.

6. Incorrect

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

7. Correct

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

8. Incorrect

Income from non-performing assets (NPA) is not recognised on accrual basis due to its uncertainty but is booked as income only when it is actually received.

9. Incorrect

Auditor of a nationalized bank is to be appointed by the bank concerned acting through its Boards of Directors and approval of the Reserve bank is required before the appointment is made

10. Incorrect

The auditor shall 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. The Banking Company is bound to disclose remedial action taken in Board's report.

11. Correct

Central Govt. guaranteed Advances, where the guarantee is not invoked/ repudiated would be classified as Standard Assets, but regarded as NPA for Income Recognition purpose.

PREVIOUS YEAR QUESTIONS

1. Banks recognize income on Non - Performing Assets on accrual basis. (Nov.18)

2 Auditor of a nationalized bank is to be appointed at the annual general meeting of the shareholders. (May 19)

3. Classification as NPA should be based on the availability of security and asset classification would be facility wise and not borrower wise. (Nov 20)

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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RTP

1. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 180 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'. **(May 20)**

2. A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. **[MAY-22]**

3. It needs to be ensured that the drawing power is calculated as per the extant guidelines formulated by the RBI and agreed upon by the concerned statutory auditors. Special consideration need not be given to proper reporting of sundry creditors for the purposes of calculating drawing power. **[MAY-22]**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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MTP

1. The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Central Government. **[March 18, Aug 18, Oct 18, March 19]**

2. Classification as NPA should be based on the availability of security and asset classification would be facility wise and not borrower wise. **[APRIL-23]**

Answers:-

1. Incorrect	2. Incorrect				
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Chapter 9 | STANDARDS ON AUDITING

CORRECT OR INCORRECT

STUDY MATERIAL NEW

1. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other. **[SA-300]**
2. Establishing an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan is prerogative of the management. **[SA-300]**
3. Planning is a discrete phase of an audit. **[SA-300]**
4. The audit plan is more detailed than the overall audit strategy. **[SA-300]**
5. There is direct relationship between materiality and the degree of audit risk. **(SA-320)**
6. Purchase invoice is an example of internal evidence. **(SA-500)**
7. Sufficiency is the measure of the quality of audit evidence. **(SA-500)**
8. When auditor inquires the management as part of the audit procedures it should be formal written form only and not informal oral inquiries. **(SA-505)**
9. 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 only. **(SA-520)**
10. Auditor can depend on routine checks to disclose all the mistakes or manipulation that may exist in accounts. **(SA-520)**
11. Only purpose of analytical procedures is to obtain relevant and reliable audit evidence when using substantive analytical procedures. **(SA-520)**
12. Analytical Procedures are required in the planning phase only. **(SA-520)**
13. Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time **(SA-520)**
14. Ratio analysis is useful in analyzing revenue and expense account only. **(SA-520)**
15. Reasonableness test rely only on the events of the prior period like other analytical procedures. **(SA-**

520)

16. The statutory auditor of the company can apply analytical procedures to the standalone financial statements of a company only and not to the consolidated financial statements. **(SA-520)**
17. The method which involves dividing the population into groups of items is known as block sampling. **(SA-530)**
18. Universe refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. **(SA-530)**
19. Non-Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics. **(SA-530)**
20. Sample need not be representative **(SA-530)**
21. The objective of stratification is to increase the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk. **(SA-530)**
22. When statistical sampling is used to select a sample, sample need not be representative because the statistical sampling takes care of the representation. **(SA-530)**
23. Stratified Sampling is used for homogeneous population. **(SA-530)**
24. Non statistical sampling is considered to be more scientific than the statistical sampling. **(SA-530)**
25. In case of Statistical sampling, auditor's bias in choosing sample is involved. **(SA-530)**
26. In stratified sampling, the conclusion drawn on each stratum can be directly projected to the whole population. **(SA-530)**
27. Low acceptable sampling risk requires larger sample size. **(SA-530)**
28. As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor. **(SA-230)**
29. Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit. **(SA-230)**
30. The audit engagement letter is sent by the client to auditor. **(SA-210)**
31. The Audit Engagement documentations should ordinarily be retained by the auditor for minimum of six years from the date of the auditor's report or the date of the group auditor's report, whichever is later. **(SQC-1)**

Answers:-

1. Correct

Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

2. Incorrect

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.

3. Incorrect

Planning is not a discrete phase of an audit, but rather a continual and iterative process 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. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.

4. Correct

The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

5. Incorrect

There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa. For example, the risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.

6. Incorrect

Internal evidence is the evidence that originates within the client's organisation. Since purchase invoice originates outside the client's organisation, therefore, it is an example of external evidence.

7. Incorrect

Sufficiency is the measure of the quantity of audit evidence. On the other hand, appropriateness is the measure of the quality of audit evidence.

8. Incorrect

When auditor inquires the management as part of audit procedures such inquiries may range from formal written inquiries to informal oral inquiries.

9. Incorrect

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 both financial and non-financial data.

10. Incorrect

Routine checks cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts, certain other procedures also have to be applied like trend and ratio analysis in addition to reasonable tests.

11. Incorrect

Analytical procedures use comparisons and relationships to assess whether account balances or other data appear reasonable. Analytical procedures are used for the following purposes:

- (i) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (ii) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

12. Incorrect

Analytical Procedures are required in the planning phase and it is often done during the testing phase. In addition these are also required during the completion phase.

13. Incorrect

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

14. Incorrect

Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts

15. Incorrect

Unlike trend analysis, Reasonableness test does not rely on events of prior periods, but upon non-financial data for the audit period under consideration.

16. Incorrect

Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.

17. Incorrect

The method which involves dividing the population into groups of items is known as cluster sampling whereas block sampling involves the selection of a defined block of consecutive items.

18. Incorrect

Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

19. Incorrect

Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.

20. Incorrect

Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the

same. The sample must be large enough to provide statistically meaningful results.

21. Incorrect

The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.

22. Incorrect

Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same. The sample must be large enough to provide statistically meaningful results.

23. Incorrect

Stratified sampling is used when the population is diversified i.e heterogeneous. The population is divided into sub population having similar characteristics. Sample are then chosen from these sub populations which are called as Stratum. Therefore, stratified sampling is not useful in case of homogeneous population.

24. Incorrect

Statistical sampling uses scientific method of choosing samples from a given population. The use of probability theory is involved in statistical sampling so that every sampling unit has an equal chance of getting selected. In the non statistical sampling, auditors' judgment and past experience is used to choose samples without any scientific method.

25. Incorrect

Statistical sampling uses scientific method choosing samples from a given population. The use of probability theory is involved in statistical sampling so that every sampling unit has an equal chance of getting selected. In the non statistical sampling, auditor's judgment and past experience is used to choose samples without and scientific method. Hence, personal bias is involved in Non statistical sampling and not Statistical.

26. Incorrect

In case of stratified sampling, the conclusions are drawn on the stratum. The combination of all the conclusions on stratum together will be used to determine the possible effect of misstatement or deviation. Hence the samples are used to derive conclusion only on the respective stratum from where they are drawn and not the whole population.

27. Correct

Sampling risk arises from possibility that the auditor's conclusion based upon sample may be different from conclusion that would have been reached if same audit procedures were applied on the entire population. If acceptable sampling risk is low, large sample size is needed.

28. Incorrect

As per SA 230 on "Audit Documentation" the working papers are the property of the auditor and the auditor has right to retain them. He may at his discretion can make available working papers to his client. The auditor should retain them long enough to meet the needs of his practice and legal or professional requirement.

29. Incorrect

SA 230 issued by ICAI on Audit Documentation, and "Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

30. Incorrect

As per SA 210 "Agreeing the Terms of Audit Engagements", the Audit engagement letter is sent by the auditor to his client.

31. Incorrect

SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

STUDY MATERIAL OLD

1. Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur. **(SA-315)**
2. Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) does not need any revision. **(SA- 320)**
3. Inquiry alone is sufficient to test the operating effectiveness of controls. **(SA-500)**

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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PREVIOUS YEAR QUESTIONS

SA-200

1. Management of the organization is solely responsible for the compliance of auditing standards while preparing financial statements. **(Nov.18)**
2. Judgmental matters are transactions that are unusual due to either its size or nature and that therefore occur infrequently. **(Nov. 18)**

SA-210

3. Engagement letter need not be entered for each year of the period of auditor's appointment **(Nov. 17)**
4. Even if law or regulation prescribes in sufficient details of the term of the audit engagement the auditor should record them in a writing agreement. **(Nov 20)**

SA-230

5. Auditor's lien on his client's books and record is not unconditional. **(May 2007)**
6. Auditor's right of lien is unconditional. **(Nov.2016)**

SA-299

7. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the auditor's report. (May 2017)

8. Joint auditors is always bound by the views of the majority of the joint auditors regarding matters to be covered in report. (May 2019)

SA-300

9. The audit plan is more detailed than the overall audit strategy (Nov. 20)

10. Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same. [May-22]

11. The "documentation of the overall audit strategy" is a record of the audit evidence considered necessary to properly plan the audit and to assign various audit functions to the engagement team. [May-23]

SA-315

12. Audit findings and control deficiencies can be evaluated or assessed arbitrarily. [May-22]

SA-320

13. Determining materiality involves the exercise of professional judgment. (Jan 21)

14. When Profit before tax from continuing operations is non - volatile, other benchmarks will be appropriate. (Dec 21)

15. Materiality is not a matter of size. [May-22]

SA-500

16. Sufficiency is the measure of the quantity of audit evidence. (Jan 21)

17. While auditing the books of accounts of ABC Ltd. , the auditor of the company looked at the inventory counting process to obtain audit evidence. In the present case, the audit procedure used by the auditor is known as "Inspection ". (Dec 21)

18. Appropriateness is the measure of the quantity of audit evidence. [May-23]

19. Sales invoice is an example of external evidence. [Nov-23]

SA-520

20. Analytical procedures are unable to help the auditor in determining nature, timing and extent of other audit procedures at the planning stage. (Nov.09)

21. An analytical procedure is a part of routine audit checking. (May 17)

22. During the audit process, the auditor can easily identify all mistakes or manipulations that may exist in the accounts through routing checking processes [May 18]

23. SA 520 deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"), and as procedures near the end of the audit, that assist the auditor in preparation of the financial statements. [May-22]

24. Analytical procedures are used in all stages of audit by experienced auditors. [May-23]

SA-530

25. When statistical sampling is used to select a sample, sample need not be representative because the statistical sampling takes care of the representation. (May 18)

26. The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific. (Nov. 19)

27. In stratified sampling, the conclusion drawn on each stratum can be directly projected to the whole population. (July 21)

28. Statistical sampling being more scientific and without personal bias will always be appropriate to use under all circumstances. (Dec-21)

29. Block sampling does not involve judgement, does not even use the random number tables and has no structured approach. [Nov-23]

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Correct	6. Correct
7. Correct	8. Incorrect	9. Correct	10. Incorrect	11. Incorrect	12. Incorrect
13. Correct	14. Incorrect	15. Incorrect	16. Correct	17. Incorrect	18. Incorrect
19.	20. Incorrect	21. Incorrect	22. Incorrect	23. Incorrect	24. Correct
25. Incorrect	26. Correct	27. Incorrect	28. Incorrect	29.	

RTP

SA-210

1. Preconditions for an audit have not been defined in SA 210 "Agreeing the Terms of Audit Engagements." [Nov 19]

2. SA 210 does not require the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement. [May 20]

SA-300

3. Planning is not a discrete phase of an audit, but rather a continual and iterative process. [May 19]

4. The auditor need not discuss elements of planning with the entity's management in any case. [Nov 19]

5. Planning is a discrete phase of an audit. [Nov 19]

6. Overall audit plan sets the scope, timing and direction of the audit, and guides the development of the more detailed audit strategy. [Nov 20]

7. Development of an audit plan is important before the establishment of the overall audit strategy to address the various matters. [NOV-22]

SA-320

8. There is direct relationship between materiality and the degree of audit risk. [May 18]

SA-520

9. If an entity has a known number of employees at fixed rates of pay throughout the period, there would be more need to perform tests of details on the payroll. [Nov 20]

10. In the planning stage, analytical procedures would not in any way assist the auditor. [May 20]

SA-530

11. Statistical sampling has narrower application where a population to be tested consists of a large number of similar items. [May 20]

12. The level of sampling risk that the auditor is willing to accept will not affect the sample size. [NOV-22]

13. Sample size is not a valid criterion to distinguish between statistical and non- statistical approaches. [NOV-23]

SA-580

14. Written representation from management can be a substitute for other evidence that the auditor could expect to be reasonably available. [MAY-22]

Answers:-

1. Incorrect	2. Incorrect	3. Correct	4. Incorrect	5. Incorrect	6. Incorrect
7. Incorrect	8. Incorrect	9. Incorrect	10. Incorrect	11. Incorrect	12. Incorrect
13. Correct	14. Incorrect				

MTP

SA-200

1. Confidentiality requires an auditor to be straight forward and honest in all professional and business relationships. [OCT-22]

SA-210

2. The audit engagement letter is sent by the client to auditor. [OCT 20]

3. There is no need to put the nature of engagement to writing. [April 19]

4. It is important for the auditor that each party should be clear about nature of the engagement. [May 21]

SA-220

5. Engagement partner refers to the partner or other person in the firm who is responsible for the audit engagement. [April 19]

6. The auditor is expected to and can reduce audit risk to zero. [May 20]

SA-230

7. The auditor shall prepare audit documentation on a timely basis. [SEPT 22]

SA-300

8. The auditor should update and revise the audit plan as and when required, however, the overall audit strategy once established cannot be changed during the course of audit. [March 21]

9. Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same. [APRIL-23]

SA-315

10. Audit evidence obtained through observation of the application of a control is less reliable than audit evidence obtained by inquiry about the application of a control. [OCT-22]

11. For an auditor, the Risk assessment procedure provides sufficient appropriate audit evidence to base the audit opinion. [APRIL-23]

SA-320

12. The concept of materiality is an important and relevant consideration for the auditor in financial statement. [OCT 21/SEPT 22]

13. If during the audit it appears as though actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality [OCT-22]

14. Materiality is not a matter of size. [APRIL-23]

SA-520

15. Audit evidence obtained from external confirmation is always reliable. [OCT-21]

16. A modeling tool constructs a statistical model from financial data only of prior accounting periods to predict current account balances. [March 18, March 19]

17. While designing audit procedures to address an inherent risk or "what can go wrong", the auditor should consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence. [March 18, Oct 18, March 19]

18. ratio analysis is a commonly used techniques in the comparison of current data with the prior period balance or with a trend in two or more prior period balance. [Oct-18]

SA-530

19. According to SA 530 "Audit sampling", "audit sampling" refers to the application of audit procedures to 100 % of items within a population of audit relevance. [March 18, March 19]

20. Stratified Sampling involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them. [Oct 18]

21. Sample size is not a valid criterion to distinguish between statistical and non - statistical approaches. [April 19]

22. In case of stratified sampling, the conclusions are drawn on the stratum. [SEPT 22]

23. The higher the auditor's assessment of the risk of material misstatement, the smaller the sample size needs to be. [OCT-22]

24. Systematic sampling means dividing heterogeneous population into homogeneous sub population, where samples are drawn from each sub population. [OCT-22]

25. Low acceptable sampling risk requires larger sample size. [MARCH-23]

26. Statistical sampling being more scientific and without personal bias will always be appropriate to use under all circumstances. [APRIL-23]

SA-580

27. Written representation in itself is a sufficient and appropriate audit evidence about any of the matters with which they deal. [March-21]

28. Written representations are requested from those responsible for the preparation and presentation of the financial statements. [SEPT 22]

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Correct	6. Incorrect
7. Correct	8. Incorrect	9. Incorrect	10. Incorrect	11. Incorrect	12. Correct
13. Correct	14. Incorrect	15. Incorrect	16. Incorrect	17. Correct	18. Incorrect
19. Incorrect	20. Correct	21. Correct	22. Correct	23. Incorrect	24. Incorrect
25. Correct	26. Incorrect	27. Incorrect	28. Correct		

SELF MADE QUESTIONS

SA-200

Q-1 M/S XYZ & Co., auditors of goodwill education foundation, a recognised non-profit organisation feels that the standards on auditing need not to be applied as Goodwill Edu. Found is a non-profit making concern.

Answers:-

1. Incorrect				
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SA-220

Q-2 Comment whether the following statement is correct or incorrect.

- I. Quality control should only be maintained during course of audit.
- II. Quality control should be maintained by the engagement Team and only they are responsible for same?
- III. Engagement Team does not include Engagement Partner?
- IV. Engagement Partner is not bound to direct & supervise Engagement Team members.
- V. If Engagement Partner suffers any pressure from management, he, himself can form a decision of withdrawal.
- VI. The work of Engagement Team members need not be monitored?
- VII. The work perform by each assistant needs to be review by personal of at least equal competence?
- VIII. Ethical requirements shall only be complied by the EP?

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Incorrect
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7. Incorrect	8. Incorrect				
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SA-230

- Q-3 State whether the following statement are correct or incorrect.
- I. Branch auditor of the company should give working papers on demand by the co. auditor.
 - II. An auditor is bound to provide copies of the working papers to the CEO of the co.
 - III. Extract & copies of important legal documents & agreements are the part of current audit file.

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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SA-250

- Q-4 State whether the following state. Is correct or incorrect:-
- I. To comply with the law is the responsibility of the auditor.
 - II. Auditor should perform detailed procedures in case of non-compliance of law which has effect on Financial Statements.
 - III. If TCWG is itself involved in non-compliance of law, auditor should remain silent.

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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SA-299

- Q-5 Comment whether the following statement is correct or incorrect?
- I. Mr. AK, the branch auditor of the company and Mr. X is the statutory Auditor of the company. Both have to comply the requirements of SA 299?
 - II. The division of work between joint auditors can be in oral form.
 - III. Joint auditors are bound to disclose mis-statement To each other.
 - IV. Joint auditors should check the work of each other, before relying the work of each other.
 - V. Joint auditors should present a common report in every case?

Answers:-

1. Incorrect	2. Incorrect	3. Correct	4. Incorrect	5. Incorrect	
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SA-320

- Q-6 Comment whether the following state. Is correct or incorrect
- I. Materiality level is fixed by management to examine the Financial Statements.
 - II. Materiality is an absolute term.
 - III. Materiality is only applied at planning level.
 - IV. There is an inverse relationship between materiality & audit risk.
 - V. In performance materiality, materiality level increases to higher value to check large value items.
 - VI. Materiality Level cannot be revised.

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect	4. Incorrect	5. Incorrect	6. Incorrect
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SA-500

- Q-7 Comment whether the following statement Is correct or incorrect.
- I. Auditor is bound to obtain sufficient Evidence.
 - II. Re-performance means checking the arithmetical calculation.
 - III. Internal evidences are more reliable than external evidences if internal control is strong

Answers:-

1. Incorrect	2. Incorrect	3. Incorrect			
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SA-505

Q-8 Comment whether following statement is correct or incorrect?

- I. Confirmation received by the auditor directly from third parties are conclusive evidence in support of a transaction
- II. If there is any doubt over the information presented by the third party; auditor shall issue the unmodified report.

Answers:-

1. Incorrect	2. Incorrect				
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Chapter 10 | ETHICS & TERMS OF AUDIT ENGAGEMENT

PREVIOUS YEAR QUESTIONS

1. There is a very thin difference between advocacy threats and intimidation threats to an auditor while performing his duty. **(July 21)**
2. In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater **(July 21)**

Answers:-

1. Incorrect

2. Incorrect

MTP

1. Advocacy threat, is the threat which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. **[MARCH-23]**

Answers:-

1. Incorrect

CHAPTER-1 "NATURE, SCOPE OF AUDIT & OBJECTIVE

1. 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. (SAMPLE MCQ)

- (a) Auditing
- (b) Taxation
- (c) Finance
- (d) Law

2. With respect to auditing, which of the following statement is correct: [MTP-APRIL-23]

- (a) Audited financial statements are absolutely free from all material misstatement due to fraud or error.
- (b) An audit is an official investigation into alleged wrongdoing and auditor has specific legal powers to conduct investigation
- (c) The auditor can obtain only a reasonable assurance about whether the financial statement as a whole are free from material misstatement and report on it.
- (d) An auditor's opinion is an assurance as the future viability of the enterprise or the efficiency or effectiveness of the management.

CHAPTER-2 "AUDIT STRATEGY & PROGRAMME"

1. 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? (MTP-OCT 21)

- (a) Static Review
- (b) Mechanical Review
- (c) Periodic Review
- (d) Obsolete Review

2. Which of the following is not included in an audit programme normally?

- (a) Extent of checking
- (b) Date of checking
- (c) Nature or type of procedure
- (d) Planning of risk assessment procedures

3. Which of the following is not an advantage of an audit programme?

- (a) It acts as a guide for audit of coming years.
- (b) It fixes responsibility of assistants.
- (c) It serves as a shelter for assistants.
- (d) It serves a proof of work done by auditor.

CHAPTER-3 "RISK ASSESSMENT & INTERNAL CONTROL"

1. **Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.**
Statement 2: Substantive procedures consist of test of details and analytical procedures. (RTP MAY 20 / MTP SEPT 22)
- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both 1 & 2 are correct
 - (d) Both 1 & 2 are incorrect
2. **The risk that the financial statements are materially misstated prior to audit is called- (RTP MARCH 21)**
- (a) Risk of material misstatement
 - (b) Detection risk
 - (c) Audit risk
 - (d) Significant risk
3. **Audit risk is a function of the (MTP APRIL 21)**
- (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.
4. **Risk of material misstatement may be defined as the risk (MTP APRIL 21/ NOV 21)**
- (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
5. **Components of risk of material misstatement at the assertion level are: (SAMPLE MCQ)**
- (a) Inherent risk and detection risk
 - (b) inherent risk and control risk
 - (c) control risk and detection risk
 - (d) inherent risk, control risk and detection risk
6. **When more persuasive audit evidence is needed regarding the effectiveness of a control, (SAMPLE MCQ)**
- (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.
7. **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- (SAMPLE MCQ)**
- (a) Control Risk
 - (b) Inherent Risk
 - (c) Detection Risk
 - (d) Audit Risk

8. The management of Magoo 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. Olive has been appointed as an auditor of the company for current Financial Year 2017-18. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive 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? (SAMPLE MCQ)

- (a) Are authorized signatories for purchases limited to elected officials?
- (b) Are payments approved only on original invoices?
- (c) Does authorized officials thoroughly review the documents before signing cheques?
- (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?

9. Audit risk is a function of the risks of material misstatement and. (SAMPLE MCQ)

- (a) Detection risk.
- (b) Inherent risk
- (c) Control risk
- (d) Business risk

10. 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. (SAMPLE MCQ)

- (a) Direct.
- (b) Inverse
- (c) No relationship
- (d) Either (a) or (c)

11. Risk of material misstatement has components. (SAMPLE MCQ)

- (a) One
- (b) Two
- (c) Three
- (d) Four

12. Controls can be related to an assertion. (SAMPLE MCQ)

- (a) Directly
- (b) Indirectly
- (c) Directly or indirectly
- (d) No relationship between controls and assertion.

13. Components of risk of material misstatement at the assertion level are: (SAMPLE MCQ)

- (a) Inherent risk and detection risk
- (b) Inherent risk and control risk
- (c) Control risk and detection risk
- (d) inherent risk, control risk and detection risk

14. Who is mainly responsible for implementation of internal financial controls in a company? (SAMPLE MCQ)

- (a) Auditors
- (b) Directors
- (c) Employees
- (d) Regulators

15. 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 (SAMPLE MCQ)

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- (a) Internal Control Questionnaires
- (b) Audit Supplements
- (c) Audit Memos
- (d) Memorandum reports

16. 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: (SAMPLE MCQ)

- (a) Operational Environment.
- (b) Computational Environment.
- (c) Control Environment.
- (d) Automated Environment.

17. Are also known as pervasive or indirect controls:- (SAMPLE MCQ)

- (a) General IT Controls
- (b) Application Controls
- (c) IT dependent Controls
- (d) None of the above

18. _____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information: - (SAMPLE MCQ)

- (a) Computer Assisted Audit Techniques
- (b) Automated Controls
- (c) Data Analytics
- (d) Combination Controls

19. _____ is manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications. (SAMPLE MCQ)

- (a) Application controls
- (b) General IT controls
- (c) Process controls
- (d) All of these

20. Are the manual controls that make use of some form of data or information or report produced from the IT systems and applications? (SAMPLE MCQ)

- (a) Application
- (b) IT dependent Controls
- (c) Automated Controls
- (d) General IT Controls

21. Who among the following is required to comply with Section 149(8) read with Schedule IV to the companies Act,2013? (SAMPLE MCQ)

- (a) Board of Directors
- (b) Audit Committee
- (c) Statutory Auditor
- (d) Independent Directors

22. Which of the following Audit testing methods is most effective as an audit test and gives the best audit evidence? (SAMPLE MCQ)

- (a) Inquiry

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- (b) Observation
- (c) Inspection
- (d) Performance

23. User Training is an activity related to which of the following General IT Controls? (SAMPLE MCQ)

- (a) Data centres and network operations
- (b) Program change
- (c) Access security
- (d) Application system acquisition, development, and maintenance (Business Applications)

24. The Objective of establishing Security Policies and Procedures is to (SAMPLE MCQ)

- (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.

25. IT related risks, if not mitigated, may put an impact on (SAMPLE MCQ)

- (a) Substantive Audit
- (b) Controls
- (c) Reporting
- (d) All of above

26. Which of the following Audit Testing methods give the least audit evidence? (SAMPLE MCQ)

- (a) Inquiry
- (b) Inspection
- (c) Observation
- (d) Re-performance

27. Applying _____ gives the most effective and efficient audit evidence while using Audit testing methods. (SAMPLE MCQ)

- (a) Inquiry in combination with Inspection.
- (b) Inspection in combination with Observation
- (c) Observation in combination with re-performance
- (d) Re-performance in combination with Inquiry

28. _____ are needed to support the functioning of. (MTP-APRIL-23)

- (a) General IT Controls; Application Controls
- (b) Application Controls; General IT Controls
- (c) IT Dependent Controls; General IT Controls
- (d) Application Controls; IT Dependent Controls

29. The term Internal Financial Controls (IFC) basically refers to the policies and procedures put in place by companies for ensuring: (SAMPLE MCQ)

- (a) reliability of financial reporting
- (b) effectiveness and efficiency of operations
- (c) compliance with applicable laws and regulations
- (d) All of the above

30. The company and shall abide by the provisions specified in Schedule IV which lays down the Code for Independent Directors (SAMPLE MCQ)

- (a) independent directors

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- (b) women directors
- (c) board of directors
- (d) executive directors

31. The tools and techniques that auditors use in applying the principles of data analytics are known as: (RTP-MAY-23)

- (a) Computer Aided Audit Technique
- (b) Computer Aided Audit Tools
- (c) Computer Accounting and Auditing Technique
- (d) Computer Assisted Audit Technique

32. _____ Exists when an internal control is either missing or not operating effectively to prevent or detect a misstatement in a timely manner by management (SAMPLE MCQ)

- (a) Significant Deficiency
- (b) Operating Deficiency
- (c) Management Control Deficiency
- (d) Control Deficiency

33. 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? [MTP-OCT-22]

- (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

34. Which of the following is a risk that arises from the use of IT systems? [RTP-NOV-23]

- (a) Direct data changes (backend changes).
- (b) Limited/Monitored access.
- (c) Adequate segregation of duties.
- (d) Authorized access to data.

35. The operations of a company are automated substantially. Which of the following statements is most appropriate in this respect?

- (a) It results in complex business environment.
- (b) It results in simple business environment and easier audit.
- (c) Automation has no relationship with complexity of business environment.
- (d) It results in simple business environment. However, it increases complexity of audit.

36. Who is responsible for maintaining effective internal financial controls?

- (a) Statutory auditor
- (b) Audit Committee
- (c) Management
- (d) Shareholders

37. Which of the following is not an example of "General IT controls"?

- (a) Controls pertaining to Disaster recovery plan
- (b) Controls pertaining to batch preparation
- (c) Controls pertaining to data security

(d) Controls pertaining to validation of input data in an application

38. Which of the following is not an objective of a company's policies for ensuring "internal financial controls"?

- (a) Efficient conduct of business
- (b) Safeguarding of assets
- (c) Prevention and detection of frauds and errors
- (d) Assessing audit risk

CHAPTER 4 "AUDIT OF FINANCIAL STATEMENTS"

1. 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. (RTP NOV 20)

- (a) Ascertain whether the purchase of car has been properly authenticated.
- (b) Check invoice of the car dealer to confirm the purchase price
- (c) Examine registration with Transport Authorities to verify the ownership
- (d) Ensure that the motor car has been included in the Closing inventory of goods

2. _____ 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: - (RTP MAY 21, MTP OCT 20, MTP SEPT 22)

- (a) Provisions
- (b) Reserves
- (c) Contingent Liabilities
- (d) Liability

3. Which of the following is an example of revenue expenditure- (MTP MAR 21)

- (a) Wages on installation of Machinery
- (b) Regular repairs incurred on PPE
- (c) Legal expenses in purchase of land and building
- (d) Freight inwards on purchase of PPE

4. 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. (MTP MAR 21)

- (a) Assertions
- (b) Positive Confirmation
- (c) Written representation
- (d) Audit Evidence.

5. 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.

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. (MTP NOV 21)

- (a) only Statement I is correct
- (b) only Statement II is correct
- (c) both the statements are correct
- (d) both the statements are incorrect.

6. Which of the following is not an assertion about presentation and disclosure? (SAMPLE MCQ)

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

7. Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company i.e. rent expense of Rs. 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario? (SAMPLE MCQ)

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- (a) CA. Felix would inspect every single rent invoice per month of Rs. 1,20,000 and verify other elements appropriately.
- (b) CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.
- (c) CA. Felix would select the first month rent invoice of Rs. 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be Rs. 14,40,000 (i.e. Rs. 1,20,000 * 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation.
- (d) (a) and (b), both.

8. Coyote Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under the custody of third party). CA. Star, the auditor of the company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Star to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party? (SAMPLE MCQ)

- (a) Attend third party's physical counting of inventory.
- (b) Arrange for another auditor to attend third party's physical counting of inventory.
- (c) Inspect warehouse receipts regarding inventory held by third parties.
- (d) All of the above.

9. While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management? (SAMPLE MCQ)

- (a) If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.
- (b) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.
- (c) Goodwill is recognised only when there is a contractual or other legal rights for a physical asset which shall not be amortized over the period.
- (d) All of the above.

10. The notes to the account statement of ASD Ltd. shows the break-up of accounts payable for the Financial Year 2016-17 as follows:

Accounts Payable	Amount (in Rs.)
Mr. Kraby	1,20,000
Mr. Runny	40,000
Mr. Bluffy	14,56,000
Total	16,16,000

CA. Sandy, the auditor of ASD Ltd., wants to investigate the valuation of accounts payable of Mr. Bluffy amounting to Rs. 14,56,000. Which of the following procedures is best fitted & more reliable to be followed by CA. Sandy to get more reliable evidence for the existence of such balance as on 31st March, 2017? (SAMPLE MCQ)

- (a) Inspect each and every journal entry passed in the books of ASD Ltd.

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- (b) Ask ASD Ltd. to provide the details of payment made during the year 2017-18.
- (c) Inspect the invoices issued by Mr. Bluffy and the payments made.
- (d) Interrogate the cash manager of ASD Ltd.

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

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

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

12. The management of BOB Ltd. could not differentiate between any obligation for which either provisions need to be made or the contingent liability to be shown. The auditor of the company clarifies the management that the provisions are the amounts charged against revenue to provide for a known liability, the amount whereof cannot be determined with substantial accuracy. On the other hand, a contingent liability is 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; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The auditor further explains the concept with the help of examples. State which of the following examples the auditor must have provided in respect of contingent liability? (SAMPLE MCQ)

- (a) Depreciation.
- (b) Clean-up costs for unlawful environmental damage.
- (c) Product warranties.
- (d) Lawsuit against the company where it is more likely that no present obligation exists.

13. 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: (SAMPLE MCQ)

- (a) Analytical Procedure
- (b) Test of Controls
- (c) Walk through Test
- (d) Audit Sampling

14. Which assertion is common among the statement of profit and loss and balance sheet captions: (SAMPLE MCQ)

- (a) Existence
- (b) Valuation
- (c) Completeness
- (d) Measurement

15. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion: (SAMPLE MCQ)

- (a) Rights and obligations
- (b) Existence

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- (c) Valuation
- (d) Completeness

16. Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform: (SAMPLE MCQ)

- (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)

17. 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: (SAMPLE MCQ)

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

18. 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: (SAMPLE MCQ)

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

19. Wages paid to workers would qualify as: (SAMPLE MCQ)

- (a) Revenue expenditure
- (b) Capital expenditure
- (c) Revenue or capital expenditure depending upon facts and circumstances.
- (d) None of the above

20. During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised: (SAMPLE MCQ)

- (a) Development phase
- (b) Research phase
- (c) None of the above
- (d) Both (a) and (b)

21. Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion: (SAMPLE MCQ)

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

22. Cut-off testing is performed during audit of sales to address the following assertion: (MTPAPRIL-23)

- (a) Occurrence
- (b) Measurement
- (c) Cut-off
- (d) Accuracy

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23. ABC's investee company- XYZ declares final dividend for financial year 2020-21 in the meeting of board of directors held on April 10, 2021. In which financial year should ABC account for the dividend income: (SAMPLE MCQ)

- (a) Proportionately i.e. considering 10 days of financial year 2021-22 and 355 days of financial year 2020-21
- (b) Financial year 2020- 21
- (c) Financial year 2021- 22
- (d) Equally between financial year 2020-21 and financial year 2021-22

24. 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: (SAMPLE MCQ)

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

25. Which of the following is not an example of revenue expenditure - (SAMPLE MCQ)

- (a) Salaries and wages of employees engaged directly or in-directly in production
- (b) Repairs, maintenance and renewals of fixed assets
- (c) Legal and professional expenses
- (d) Development expenditure on land

26. Useful life of assets is given in Schedule of Companies Ac 2013. (SAMPLE MCQ)

- (a) II
- (b) IV
- (c) V
- (d) VII

27. _____ Are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy. (MTP-APRIL-23)

- (a) Contingent Liabilities
- (b) Provision
- (c) Securities Premium Reserve.
- (d) Liabilities

28. Sec. 52 of the Companies Act states that Security Premium Account can be applied by the Company for one of the purpose mentioned below. Which of the following is a CORRECT option? [MTP-OCT 21]

- (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.

29. Consider the following data appearing in financial statements of a firm: -[MTP OCT 22]

Particulars	Amount in `	Amount in `
Machinery (at cost)	XXX	10,00,000
Less: Depreciation of earlier years	6,00,000	XXX
Less: Depreciation of year	60,000	6,60,000
WDV at end of year	XXX	3,40,000

Read the following statements on basis of above: -

- (i) The firm owns machinery.
- (ii) The machinery is being utilized in business of firm productively.

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(iii) The machinery physically exists.

Which of following would be obvious assertions on the basis of above data?

- (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.

30. Which of the following is not correct [RTP-MAY-23]

- (a) AS 18 – Related Party Disclosures
- (b) AS 10 – Property, Plant & Equipment
- (c) AS 28 – Impairment of Assets
- (d) AS 16 – Intangible Assets

31. ABC Limited is engaged in manufacturing of electric two-wheelers. During the year, a customer has gone to court due to incident of fire in battery-operated vehicle. The damages claimed are to tune of `5 lakhs. The company insists that this incident was due to improper charging of battery and has nothing to do with manufacturing design of vehicle. The company's lawyers advise that it is probable that company is not likely to be held liable. It is likely to be reflected in financial statements of company under ? [RTP-NOV-23]

- (a) Provisions
- (b) Reserves
- (c) Contingent liabilities
- (d) Other current Liabilities

32. An auditor is verifying purchases to ensure their genuineness. Consequently, he is also trying to verify that no fake "trade payables" are present in financial statements. Which assertions concerning purchase transactions and trade payables respectively are being verified by auditor?

- (a) Occurrence; Existence
- (b) Occurrence; Completeness
- (c) Existence; Occurrence
- (d) Completeness; Occurrence

33. Which of the following statement is most appropriate as regards to disclosure of goods in transit in financial statements of a company?

- (a) No separate disclosure of goods in transit is required.
- (b) Disclosure of total goods in transit under head of inventories is required.
- (c) Disclosure of goods in transit under each sub-head of inventories is required.
- (d) Disclosure of goods in transit for raw material and finished goods is required.

34. Sweat Equity shares are issued by a company at a discount or for consideration other than cash to its:-

- (a) Directors only
- (b) Clients only
- (c) Directors or employees
- (d) Auditors only

35. Which of the following is not an element of cost of an item of machinery included under head "Property, Plant and Equipment"?

- (a) Installation costs
- (b) Freight cost of bringing the item to its location
- (c) Inaugural costs
- (d) Employee benefit cost for making such an item suitable for production

36. Which of the classification is not required by a company in respect of its "Cash and cash equivalents?"

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- (a) Balance with Banks
- (b) Balance with scheduled banks
- (c) Cash on hand
- (d) Cheques on hand

CHAPTER 5 "AUDITOR'S REPORT"

1. M/s KYC & 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 & Co. (RTP NOV 20)
- (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
2. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express: (MTP MAY 20)
- (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
3. Which of the following is not correct: (MTP OCT 20)
- (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
4. 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 SAs more recognizable. This of the following is that specific heading: (SAMPLE MCQ)
- (a) Key audit matters
 - (b) Basis of opinion
 - (c) Date
 - (d) All of the above
5. 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. (SAMPLE MCQ)
- (a) Adverse
 - (b) Qualified
 - (c) Disclaimer
 - (d) None of the above
6. Risk of material misstatement may be defined as the risk (SAMPLE MCQ)
- (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
7. 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. (SAMPLE MCQ)
- (a) Misstatement
 - (b) Error
 - (c) fraud
 - (d) Any of the above

8. 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? (SAMPLE MCQ)

- (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.
- (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.
- (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.
- (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.

9. Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario? (SAMPLE MCQ)

- (a) Unmodified opinion.
- (b) Qualified opinion.
- (c) Adverse opinion.
- (d) Disclaimer of opinion.

10. Which of the following is the responsibility of the auditor: (SAMPLE MCQ)

- (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.

11. 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: (SAMPLE MCQ)

- (a) Only Balance Sheet of the Company.
- (b) Financial Statements of the Company.
- (c) Only Profit and Loss Account of the Company.
- (d) Only Cash Flow Statement of the Company.

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12. 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 types of misstatements are mentioned by auditor of Delicious Sweets Limited? (SAMPLE MCQ)

- (a) Simple.
- (b) Material.
- (c) Easy.
- (d) Competent.

13. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express: (SAMPLE MCQ)

- (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

14. _____ 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. (SAMPLE MCQ)

- (a) Misstatement
- (b) Fraud
- (c) Error
- (d) Fraudulent financial reporting.

15. 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: (SAMPLE MCQ)

- (a) Analytical Procedure
- (b) Test of Controls
- (c) Walk through Test
- (d) Audit Sampling

16. Which of the following is not a type of modified opinion? (SAMPLE MCQ)

- (a) Qualified opinion
- (b) Adverse opinion
- (c) Disclaimer of opinion
- (d) Negative opinion.

17. 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. (SAMPLE MCQ)

- (a) Adverse
- (b) Qualified
- (c) Disclaimer
- (d) Unmodified opinion with key audit matter paragraph.

18. 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? (SAMPLE MCQ)

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

19. The Opinion section of the auditor's report shall: (SAMPLE MCQ)

- (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

20. Which of the following is FALSE regarding UDIN? (Unique document identification number [MTP-OCT-22])

- (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.

21. While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?

- (a) present fairly in all material respects
- (b) give a true and fair view
- (c) with the foregoing explanation
- (d) All of the above

22..... is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.

- (a) Emphasis of Matter Paragraph
- (b) Other Matter Paragraph
- (c) Key Audit Matter
- (d) Management Responsibility Paragraph.

23. Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.

Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both the statements are correct
- (d) None of the statement is correct

24. Which of the following is not correct?

- (a) SA 700 - Forming an Opinion and Reporting on the Financial Statements
- (b) SA 701- Key Audit Matters in the Independent Auditor's Report
- (c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements
- (d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

25. Responsibilities of Joint Auditors are governed by:

- (a) SA 200
- (b) SA 229
- (c) SA 299
- (d) SA 230

CHAPTER 6 "CARO 2020"

1. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31st March, 2018, the company did not opt for any borrowing at any point of time and have a total revenue of Rs. 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus-

Particulars	Amount (in Rs.)
Paid-up Capital	
- Consideration received in cash for equity shares (including unpaid calls of Rs. 5,00,000)	40,00,000
- Consideration received in cash for preference shares	25,00,000
- Bonus shares allotted	7,00,000
- Share application money received pending allotment	10,00,000
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
GRAND TOTAL	1,07,00,000

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2016, (CARO, 2016) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding Rs. 10 crore during the financial year.

Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2016? (SAMPLE MCQ)

- Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.07 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.02 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.92 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.82 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.

CHAPTER 7 "SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES"

1. Under section 43(h) of the Central Act, who can frame rules prescribing the books and accounts to be kept by a co-operative society? (RTP NOV 21)

- (a) Central Government
- (b) State Government
- (c) Management Committee of the Society.
- (d) Secretary of the Co-operative Society.

2. In July, 2018, M/s Tom & Co. entered into an agreement with M/s Jerry & Co. under which machinery would be let on hire and M/s Jerry & Co. would have the option to purchase the machinery in accordance with the terms of the agreement. Thus, M/s Jerry & Co. agreed to pay M/s Tom & Co. a settled amount in periodical instalments. The property in the goods shall be passed to M/s Jerry & Co. on the payment of last of such instalments. While checking such hire-purchase transaction, what would the auditor examine? (SAMPLE MCQ)

- (a) That the periodical instalments paid are charged as an expenditure by M/s Jerry & Co.
- (b) That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.
- (c) That M/s Tom & Co. charges depreciation throughout the life of the machinery.
- (d) All of the above.

3. MeLeredian is a renowned hotel operating in the city. The charge for room sales is posted to guest bills by Mr. Charlie, the night auditor. He has the responsibility for balancing the revenue and expense transactions, occurring during the day. He is also required to respond to guests' complaints and handling emergencies that may arise. While vouching the room sales, what special points may be considered by you as an auditor of the hotel? (SAMPLE MCQ)

- (a) Audit tests to be carried out to ensure that the correct numbers of guests are charged for the correct period.
- (b) Any deviation between the charged rates used on the guests' bills and the standard room rate should be investigated to ensure that they have been properly authorised.
- (c) Testing of reports, containing details of the rooms which were occupied the previous night and the number of beds kept in each room, with the guests' register and with the individual guest's bill.
- (d) All of the above.

4. 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? (MTP-APRIL-23)

- (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.

5. Article 151 requires that the reports of the C&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 (SAMPLE MCQ)

- (a) President/Governor
- (b) Prime Minister/ Chief Minister
- (c) Union Finance Minister/State Finance Minister
- (d) Union Cabinet

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6. 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. (RTP-MAY-23)

- (a) Audit against provision of funds
- (b) Propriety audit
- (c) Audit of sanctions
- (d) Audit against rules and orders

7. The Auditor of a Sole Proprietor Concern is appointed by (SAMPLE MCQ)

- (a) CAG
- (b) Bank
- (c) Sole Proprietor himself
- (d) District Administration

8. Every LLP would be required to file annual return in Form with ROC within 60 days of closer of financial year: - (SAMPLE MCQ)

- (a) Form 11
- (b) Form 8
- (c) Form 9
- (d) Form DPIN

9. While conducting the audit of a local body, the auditor's areas of audit do not include (SAMPLE MCQ)

- (a) Budgetary Procedure
- (b) Expenditure Control
- (c) Accounting System
- (d) Dispute Resolution

10. After a government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the (MTP-MARCH-23)

- (a) CAG
- (b) President
- (c) Public Accounts Committee
- (d) Parliament

11. The office of C&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&AG? [MTP=OCT-22]

- (a) Propriety audit
- (b) Audit of sanctions
- (c) Audit against rules and orders
- (d) Performance audit

12. The audit of municipal corporation of a large metro city is in progress. Which of the following is not likely an objective of such as audit?

- (a) To report on the adherence to legal and administrative requirements
- (b) To report on whether value is being fully received for money spent
- (c) To report on the weakness of systems of financial control
- (d) To provide better civic amenities to residents of metro city

13. "Save Democracy" is an NGO working in cause of promoting democracy and democratic institutions in many countries including India. Its Indian counterpart has received funds from a renowned "Flower Trust" of US. As auditor of NGO, which of the following laws/orders would be relevant to you in context of above information?

- (a) Income Tax Act, 1961
- (b) Foreign Contribution Regulation Act, 2010
- (c) Companies Act, 2013
- (d) Orders issued by Ministry of Social Justice and Empowerment

14. The appointment of first auditor of a multi-state cooperative society is made by: -

- (a) Central Registrar
- (b) Board of society
- (c) Members of society
- (d) Central Government

15. Consider following revenue sources of Union Government.

- (P) Revenues from direct taxes
- (Q) Revenues from Goods and Services Tax
- (R) Revenues from Custom Duties
- (S) Revenues from Excise Duties

Out of P, Q, R and S, which of the following flow to "Consolidated Fund of India"?

- (a) P, Q and R
- (b) P, Q and S
- (c) P and Q
- (d) P, Q, R and S

16. An LLP files compliance returns with: -

- (a) Registrar of firms & societies
- (b) Central Registrar
- (c) Registrar of Companies
- (d) Local fund audit wing

CHAPTER 8 "AUDIT OF BANKS"

1. 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? (MTP OCT 20)

- (a) Pledge
- (b) Mortgage
- (c) Assignment
- (d) Set-off

2. Which of the following is fund-based advance? (SAMPLE MCQ)

- (a) Term loans
- (b) Cash credits,
- (c) Demand Loans
- (d) All of the above

3. Which of the following is not classification of NPA? (SAMPLE MCQ)

- (a) Impaired
- (b) Sub standard
- (c) Doubtful
- (d) Loss

4. Regulating body in case of banks is: (SAMPLE MCQ)

- (a) SEBI
- (b) IRDA
- (c) RBI
- (d) ICAI

5. Engagement Team Discussions are usually done at which stage of Bank audit? (SAMPLE MCQ)

- (a) Appointment
- (b) Developing an Audit Plan
- (c) Framing an Audit Programme
- (d) Issuing Audit Report

6. The auditor of a nationalised bank is to be appointed by: - (SAMPLE MCQ)

- (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

7. The LFAR is to be submitted before every year [MTP-APRIL-23]

- (a) 30th April
- (b) 31st May
- (c) 30th June
- (d) 30th September

8. Which of the following is a non-Funded facility as sanctioned by any bank: - (SAMPLE MCQ)

- (a) Bank Guarantee
- (b) Term Loan
- (c) Staff Advances
- (d) Bank Overdraft

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9. The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank: -
(MTP-SEPT 22/ RTP MAY-23]

- (a) Letter of Credit
- (b) Term Loan
- (c) Staff Advances
- (d) Cash Credit Limit

10. Drawing Power in case of a Consortium advance is computed and allocated to member banks by the (SAMPLE MCQ)

- (a) Bank members proportionately
- (b) Lead bank
- (c) Borrower
- (d) Reserve Bank of India

11. 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 ? (MTP-MARCH-23)

- (a) Active Loan
- (b) Personal Loan
- (c) Higher of the two
- (d) Both the Active Loan & the Personal Loan

12. 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: -[MTP-OCT 22]

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

Identify the most appropriate combination by matching Column X with Column Y: -

- (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

13. "Letters of credit" and "Foreign bills purchased and discounted" are examples of respectively: [RTP-NOV-22]

- (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

14. Which of the following is included in "Interest Earned" in Profit & loss A/c of a bank?

- (a) Discount on Bills
- (b) Loan Processing fees
- (c) Commission on bills for collection
- (d) Credit Card Fees

15. While auditing advances of a bank as statutory auditor, which of the following is not a likely concern of auditor?

- (a) Appropriate documentation of advances
- (b) Ensuring budgeted targets of advances given by bank management
- (c) Compliance of sanctioned terms and conditions
- (d) Operations in advance accounts

16. Any amount due to the bank under any credit facility is 'overdue' if: -

- (a) it is not paid on the due date fixed by the bank
- (b) it is not paid within 30 days of due date fixed by the bank
- (c) it is not paid within 60 days of due date fixed by the bank
- (d) it is not paid within 90 days of due date fixed by the bank

17. Which of the following statement is true regarding appointment of statutory branch auditor of a nationalized bank?

- (a) The appointment is made by bank acting through its board of directors with prior approval of Central govt.
- (b) The appointment is made by bank acting through its board of directors with prior approval of RBI
- (c) The appointment is made by bank acting through its board of directors with prior approval of ICAI
- (d) The appointment is made by shareholders in AGM.

18. Identify the correct statement: -

- (a) Income from non-performing assets is recognized on accrual basis
- (b) Income from non-performing assets is never recognized.
- (c) Income from non-performing assets is recognized on basis of actual recovery
- (d) Income from non-performing assets is recognized only when such assets are upgraded to standard assets

CHAPTER-9 "STANDARDS ON AUDITING"

BASICS OF SA

1. Which of the following is not an advantage of audit?

- (a) It provides high quality financial information.
- (b) It acts as a moral check on employees..
- (c) It enhances risk of management bias.
- (d) It helps in safeguarding interests of shareholders.

2. Which of the following is NOT TRUE about an assurance engagement?

- (a) It relates to providing assurance about historical financial information only.
- (b) The practitioner obtains sufficient appropriate evidence.
- (c) There is some information to be examined by practitioner.
- (d) A written assurance report in appropriate form is issued by practitioner.

3. Which of the following is TRUE about Engagement Standards?

- (a) Engagement standards ensure proper rights to practitioners in course of performance of their duties.
- (b) Engagement standards ensure preparation and presentation of financial statements in a standardized manner.
- (c) Engagement standards ensure uniformity by practitioners in course of performance of their duties.
- (d) Engagement standards ensure savings in resources of clients.

4. Consider following statements in relation to "Limited assurance engagement":-

Statement I - It involves obtaining sufficient appropriate evidence to draw reasonable conclusions.

Statement II - Review of interim financial information of a company is an example of limited assurance engagement.

- (a) Statement I is correct. Statement II is incorrect.
- (b) Both Statements I and II are correct.
- (c) Both Statements I and II are incorrect.
- (d) Statement I is incorrect. Statement II is correct.

5. Which of the following is TRUE about Standards on auditing?

- (a) These deal mainly with voluntary responsibilities of auditors.
- (b) These deal mainly with mandatory responsibilities of auditors.
- (c) Their sole purpose is to help government authorities in augmenting revenues.
- (d) These deal mainly in carrying out audit according to legal provisions.

SA-200

6. _____ Refers to an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. (SAMPLE MCQ)

- (a) Professional skepticism
- (b) Professional Judgement
- (c) Integrity
- (d) Objectivity

7. Professional skepticism is necessary to the critical assessment of (SAMPLE MCQ)

- (a) Audit documentation
- (b) Audit evidence.
- (c) Audit procedures
- (d) All of the above

8. As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in

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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. (SAMPLE MCQ)

- (a) absolute assurance
- (b) limited assurance
- (c) reasonable assurance
- (d) reasonable or absolute assurance

9. As per SA-200 “Overall Objectives of the Independent Auditor”, in conducting an audit of financial statements, the overall objectives of the auditor are: (SAMPLE MCQ)

- (a) To obtain reasonable assurance
- (b) To report on the financial statements
- (c) Both (a) and (b) above
- (d) To obtain absolute assurance.

10. The Firm R K & 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? (MTP-OCT-21)

- (a) Integrity
- (b) Professional Competence and due care
- (c) Professional Skepticism
- (d) Professional behaviour

11. Mr. Salman is an engagement partner of Khan & co.-chartered accountants for an audit of Lava Ltd., he died of a stroke on 30.09.2019 after completing the entire routine audit work of Lava Ltd. Mr. Shoaib, one of the partners of Khan & Co. will be signing the accounts of Lava Ltd. What is the course of action to be taken by Mr. Shoaib? (RTP NOV 20)

- (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

12. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are: (RTP MAY 21 , RTP NOV 21 / RTP-NOV-23)

- (a) Management
- (b) Those charged with governance
- (c) Audit committee
- (d) Board of directors

13. Which of the following is not in accordance with spirit of “Professional Skepticism”? [MTP-OCT 22]

- (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

14. An auditor signs a false audit report knowingly. Which of the following fundamental principles of professional ethics is violated in such a case? [RTP-NOV-22]

- (a) Objectivity
- (b) Integrity

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- (c) Professional Competence and due care
- (d) Professional behaviour

15. 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: [RTP-NOV-23]

- (a) Professional Competence
- (b) Independence
- (c) Professional Skepticism
- (d) Due care

16. Professional skepticism includes-

- (a) Overlooking unusual circumstances.
- (b) Using inappropriate assumptions in determining extent of audit procedures.
- (c) Over generalising when drawing conclusions from audit observations.
- (d) Being vigilant to conditions that might indicate possibilities of fraud.

17. Which of the following is not a fundamental principle governing professional ethics?

- (a) Professional competence and due care
- (b) Integrity
- (c) Objectivity
- (d) Safeguards to independence

SA-210

18. 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: (MTP APR 21/NOV 21)

- (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.

19. According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement with: (SAMPLE MCQ)

- (a) management
- (b) those charged with governance
- (c) management or those charged with governance, as appropriate.
- (d) Audit committee

20. The agreed terms of the audit engagement shall be recorded in (SAMPLE MCQ)

- (a) An audit engagement letter
- (b) an audit engagement letter or other suitable form of written agreement
- (c) any suitable form of written agreement
- (d) None of the above

21. If law or regulation prescribes in sufficient detail the terms of the audit engagement, (SAMPLE MCQ)

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- (a) the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.
- (b) the auditor need not record them in a written agreement
- (c) the auditor needs to record them in a written agreement
- (d) None of the above

22. A request from the client for the auditor to change the engagement may result from- (SAMPLE MCQ)

- (a) a change in circumstances affecting the need for the service,
- (b) a misunderstanding as to the nature of an audit or related service originally requested
- (c) a restriction on the scope of the engagement, whether imposed by management or caused by circumstances.
- (d) All of the above

23. 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: (MTP-APRIL-23)

- (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) SAs applicable in revised engagement

24. 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: (SAMPLE MCQ)

- (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.

25. A request from the client for the auditor to change the engagement may result from-

- 1. A change in circumstances affecting the need for the service,**
 - 2. A misunderstanding as to the nature of an audit or related service originally requested**
 - 3. A restriction on the scope of the engagement, whether imposed by management or caused by circumstances.**
- (SAMPLE MCQ)**

- (a) (1) only
- (b) (1) and (2)
- (c) (1), (2) and (3)
- (d) (1) or (2) or (3)

26. As per SA-210, preconditions for an audit do not include which of the following? [RTP-NOV-22]

- (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

27. Which of the following is not necessary to establish preconditions for an audit?

- (a) Acceptability of financial reporting framework.
- (b) Acknowledgment of cooperation from management in designing audit procedures.

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- (c) Acknowledgment from management of providing access to persons within company.
- (d) Acknowledgment of management in understanding its responsibility for preparation of financial statements.

SA-220

28. 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 (RTP MAY 21, MTP MAR 21/SEPT 22)

- (a) Monitoring
- (b) Inspection
- (c) Subsequent Audit procedures
- (d) Compliance procedures

29. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of: (SAMPLE MCQ)

- (a) Adherence to professional standards and regulatory and legal requirements;
- (b) Whether the quality control system has been appropriately designed and effectively implemented; and
- (c) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.
- (d) All of the above

30. The firm's system of quality control should include policies and procedures addressing which of the following element: (SAMPLE MCQ)

- (a) Leadership responsibilities for quality within the firm.
- (b) Ethical requirements.
- (c) Acceptance and continuance of client relationships and specific engagements.
- (d) All of the above

31. SA 220 sets out the responsibilities with respect to relevant ethical requirements. (SAMPLE MCQ)

- (a) firm's
- (b) Senior Audit Assistant
- (c) Engagement partner's
- (d) All the above

32. SA 220 recognises that the is entitled to rely on a firm's systems in meeting its responsibilities with respect to quality control procedures. (SAMPLE MCQ)

- (a) Engagement partner
- (b) Engagement team
- (c) Firm
- (d) Senior Audit Assistant

33. Identify the most appropriate statement: -

- (a) SA 220 applies at the level of firm.
- (b) SQC 1 is premised on the basis that firm is subject to SA 220.
- (c) SA 220 is premised on the basis that firm is subject to SQC 1.
- (d) SA 220 applies to all engagements.

SA-230

34. As per SQC 1 the retention period for audit engagements ordinarily is no shorter than from the date of the auditor's report. (MTP MAR 21)

- (a) ten years

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- (b) five years
- (c) seven years
- (d) four years

35. Audit documentation provides (MTP APR 21/NOV 21)

- (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.
- (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.
- (c) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
- (d) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

36. Standard on Quality Control (SQC) 1 sets out the responsibilities of the for establishing policies and procedures regarding compliance with relevant ethical requirements: (SAMPLE MCQ)

- (a) Firm
- (b) Engagement partner
- (c) Senior Audit Assistant
- (d) All the above

37. _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (SAMPLE MCQ)

- (a) Audit documentation
- (b) Audit File
- (c) Audit Note Book
- (d) Completion Memorandum

38. • Audit programmes.

- Analyses.
- Issues memoranda.
- Summaries of significant matters. Are examples of: (SAMPLE MCQ)

- (a) Audit Evidence
- (b) Audit Documentation
- (c) Audit File
- (d) Final Audit File

39. The auditor shall assemble the audit documentation in and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor r's report. (SAMPLE MCQ)

- (a) audit note book
- (b) Completion memorandum
- (c) Audit file
- (d) Any of the above

40. After the assembly of the final audit file has been completed (SAMPLE MCQ)

- (a) The auditor shall delete or discard the audit documentation of any nature before the end of its retention period.
- (b) The auditor may delete or discard audit documentation of any nature before the end of its retention period.
- (c) The auditor may not delete or discard audit documentation of any nature before the end of its retention period.
- (d) The auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

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41. SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is (SAMPLE MCQ)

- (a) ordinarily not more than 60 days after the date of the auditor's report.
- (b) ordinarily not more than 30 days after the date of the auditor's report.
- (c) ordinarily not more than 90 days after the date of the auditor's report.
- (d) ordinarily not more than 120 days after the date of the auditor's report.

42. SQC 1 requires firms to establish policies and procedures for the retention of (SAMPLE MCQ)

- (a) Audit File
- (b) Engagement documentation.
- (c) Final Audit file
- (d) Audit Documentation

43. SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is: (SAMPLE MCQ)

- (a) No shorter than eight years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- (b) No shorter than six years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- (c) No shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- (d) No shorter than ten years from the date of the auditor's report, or, if later, the date of the group auditor's report.

44. The completion of the assembly of the final audit file after the date of the auditor's report is (SAMPLE MCQ)

- (a) An administrative process that does not involve the performance of new audit procedures but certainly involves the drawing of new conclusions.
- (b) an administrative process that involves the performance of new audit procedures or the drawing of new conclusions.
- (c) an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- (d) a statutory process.

45. Which of the following is not an example of audit documentation (SAMPLE MCQ)

- (a) Audit programmes
- (b) Summaries of significant matters
- (c) Audit file
- (d) All of the above

46. Which of the following is correct (SAMPLE MCQ)

- (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.
- (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.
- (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.
- (d) The auditor shall not assemble the audit documentation in an audit file.

47. Standard on Quality Control (SQC) 1 provides that, (SAMPLE MCQ)

- (a) Unless otherwise specified by law or regulation, audit documentation is the property of the management.
- (b) Unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.

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(c) Unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.

(d) Standard on Quality Control (SQC) 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

48. 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 confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation? (SAMPLE MCQ)

- (a) Audit programmes.
- (b) Notes reflecting preliminary thinking.
- (c) Letters of confirmation.
- (d) E-mails concerning significant matters.

49. CA Vijay is the statutory auditor of XYZ Ltd. for the FY 2021-22. 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? (SAMPLE MCQ)

- (a) Sorting, collating & 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.

50. Audit documentation provides: (SAMPLE MCQ)

- (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.
- (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.
- (c) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
- (d) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

51. _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (SAMPLE MCQ)

- (a) Audit Techniques
- (b) Audit evidence
- (c) Audit Documentation
- (d) Audit Procedures record

52. _____ 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. (SAMPLE MCQ)

- (a) Audit File
- (b) Audit evidence
- (c) Completion Memorandum
- (d) Audit Folder

53. 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". (SAMPLE MCQ)

- (a) 30
- (b) 60
- (c) 90
- (d) 45

54. _____ 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. (RTP-MAY-22)

- (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

55. 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- (MTP-APRIL-23)

- (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

56. CA Amar is the statutory auditor of XYZ Ltd. for the FY 2020-21. During the process of assembling the audit file, CA Amar 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? [MTP-MARCH 23]

- (a) Sorting, collating & 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.

57. Which of the following statement is appropriately suited to preparation of audit documentation?

- (a) Audit documentation has to be prepared simultaneously as audit progresses.
- (b) Audit documentation has to be prepared 60 days after date of audit report.
- (c) Audit documentation has to be prepared when information is required by regulator.
- (d) Audit documentation has to be prepared 60 days after completion of audit work.

58. Audit documentation is owned by: -

- (a) Client
- (b) Auditor
- (c) Team member responsible for documentation
- (d) Regulator

59. Which of the following is least likely to be included in audit documentation of a company engaged in manufacturing and export of goods?

- (a) Previous years audited financial statements
- (b) Projected cash flow statement for next twelve months provided by management in support of going concern assumption
- (c) Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers
- (d) Statement showing verification of ageing of trade receivables as on date of balance sheet

60. Which of the following is false in relation to audit documentation when an external auditor relies upon work of internal auditor?

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- (a) Evaluation of objectivity and competence of internal auditor has to be documented.
- (b) Nature of work used and reason for relying upon work used forms part of documentation.
- (c) Documentation on whether quality control is exercised in internal audit work forms part of audit documentation.
- (d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation.

61. Identify the most appropriate statement in context of SQC 1.

- (a) Assembly of engagement files should be completed in not more than 60 days after date of auditor's report in case of audit engagements.
- (b) Engagement files should be completed before date of auditor's report in case of audit engagements.
- (c) Engagement files should be completed in not more than 60 days after completion of an engagement.
- (d) Engagement files should be completed on date on which audit report is signed in case of audit engagements.

SA-250

62. 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. (SAMPLE MCQ)

- (a) Professional skepticism
- (b) Professional integrity
- (c) Professional judgment
- (d) Professional sincerity

SA-265

63. An auditor of a company communicates significant findings from audit with those charged with governance in the company. Which of the statements is false in regard to communication made?

- (a) Evaluation of adequacy of communication process is required on part of the auditor.
- (b) Planned scope and timing of audit has also to be communicated.
- (c) Communication of rationale behind audit procedures is necessary.
- (d) Significant difficulties encountered during audit, if any, have to be communicated.

SA-299

64. To jointly audit books of accounts of WZ Limited for the financial year 2020-21 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: (RTP NOV 21)

- (a) Principal Auditors of WZ Limited.
- (b) Branch Auditors of WZ Limited.
- (c) Individual Auditors of WZ Limited.
- (d) Joint Auditors of WZ Limited.

65. 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. (MTP-MARCH-21)

- (a) The auditors shall express their opinion in separate audit report.
- (b) The audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).
- (c) Both (a) and (b) are correct
- (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.

66. When planning the audit, (SAMPLE MCQ)

- (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

67. Which of the following is correct? (SAMPLE MCQ)

- (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.

Added from audit programme

68. The auditor shall update and change _____ as necessary during the course of the audit. (MTP MAY 20)

- (a) Overall strategy
- (b) The overall audit strategy and the audit plan
- (c) Audit plan
- (d) Audit program

69. Planning an audit involves establishing the overall audit strategy for the engagement and (SAMPLE MCQ)

- (a) Developing an audit plan.
- (b) Developing an audit program
- (c) Developing detailed strategy
- (d) Any of the above

70. Sets the scope, timing & direction of the audit and guides the development of the more detailed plan. (SAMPLE MCQ)

- (a) Audit Programme
- (b) Overall Audit Strategy
- (c) Completion Memorandum
- (d) Audit Plan

71. 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: (SAMPLE MCQ)

- (a) Continuous
- (b) Discrete
- (c) Neither continuous nor discreet
- (d) Strategic

72. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.

Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.

(SAMPLE MCQ)

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct

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- (c) Both Statements 1 & 2 are correct
- (d) Both Statements 1 & 2 are incorrect

73. Which of the following is not addressed by the overall audit strategy: (SAMPLE MCQ)

- (a) Scope of the audit
- (b) Timing of the audit
- (c) Direction of the audit
- (d) Monitoring of the audit

74. Planning an audit involves. (SAMPLE MCQ)

- (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.
- (c) establishing the overall audit plan for the engagement
- (d) developing an audit strategy.

75. When planning the audit, (SAMPLE MCQ)

- (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

76. 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. (SAMPLE MCQ)

- (a) Audit strategy
- (b) Audit plan
- (c) Audit plan and audit strategy
- (d) Audit note book

77. The auditor shall develop an audit plan that shall include a description of: (SAMPLE MCQ)

- (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

78. The overall audit strategy and the audit plan remain the responsibility [MTP-MARCH-23]

- (a) auditor's
- (b) management's
- (c) those charged with governance.
- (d) both management and those charged with governance

79. Which of the following statements is MOST APPROPRIATE? [RTP-NOV-22]

- (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.

80. Which of the following is not considered in planning an audit generally?

- (a) Understanding of legal and regulatory framework of an entity
- (b) Need to consider determination of materiality
- (c) Evaluating audit evidence

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(d) Need to consider involvement of expert

81. Which of the following is true about audit plan?

- (a) Once an audit plan has been finalized for an engagement, changes cannot be made to it.
- (b) Audit plan includes scope, timing and direction of planned risk assessment procedures.
- (c) Changes in audit plan cannot lead to change in audit strategy.
- (d) Audit plan has to be documented by auditor.

82. Which of the following is most important principle for formulating an audit plan?

- (a) Gaining knowledge of client's workforce
- (b) Gaining knowledge of client's business
- (c) Gaining knowledge of client's vendors
- (d) Gaining knowledge of tax laws applicable to client

SA-315

83. Judging the significance of a matter requires of the facts and circumstances. (SAMPLE MCQ)

- (a) Objective analysis
- (b) Subjective analysis
- (c) Both subjective and objective analysis
- (d) Qualitative analysis

84. _____ 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. (RTP-MAY-22)

- (a) Internal control assessment procedures
- (b) Risk assessment procedures
- (c) substantive procedures
- (d) analytical procedures

85. When deviations from controls upon which the auditor intends to rely are detected, (SAMPLE MCQ)

- (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

86. The assessment of risks is a (SAMPLE MCQ)

- (a) Matter capable of precise measurement rather than matter of professional judgment
- (b) Matter of professional judgment, rather than a matter capable of precise measurement.
- (c) Matter of professional judgement as well as capable of precise measurement sometimes.
- (d) None of the above

87. The assessment of the risks of material misstatement may be expressed in (SAMPLE MCQ)

- (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

88. Risk of material misstatement may be defined as the risk (SAMPLE MCQ)

- (a) That the financial statements are materially misstated after audit.

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- (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

89. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement - (SAMPLE MCQ)

- (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.

90. When significant risk had been identified by the auditor, then: (SAMPLE MCQ)

- (a) Audit evidence obtained solely from substantive analytical procedures is sufficient.
- (b) Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.
- (c) Auditor will perform test of details also.
- (d) Both b and c

91. Which of the following is incorrect- For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall: (MTP-MARCH-23)

- (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. (from risk assessment

92. The risk that the financial statements are materially misstated prior to audit is called-(MTP March-2021)

- (a) Risk of material misstatement
- (b) detection risk
- (c) audit risk
- (d) significant risk

SA-320

93. The concept of materiality is applied by the auditor: (RTP MAY 21, MTP OCT 20/SEPT 22)

- (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

94. SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor (MTP MAR 21)

- (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.

95. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of. (SAMPLE MCQ)

- (a) Independence

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- (b) Professional Judgement
- (c) Professional skepticism
- (d) All of the above

96. Which of the following is not an example of benchmarks in determining materiality for the Financial Statements as whole: (SAMPLE MCQ)

- (a) Profit before tax
- (b) total revenue
- (c) audit programme
- (d) total equity

97. Which of the following is true regarding materiality?

- (a) It is unaffected by nature of an item.
- (b) It is unaffected by requirements of law or regulations.
- (c) It is not a matter of professional judgment.
- (d) It is not always a matter of relative size.

SA-500

98. 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: (RTP NOV 21/MTP SEPT 22)

- (a) External Confirmation.
- (b) Observation.
- (c) Inquiry.
- (d) Inspection.

99. Audit evidence includes (MTP APR 21/MTP-APRIL-23)

- (a) Information contained in the accounting records underlying the financial statements
- (b) Both information contained in the accounting records underlying the financial statements and other information.
- (c) Other information.
- (d) Information contained in the accounting records underlying the financial statements or other information.

100. 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. (SAMPLE MCQ)

- (a) Cumulative
- (b) Regressive
- (c) Selective
- (d) Objective

101. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. (SAMPLE MCQ)

- (a) Obtaining audit evidence.
- (b) Evaluating audit evidence.
- (c) Obtaining or evaluating audit evidence.
- (d) Obtaining and evaluating audit evidence.

102. Audit procedures to obtain audit evidence can include (SAMPLE MCQ)

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

103. Auditor's judgment as to sufficiency may be affected by the factors such as: (SAMPLE MCQ)

- (a) Materiality
- (b) Risk of material misstatement
- (c) Size and characteristics of the population.
- (d) All of the above

104. Auditor's judgment as to sufficiency may be affected by which factor: (SAMPLE MCQ)

- (a) Materiality
- (b) Risk of material misstatement
- (c) Size and characteristics of the population.
- (d) All of the above

105. Which of the following is not an Audit procedure to obtain audit evidence: (SAMPLE MCQ)

- (a) Inspection
- (b) Observation
- (c) External Confirmation
- (d) Internal Control

106. 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. [MTP-OCT-22]

- (a) Analytical procedures
- (b) Recalculation
- (c) Re-performance
- (d) Observation

107. _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. [MTP-MARCH-23]

- (a) Audit Techniques
- (b) Audit evidence
- (c) Audit Documentation
- (d) Audit Procedures record

SA-501

108. 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: (SAMPLE MCQ)

- (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

SA-505

109. While auditing the accounts of ThoughtCo 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 31st March, 2018, 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

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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? (SAMPLE MCQ)

- (a) Perform additional testing which may include agreeing the balance to subsequent cash paid.
- (b) Accept the balances as it is assuming other replies against received confirmation requests being correct.
- (c) Accept the balances as it is assuming that the trade payables must have replied in case of any discrepancies.
- (d) None of the above.

110. Statement 1: A response that indicates a difference between information requested to be confirmed and information provided by confirming party is Negative Confirmation.

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. (SAMPLE MCQ)

- (a) Statement 1 is correct
- (b) Statement 2 is correct
- (c) Both 1 & 2 are incorrect
- (d) Both 1 & 2 are correct

111. Which of the following is not correct? (SAMPLE MCQ)

- (a) SA 230- Audit Documentation
- (b) SA 500- Audit Evidence
- (c) SA 505- Written Representation
- (d) SA 560- Subsequent Events

112. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. (SAMPLE MCQ)

- (a) Positive confirmation request
- (b) Non-Response
- (c) Negative Confirmation request
- (d) Exception

113. 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. (MTP-MARCH-21)

- (a) Assertions
- (b) Positive Confirmation
- (c) Written representation
- (d) Audit Evidence.

114. A company auditor receives external confirmation from an entity to whom company has sold goods. The said amount is properly classified in financial statements of company. Which of the following statements is not true in this regard?

- (a) It shows that said trade receivable exists.
- (b) It shows that said trade receivable is properly valued.
- (c) It shows that company has a right to said trade receivable.
- (d) It shows that amount of said trade receivable has been recorded in proper account.

SA-520

115. Statement I As per the Standard on Auditing (SA) 520 "Analytical Procedures", the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data. Statement II Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. (RTP MAY 20 / MTP SEPT 22)

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- (a) Only Statement I is correct
- (b) Only Statement II is correct
- (c) Both statements are correct
- (d) Both Statements are incorrect

116. Which of the following is not an example of Analytical Procedures having consideration of comparisons of the entity's financial information: (RTP MAY 20)

- (a) Comparable information for prior periods.
- (b) Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
- (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.
- (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.

117. 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: (RTP NOV 20/MTP-APRIL-23)

- (a) Analytical Procedure
- (b) Test of Controls
- (c) Walk Through Test
- (d) Audit Sampling

118. Which of the following is not an analytical procedure? (SAMPLE MCQ)

- (a) Tracing of purchases recurred in the purchase book to purchase invoices.
- (b) Comparing aggregate wages paid to number of employees
- (c) Comparing the actual costs with standard costs
- (d) All of them are analytical procedure

119. What are analytical procedures? (SAMPLE MCQ)

- (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

120. Analytical procedures issued in the planning stage of an audit, generally: (SAMPLE MCQ)

- (a) helps to determine the nature, timing and extent of other audit procedures
- (b) directs attention to potential risk areas
- (c) indicates important aspects of business
- (d) All of the above

121. Which of the following statement is correct: (SAMPLE MCQ)

- (a) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time
- (b) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time
- (c) Substantive analytical procedures are generally more applicable to small volumes of transactions that tend to be predictable over time
- (d) All statements are correct

122. Substantive Analytical Procedures are generally more applicable to: (SAMPLE MCQ)

- (a) Large volumes of transactions.
- (b) Transactions predictable over time.

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- (c) Both a and b
- (d) None of a and b

123. is the comparison of current data with the prior period balance. (SAMPLE MCQ)

- (a) Ratio Analysis
- (b) Trend analysis
- (c) Reasonableness test
- (d) Structural Modelling

124. Statement1: Analytical procedures are more useful while conducting the audit and at the completion phase and are of no use at the planning stage.

Statement 2: In the planning stage, audit procedures assist the auditor in understanding the client's business and identifying the areas of potential risks. (SAMPLE MCQ)

- (a) Statement 1 & 2 are correct
- (b) Statement 1 & 2 are incorrect
- (c) Only Statement 1 is correct
- (d) Only Statement 2 is correct

125. What are analytical procedures? (SAMPLE MCQ)

- (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

126. Which of the following is not an analytical procedure? (SAMPLE MCQ)

- (a) Tracing of purchases recurred in the purchase book to purchase invoices.
- (b) Comparing aggregate wages paid to number of employees
- (c) Comparing the actual costs with standard costs
- (d) All of them are analytical procedures

127. Analytical procedures issued in the planning stage of an audit, generally: (SAMPLE MCQ)

- (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

128. The basic assumption underlying the use of analytical procedures is: (SAMPLE MCQ)

- (a) It helps the auditor to study relationship among elements of financial information
- (b) Relationship among data exists 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

129. What is the primary objective of analytical procedures used in the overall review stage of an audit? (SAMPLE MCQ)

- (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.

130. Audit evidence includes [MTP NOV-21]

- (a) information contained in the accounting records underlying the financial statements
- (b) both information contained in the accounting records underlying the financial statements and other information.

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- (c) other information.
- (d) information contained in the accounting records underlying the financial statements information.

131. The auditor of Vishwas Ltd wants to know from you which of the following methods are analytical procedures [MTP-SEPT 22]

- I. Comparison of client and industry data
 - II. Comparison of client data with similar prior period data
 - III. Comparison of client data with client-determined expected results
 - IV. Comparison of client data with auditor-determined expected results
- (a) I, II and III only
 - (b) I &, II only
 - (c) III &, IV only
 - (d) I, II, III and IV

SA-530

132. _____ in which the auditor selects the sample without following a structured technique. (RTP MAY 21)

- (a) Haphazard selection,
- (b) Monetary Unit Sampling
- (c) Block Sampling
- (d) Structured Sampling

133. Which of the following factors is (are) considered in determining the sample size for tests of control? (SAMPLE MCQ)

- (a) Projected error
- (b) Tolerable error
- (c) Expected error
- (d) Both (b) and (c)

134. 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 (SAMPLE MCQ)

- (a) Sample size
- (b) Audit risk
- (c) Materiality
- (d) Expected error

135. Which of the following is source of Non-Sampling risk? (SAMPLE MCQ)

- (a) Human Mistakes
- (b) Applying audit procedures not appropriate to the objectives of audit
- (c) Misinterpreting the sample results
- (d) All of the above

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

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

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

- (a) Systematic sampling.
- (b) Stratified sampling.
- (c) Section sampling.
- (d) Selection sampling.

137. The main advantage of using statistical sampling techniques is that such techniques: (SAMPLE MCQ)

- (a) Mathematically measure risk
- (b) Eliminate the need for judgmental sampling
- (c) Defines the values of tolerable error
- (d) All of the them.

138. Which of the following factors is (are) considered in determining the sample size for tests of control? (SAMPLE MCQ)

- (a) Projected error
- (b) Tolerable error
- (c) Expected error
- (d) Both (b) and (c)

139. 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 (SAMPLE MCQ)

- (a) Sample size
- (b) Audit risk
- (c) Materiality
- (d) Expected error

140. Which of the following is source of non-Sampling risk: (SAMPLE MCQ)

- (a) Human Mistakes
- (b) Applying audit procedures not appropriate to the objectives of audit
- (c) Misinterpreting the sample results
- (d) All of the above

141. Which of the following is more scientific? (SAMPLE MCQ)

- (a) Statistical
- (b) Non- statistical
- (c) Both (a) and (b)
- (d) None of the above

142. As the number of transactions of WY Limited for the financial year 2018-19 was 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: (SAMPLE MCQ)

- (a) Simple, Completeness, Relevant.
- (b) Appropriateness, Simple, Relevant.
- (c) Reliable, Simple, Relevant.
- (d) Appropriateness, Completeness, Reliable.

143. In random Sample, each item of population has (SAMPLE MCQ)

- (a) Equal chance of selection
- (b) Has varying chance of selection depending upon placing of items.
- (c) May have a chance of selection based on auditors professional judgement
- (d) All of these

144. The relationship between tolerable error and sample size is [MTP-APRIL-23]

- (a) Inverse
- (b) Direct
- (c) Close
- (d) There is no relationship.

145. Statistical sampling has the following characteristics. (SAMPLE MCQ)

- (a) Random selection
- (b) Use of Probability theory
- (c) both (a) and (b)
- (d) Judgmental approach

146. Which of the following is not an advantage of statistical sampling?

- (a) Sample size does not increase in proportion to size of area tested.
- (b) Sample selection is more objective.
- (c) It provides a means of deriving a calculated risk and corresponding precision.
- (d) In case of verifying compliance with specific legal requirements, it is suitable.

SA-550

147. An auditor finds during course of an audit that the entity has entered into many related party transactions. Which of the following statements is true?

- (a) The risk that management may override controls in respect of related party transactions is lower.
- (b) The risk that management may override controls in respect of related party transactions is higher.
- (c) There is no effect on the risk that management may override controls in respect of related party transactions.
- (d) Risk of overriding of controls by management has no relationship at all with related party transactions.

SA-560

148. 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: (MTP-MARCH-23)

- (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

149. Which of the following is not an example of subsequent event?

- (a) Event occurring between date of financial statements and date of auditor's report.
- (b) Event occurring on date of financial statements.
- (c) Event occurring after filing audit report with tax authorities. Had such an event been known earlier, auditor would have amended report.
- (d) Event occurring during course of performing audit procedures after date of financial statements.

SA-570

150. 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:

- (a) Adverse key financial ratios
- (b) Inability to invest in modernisation of plant
- (c) Inability to pay creditors on time
- (d) Inability to pay salary of staff

151. 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? [RTP-NOV-22]

- (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

SA-580

152. 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- (MTP MAY 20)

- (a) Positive confirmation request
- (b) Non-response
- (c) Exception
- (d) Negative confirmation request

153. Which statement is correct regarding written representations (SAMPLE MCQ)

- (a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
- (b) Written representations provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
- (c) Written representations neither provide necessary audit evidence nor do they provide sufficient appropriate audit evidence.
- (d) Written representations are not related to audit evidence.

154. Written representations are: -

- (a) Necessary audit evidence
- (b) Sufficient appropriate audit evidence
- (c) Not audit evidence
- (d) Audit evidence depending upon auditor's professional judgment

SA-610

155. Which of the following is not one of functions of internal auditor of an organization?

- (a) Performing assurance activities
- (b) Performing consulting activities to improve governance of organization
- (c) Performing risk management activities
- (d) Expressing independent opinion on financial statements of organization

CHAPTER 10 "ETHICS & TERMS OF AUDIT ENGAGEMENT"

1. Direct financial interest or materially significant indirect financial interest in a client is an example of (MTP MAY 20)
 - (a) Self-review threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats

2. 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: (RTP NOV 20/MTP-APRIL-23)
 - (a) Professional Competence
 - (b) Independence
 - (c) Professional Skepticism
 - (d) Due care

3. Is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism. (MTP MARCH 21, RTP NOV 21)
 - (a) Familiarity threat
 - (b) Advocacy threat
 - (c) Self Review threat
 - (d) Intimidation threat

4. Loan or guarantee to or from the concerned client is an example of – (SAMPLE MCQ)
 - (a) Self-review threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats

5. When an auditor deals with shares or securities of the audited company is an example of: (SAMPLE MCQ)
 - (a) Self-review threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats

6. There are two interlinked perspectives of independence of auditors, one, independence of mind; and two, (SAMPLE MCQ):
 - (a) Objectivity
 - (b) Professional competence
 - (c) Integrity
 - (d) Independence in appearance.

7. Direct financial interest or materially significant indirect financial interest in a client is an example of (SAMPLE MCQ)
 - (a) Self-review threats
 - (b) Self-interest threats
 - (c) Advocacy threats
 - (d) Intimidation threats

8. are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. (SAMPLE MCQ)

- (a) Familiarity threats
- (b) Self-interest threats
- (c) Advocacy threats
- (d) Intimidation threats

9. The Auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences. (SAMPLE MCQ)

- (a) Objectivity
- (b) Independence
- (c) Confidentiality
- (d) Integrity

10. occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. [RTP-NOV-23]

- (a) Familiarity threats
- (b) Advocacy threats
- (c) Self Review threats
- (d) Intimidation threats

11. _____ is the threat which occurs when auditor promotes or is perceived to promote a client's opinion to a point where people may believe that objectivity is getting compromised. [RTP-MAY 22]

[RTP-MAY-22]

- (a) Familiarity threat
- (b) Advocacy threat
- (c) Self Review threat
- (d) Intimidation threat

12. 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: [MTP-SEPT 22]

- (a) Professional Competence
- (b) Independence
- (c) Professional Skepticism
- (d) Due care

ANSWERS

CHAPTER 1 "NATURE, SCOPE OF AUDIT & OBJECTIVE"

1-A	2-C				
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CHAPTER 2 "AUDIT STRATEGY & PROGRAMME"

1-C	2-D	3-C			
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CHAPTER 3 "RISK ASSESSMENT & INTERNAL CONTROL"

1-C	2-A	3-A	4-C	5-B	6-D
7-B	8-D	9-A	10-B	11-B	12-C
13-B	14-B	15-C	16-D	17-A	18-C
19-A	20-B	21-D	22-D	23-B	24-C
25-D	26-A	27-A	28-A	29-D	30-A
31-B	32-D	33-B	34-A	35-A	36-C
37-D	38-D				

CHAPTER 4 "AUDIT OF FINANCIAL STATEMENTS"

1-D	2-C	3-B	4-A	5-B	6-D
7-C	8-A	9-A	10-C	11-C	12-D
13-A	14-C	15-B	16-B	17-A	18-D
19-C	20-B	21-D	22-C	23-C	24-B
25-D	26-A	27-B	28-C	29-D	30-D
31-C	32-A	33-C	34-C	35-C	36-B

CHAPTER 5 "AUDITOR'S REPORT"

1-C	2-C	3-D	4-D	5-A	6-C
7-A	8-A	9-B	10-C	11-B	12-B
13-C	14-A	15-A	16-D	17-A	18-D
19-D	20-B	21-C	22-A	23-D	24-C
25-C					

CHAPTER 6 "CARO 2020"

1-C					
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CHAPTER 7 "SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES"

1-B	2-B	3-D	4-D	5-A	6-A
7-C	8-A	9-D	10-C	11-D	12-D
13-B	14-B	15-B	16-C		

CHAPTER 8 "AUDIT OF BANKS"

1-C	2-D	3-A	4-C	5-B	6-A
7-C	8-A	9-D	10-B	11-C	12-B

13-B	14-A	15-B	16-A	17-B	18-C
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CHAPTER 9 "STANDARDS ON AUDITING"

1-C	2-A	3-C	4-D	5-B	6-A
7-B	8-C	9-C	10-C	11-B	12-B
13-B	14-B	15-B	16-D	17-D	18-C
19-D	20-B	21-A	22-D	23-A	24-C
25-C	26-D	27-B	28-B	29-D	30-D
31-C	32-B	33-C	34-C	35-B	36-A
37-A	38-B	39-C	40-D	41-A	42-B
43-C	44-C	45-D	46-A	47-D	48-B
49-D	50-B	51-C	52-A	53-B	54-C
55-B	56-D	57-A	58-B	59-C	60-D
61-A	62-C	63-C	64-D	65-C	66-A
67-C	68-B	69-A	70-B	71-A	72-C
73-D	74-A	75-A	76-B	77-D	78-A
79-C	80-C	81-D	82-B	83-A	84-D
85-B	86-B	87-A	88-C	89-C	90-D
91-D	92-A	93-C	94-B	95-A	96-C
97-D	98-B	99-B	100-A	101-D	102-B
103-D	104-D	105-D	106-C	107-C	108-D
109-A	110-C	111-C	112-C	113-A	114-B
115-B	116-D	117-A	118-A	119-C	120-D
121-A	122-C	123-B	124-D	125-C	126-A
127-D	128-B	129-A	130-B	131-D	132-A
133-D	134-C	135-D	136-B	137-A	138-D
139-C	140-D	141-A	142-D	143-A	144-A
145-C	146-D	147-B	148-D	149-B	150-C
151-D	152-D	153-A	154-A	155-D	

CHAPTER 10 "ETHICS & TERMS OF AUDIT ENGAGEMENT"

1-B	2-B	3-D	4-B	5-C	6-D
7-B	8-A	9-B	10-A	11-B	12-B