

CA Inter

Auditing & Ethics

MCQ Booklet

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MCQs Instructions

Compilation of all MCQs on ICAI BOS portal. Some case scenarios covered in our Ques Bank as they were already covered in ICAI SM (New Course) have not been included again in this book. Relevant explanations have been included wherever it was required.



Ch-1 Introduction to Auditing

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

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

2. Identify the most appropriate statement: -

- a) Prospective financial information relates to future events. Since no evidence is available to support the assumptions on which prospective financial information is based, auditor is not in a position to express an opinion whether results shown in prospective information will be achieved.
- b) In assurance reports involving prospective financial information, Standards on Auditing apply.
- c) In assurance engagements involving prospective financial information, practitioner provides a report assuring that nothing has come to practitioner’s attention to suggest that assumptions do not provide a reasonable basis for the projection.
- d) In assurance engagements involving prospective financial information, practitioner provides a report assuring that nothing has come to practitioner’s attention to suggest that assumptions provide a reasonable basis for the projection.

3. _____ framework means a framework adopted in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

- a) Financial reporting
- b) Applicable financial reporting
- c) Financial verification
- d) Financial analysis

4. Which of the following is not included in scope of audit of financial statements?

- a) Proper disclosure of financial information
- b) Expression of opinion
- c) Preparation and presentation of financial statements
- d) Reliability and sufficiency of financial information

5. No business or institution can effectively carry on its activities without the help of proper _____:

- a) Audit
- b) Record and accounts
- c) neither (a) nor (b)
- d) both (a) and (b)

6. Audited financial statements are not a guarantee against probable wrong doings in financial matters of companies. What kind of assurance does audit of financial statements provide?

- a) It provides reasonable assurance meaning a moderate level of assurance.
- b) It provides reasonable assurance meaning a low level of assurance.
- c) It provides reasonable assurance meaning a high level of assurance.
- d) It provides reasonable assurance meaning an absolute level of assurance.

7. The auditor of Delicious Sweets Limited was of the opinion that objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from misstatements. Which type of misstatements are mentioned by auditor of Delicious Sweets Limited:

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

8. Which of the following is not correct?

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

9. Inherent limitations of an audit of financial statements arise due to a number of factors. Which of the following is not such a factor?

- a) Practical limitations on ability of auditor to obtain audit evidence
- b) Legal limitations on ability of auditor to obtain audit evidence
- c) Involvement of subjective judgments in preparation of financial statements
- d) Ability of auditor to accept valid evidence due to high professional knowledge

10. In order to express an opinion on the financial statements, the auditor needs to satisfy himself that

- I. **the accounts have been drawn up with reference to entries in the books of account which are adequately supported by sufficient and appropriate evidence.**
- II. **none of the entries in the books of account has been omitted in the process of compilation and nothing which is not in the books of account has found place in the statements**
- III. **the information conveyed by the statements is clear and unambiguous. The financial statement amounts are properly classified, described and disclosed in conformity with accounting standards**
- IV. **the statement of accounts present a true and fair picture of the operational results and of the assets and liabilities.**

- a) I, II
- b) I, II, III
- c) II, III, IV
- d) I, II, III, IV



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:

- 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.

12. Choosing of appropriate accounting policies in relation to various accounting issues like choosing method of charging depreciation on fixed assets or choosing appropriate method for valuation of inventories are responsibilities of:

- a) Statutory Auditor
- b) Internal Auditor
- c) Legal counsel
- d) Management

13. _____ 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.

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

14. An auditor of financial statements expresses opinion: -

- a) In accordance with management's requirements
- b) In accordance with directions of appointing authority
- c) In accordance with auditor's findings
- d) In accordance with requirements of users

15. Which of following is false about meaning /nature of auditing?

- a) Its basic nature lies in providing assurance to users of financial statements.
- b) It is interdisciplinary in nature.
- c) It is independent examination of financial statements of listed entities alone.
- d) Its nature helps in providing comfort that financial statements are not misleading.

16. Which of the following is the responsibility of the auditor:

- 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.

17. As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", _____ is obtained when the auditor has obtained sufficient



appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

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

18. ZETA Private Limited is a recently established start-up formed with objective for promoting use of polyhouses and offering farmers necessary know-how for setting up such structures. Polyhouses enable farmers to grow good quality crops like vegetables throughout the year. At a meeting, directors discuss about pros and cons of independent audit of financial statements in a start-up like theirs. Which of following statements is false in this regard?

- a) It is mandatory requirement for their start-up. There are no choices.
- b) Audited financial statements may be used by start-up for obtaining funds from prospective investors.
- c) Such an audit can point out deficiencies in internal control system of start-up's business.
- d) Such an audit would necessarily result in reflection of higher profits leading to higher income tax liabilities for start-up.

19. Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

- a) Inherent, unavoidable
- b) Inherent, complete
- c) Management, unavoidable
- d) Regulatory, control

20. Which of following is not one of objectives of auditor in accordance with SA 200?

- a) To obtain a reasonable assurance whether financial statements as a whole are free from material misstatement
- b) To report on the financial statements
- c) To communicate in accordance with auditor's findings as required by Standards on Auditing.
- d) To obtain an absolute assurance that financial statements are free from any fraudulent transaction.

21. _____ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

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

22. A Chartered Accountant finds during the course of statutory audit of a company that management is not serious about findings of internal audit reports. No action has been taken on findings of internal auditor and reports for

last two quarters are gathering dust. He has further found that management has not disclosed information relating to transactions with another company. However, he has assiduously gathered that it is a related party by going through annual reports of past years and searching online database on MCA portal.

The described situation most appropriately denotes _____?

- a) Objectivity
- b) Professional knowledge
- c) Independence
- d) Professional skepticism

S No.	Ans	Reason
1	c	As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are To obtain reasonable assurance & To report on the financial statements.
2	c	In assurance engagements involving prospective financial information, practitioner provides a report assuring that nothing has come to practitioner's attention to suggest that assumptions do not provide a reasonable basis for the projection.
3	b	Applicable FRF means a framework adopted in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.
4	c	Preparation and presentation of financial statements is responsibility of management.
5	b	No business or institution can effectively carry on its activities without the help of proper records & accounts.
6	c	Audit provides reasonable assurance meaning a high level of assurance.
7	b	Objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from material misstatements
8	c	SA 580 is Written Representations
9	d	Ability of auditor to accept valid evidence due to high professional knowledge
10	d	All points are relevant.
11	b	auditor of a company is required to express an opinion on F.S. of company.
12	d	Choosing appropriate a/c policy is responsibility of mgt.
13	c	Auditing 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.
14	c	An auditor of financial statements expresses opinion in accordance with auditor's findings
15	c	Audit can be of any entity not only listed entity.
16	d	Auditor obtains reasonable not limited assurance.
17	c	Auditor obtains reasonable assurance.
18	d	Audit has no relation with higher profits leading to higher income tax liabilities for start-up.
19	a	Owing to the <u>inherent</u> limitations of an audit, there is <u>unavoidable</u> risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
20	d	Audit doesn't give absolute assurance that financial statements are free from any fraudulent transaction.
21	a	Refer definition of misstatement.
22	d	Performing additional procedures in doubtful circumstances is attitude of Prof. skepticism.

SA 210 Agreeing the Terms of Audit Engagement

1. Which of the following is normally not included in engagement letter sent by auditor to client?

- a) Responsibilities of auditor
- b) Responsibilities of management
- c) Auditor's fees
- d) **Tangible benefits of audit**

2. 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.

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

SQC-1/SA 220

1. 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".

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

2. The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.

- a) Objectivity
- b) independence
- c) Confidentiality
- d) Integrity

3. 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?

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

4. Code of ethics is applicable to: -

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- a) Only Chartered accountants in practice
- b) Only Chartered accountants in practice who perform assurance engagements
- c) Only Chartered accountants in practice who act as auditors
- d) Chartered accountants in practice as well as Chartered accountants in service

5. _____ 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

- 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

6. CA Piyush is offered appointment as statutory auditor of branch of a bank. He has also taken housing loan of Rs.75 lakhs from same bank. Identify threat to independence involved.

- a) Advocacy threat
- b) Self-interest threat
- c) Self-review threat
- d) Familiarity threat

7. Which of following is not a threat to independence of auditor?

- a) Self-interest threats
- b) Self- review threats
- c) Advocacy threats
- d) Peer group threats

8. Standard on Quality Control (SQC) 1 provides that,

- a) unless otherwise specified by law or regulation, audit documentation is the property of the management.
- b) unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.
- c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.
- d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

S No.	Ans	Reason
1	B	As per SQC-1 "An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report"
2	B	The auditor's independence safeguards the auditor's ability to form an audit opinion without being affected by any influences.
3	C	Professional skepticism is not fundamental principle of code of ethics.
4	D	Code of ethics applicable to all CAs [in practice or service].

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5	C	<u>SQC-1</u> requires firms to establish policies and procedures for the retention of <u>engagement documentation</u> . The retention period for audit engagements ordinarily is no shorter than <u>7 years</u> from the date of the auditor's report, or, if later, the date of the group auditor's report
6	B	Loan from client is self-interest threat.
7	D	Nothing like peer group threat.
8	D	Unless otherwise specified by law or regulation, audit documentation is the property of the auditor.



Ch-2 Audit Planning

1. Which of following is false regarding nature of audit planning?

- a) Planning is not a distinct phase of audit.
- b) Engagement team members are not involved in audit planning.
- c) Elements of planning may be discussed by auditor with company's management.
- d) Planning includes need to consider determination of materiality.

2. CA Bhanwar is auditor of a hospital owned by an eye surgeon. His annual professional receipts are about Rs.3 crores. All eye surgeries are being performed by him and two hours are devoted in evening OPD. Employee strength in hospital is 10. Mr. Kapadia is also auditor of a multi-speciality hospital located in the same city having annual receipts of Rs.75 crores. It has employee strength of 200. Which of the statements is most appropriate regarding internal controls?

- a) Internal controls are likely to be more structured in eye surgeon's hospital whereas these are likely to be less structured in multi-speciality hospital.
- b) Eye surgeon cannot easily override controls in hospital.
- c) Internal controls are likely to be less structured in eye surgeon's hospital whereas these are likely to be more structured in multi-speciality hospital.
- d) Internal controls at multi-speciality hospital can be easily overridden without catching attention of auditor.

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

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

- a) only Statement 1 is correct
- b) Only Statement 2 is correct
- c) Both Statements 1 & 2 are correct
- d) Both Statements 1 & 2 are incorrect

4. Which of following is not an element of planning by an auditor?

- a) Preliminary engagement activities
- b) Establishing overall audit strategy
- c) Developing an audit plan
- d) Issuing a written audit report

5. 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:

- a) continuous
- b) discrete
- c) neither continuous nor discrete
- d) strategic



6. CA X is in the process of establishing audit strategy for a company engaged in the business of trading of Fast-moving consumer goods (FMCG). Which of following is not a factor to be considered by CA X while establishing audit strategy for the company?

- a) Expected AGM timeline of the company
- b) Volume of transactions
- c) Reporting requirements under Schedule III of Companies Act, 2013
- d) Deciding about appropriateness of type of audit procedures to be used in conducting the audit

7. The overall audit strategy and the audit plan remain the _____ responsibility

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

8. _____ means materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-

- a) Benchmark Materiality
- b) Materiality in Planning
- c) Performance Materiality
- d) Materiality

9. CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?

- a) Verification of turnover of company
- b) Verification of cost of raw material consumed
- c) Examination of company's accounting policy for revenue recognition
- d) Verification of contract notes with brokers

10. Planning an audit involves

- 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.

11. An _____ consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.

- a) audit programme
- b) audit plan
- c) assertion

d) audit paper

12. _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.

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

13. Audit programme is prepared for use of: -

- a) Only engagement partner conducting the audit
- b) Only Chartered Accountant employees of team conducting the audit
- c) Only articled clerks of team conducting the audit
- d) All engagement team members conducting the audit

14. 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.

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

15. which of the following is not addressed by the overall audit strategy :

- a) scope of the audit
- b) timing of the audit
- c) direction of the audit
- d) monitoring of the audit

16. The auditor shall develop an audit plan that shall include a description of:

- 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

17. Which of the following is correct:

- 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.

18. Keswani & Co, Chartered Accountants firm got an assignment of statutory audit for 3 years of Daksh LLP. The first year of audit was FY 2021-22. During the first and second year of audit, Keswani & Co devised an audit plan for Daksh LLP and did not prepare an audit plan for FY 2023-24. Kindly state which of the following statement is true in the above context.

- a) Keswani & Co need not prepare the audit plan for FY 2023-24 because the audit plan is already prepared in the first year of audit.
- b) Keswani & Co need not prepare the audit plan for FY 2023-24 since it is recurring audit.
- c) Keswani & Co should prepare the audit plan for FY 2023-24 because planning is not a discrete phase of an audit, but rather a continual and iterative process.
- d) Keswani & Co need not prepare the audit plan for FY 2023-24 because the audit plan is prepared for two years of audit.

S No.	Ans	Reason
1	b	Engagement team members are not involved in audit planning.
2	c	Internal controls are more structured in larger entities.
3	c	
4	d	Issuing Audit report isn't part of planning.
5	a	Planning is <u>continuous</u> 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
6	d	Deciding about appropriateness of type of audit procedures to be used in conducting the audit isn't considered while developing audit strategy.
7	a	The overall audit strategy and the audit plan remain the <u>auditor</u> responsibility
8	c	<u>Performance Materiality</u> means materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole
9	b	Raw material verification not applicable to co. engaged in trading of commodity derivatives.
10	a	Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan.
11	a	An <u>Audit Program</u> consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.
12	b	Audit Strategy sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
13	d	Audit programme is prepared for use of all engg. team members.
14	b	Once the overall audit strategy has been established, <u>audit plan</u> 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.
15	d	



16	d	<p>The auditor shall develop an audit plan that shall include a description of:</p> <ul style="list-style-type: none">• The nature, timing and extent of planned risk assessment procedures• The nature, timing and extent of planned further audit procedures at the assertion level.• Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
17	c	<p>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</p>
18	c	<p>planning is not a discrete phase of an audit, but rather a continual and iterative process.</p>



Ch-3 Audit Documentation

1. _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

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

2. Which of following is not a purpose of audit documentation?

- a) To enable the engagement partner to get rid of his responsibility
- b) To enable the engagement team to be accountable to its work
- c) To enable conduct of quality control reviews
- d) To enable conduct of external inspections in accordance with legal and regulatory requirements

3. “Form, content and extent” of audit documentation is not dependent upon _____?

- a) Size and complexity of audit
- b) Nature of audit procedures to be performed
- c) Seniority of person performing audit
- d) Audit methodology and tools used

4. _____ is the summary of significant matters identified during audit and way they are addressed: -

- a) Audit File
- b) Audit Programme
- c) Completion memorandum
- d) Checklists

5. A company has started its manufacturing operations from a newly constructed building. CA Z is statutory auditor of company. Which of following is not likely to be an example of audit documentation?

- a) E-mail correspondence with CFO of company concerning significant matters
- b) Audit programme
- c) Response to external confirmation requests
- d) Structural engineer’s report on strength of building

6. 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?

- 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.



7. Which of the following is not a likely purpose of audit documentation?

- a) It helps to show that audit was conducted in accordance with requirements of SQC 1.
- b) It serves as a record of matters of continuing significance to future audits.
- c) It assists engagement team to plan and perform the audit.
- d) It can directly help auditor in expanding client base.

8. _____ may be defined as one or more folders or other storage media, in physical or electronic form, containing records that comprise audit documentation for a specific engagement.

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

9. 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.

- a) professional judgment
- b) professional skepticism
- c) professional competence
- d) professional integrity

10. Which of following does not fall within meaning of "Audit Documentation"?

- a) Oral discussions not put into writing
- b) Record of audit procedures performed
- c) Relevant audit evidence obtained
- d) Conclusions reached by auditor

11. CA P has completed audit of a company and final audit file has been assembled. After about two years, in connection with some regulatory proceedings, he is asked to produce copy of audit file. He again takes a fresh look at audit documentation and discards some papers. Which of following statements is correct in this regard?

- a) He can discard papers before end of retention period of file.
- b) He can discard papers before sharing copy with regulator.
- c) He can't discard papers before end of retention period of file.
- d) He can discard papers in certain circumstances according to his judgment.

12. Which of the following is correct:

- 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.

S No.	Ans	Reason
1	c	Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
2	a	Following are the purpose of Audit documentation: [ET → Engagement team] 1. Assisting ET to plan and perform the audit. 2. Assisting members of ET to direct and supervise audit work, and discharge review responsibilities. 3. Enabling ET to be accountable for its work. 4. Retaining a record of matters of continuing significance to future audits. 5. Enabling conduct of quality control reviews and inspections in accordance with SQC 1. 6. Enabling conduct of external inspections as per applicable legal, regulatory or other requirements.
3	c	Form, content and extent of audit documentation depend on factors such as: <ul style="list-style-type: none"> ✓ Size and complexity of the entity. ✓ Identified risks of material misstatement. ✓ Nature and extent of exceptions identified. ✓ Nature of the audit procedures to be performed. ✓ Audit methodology and tools used. ✓ Significance of the audit evidence obtained. ✓ Need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
4	c	Completion memorandum is the summary of significant matters identified during audit and way they are addressed
5	d	Structural engineer's report on strength of building is not needed.
6	d	Changes may be made to audit documentation during final assembly process, if they are administrative in nature. Examples of such administrative changes include: i) Deleting or discarding superseded documentation. ii) Sorting, collating and cross-referencing working papers. iii) Signing off on completion checklists relating to the file assembly process. Documenting audit evidence auditor has obtained, discussed and agreed with relevant members of engg. team before date of Audit Report.
7	d	Similar to Q2
8	a	<u>Audit file</u> may be defined as one or more folders or other storage media, in physical or electronic form, containing records that comprise audit documentation for a specific engagement.
9	a	An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results.



Ch-4 Risk Assessment & Internal Control

1. Components of risk of material misstatement at the assertion level are:

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

2. Control risk is a function of the effectiveness of the design, implementation and maintenance of _____ by management.

- a) Internal Audit
- b) Internal Control
- c) Reliance control
- d) Operating effectiveness of controls

3. Audit risk is a function of the risks of material misstatement and _____

- a) detection risk.
- b) Inherent risk
- c) control risk
- d) business risk

4. _____ means the risk that the auditor gives an inappropriate audit opinion when the financial statement are materially misstated.

- a) Auditors Business Risk
- b) Detection Risk
- c) Misstatement Risk
- d) Audit risk

5. Risk of material misstatement may be defined as the risk

- 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

6. The assessment of risks is a

- 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

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

- a) Control Risk
- b) Inherent Risk
- c) Detection Risk
- d) Audit Risk

8. 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.

- a) direct.
- b) Inverse
- c) no relationship
- d) either (a) or (c)

9. You have been appointed as statutory auditor of a company for the first time. It has become very important for you to understand the company and its environment. Which of the following activities are not expected to be included in your attempts to know about the company and its environment?

- a) Gaining a knowledge about debt structure of the company
- b) Evaluating whether company's accounting policies are appropriate for its business
- c) Understanding business risks faced by the company
- d) Gathering evidence about valuation of trade receivables of the company

S No.	Ans	Reasons
1	b	Components of risk of material misstatement at the assertion level are inherent risk and control risk.
2	b	Control risk is a function of the effectiveness of the design, implementation and maintenance of <u>internal control</u> by management.
3	a	Audit risk is a function of the risks of material misstatement and <u>detection risk</u> .
4	d	<u>Audit Risk</u> means the risk that the auditor gives an inappropriate audit opinion when the financial statement are materially misstated.
5	c	<u>Risk of material misstatement</u> may be defined as the risk that the financial statements are materially misstated prior to audit.
6	b	The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.
7	b	The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is <u>inherent risk</u> .
8	b	For a given level of audit risk, the acceptable level of detection risk bears <u>inverse</u> relationship to the assessed risks of material misstatement at the assertion level.
9	d	Gathering evidence about assertions is Substantive Audit Procedure → Test of Details.



Case Study

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

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

With the help of the above facts, answer the following questions by choosing the correct option.

i. What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?

- a) Inherent risk in the class of transaction
- b) Control risk in the class of transaction
- c) Detection risk in the audit procedures
- d) Audit risk in the opinion on the financial statements.

ii. Which among the following statement is incorrect in the context of Audit Risk?

- a) The more extensive the audit procedures performed, the lower is the detection risk
- b) Greater the risk of material misstatement the auditor believes exist, less is the detection risk that can be accepted and accordingly more persuasive evidence is required by the auditor.
- c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.
- d) Risk of material misstatement at the assertion level is of two kinds – control risk and inherent risk.

iii. In the case of procurement of stores, the auditor has tested more than one control for the same assertion. In that given case, what should be his reliance on the control?

- a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.
- b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures.
- c) Documentation in electronic medium cannot be accepted, hence, he cannot rely only on system control.



- d) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion as well as associated assertions.

iv. In the context of SA 315, which among the following is NOT a risk assessment procedure?

- a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity
- b) Analytical Procedures
- c) Observation and Inspection
- d) External Confirmation

v. What should be the course of action of the auditor for the entity not having a documented risk assessment process?

- a) The auditor should obtain management written representations on how risks are identified
- b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.
- c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.
- d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial.

Ans i) b ii) c iii) a iv) d v) b



Ch-5 Audit Procedures

1. _____ refers 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 risk of material misstatement.

- a) Risk Assessment procedures
- b) Test of controls
- c) Substantive Analytical Procedures
- d) Observation

2. **Statement 1:- Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level.**

Statement 2:- Test of Controls are audit procedures designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.

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

3. **Because the assessment of the risk of material misstatement takes account of internal control,**

- a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.
- b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
- c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.
- d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.

4. **The assessment of the risks of material misstatement may be expressed in**

- 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

5. **To evaluate the Internal Control of Kingsway Limited, a team member of the auditors used a method according to which, number of questions relating to internal control of the company were required to be answered by the employees of the company. After obtaining the answers there was a discussion relating to those answers between team member of the auditor and employees of the company for a clear picture. State the method of evaluation of internal control as discussed above.**

- a) Narrative record
- b) Check List
- c) Internal Control questionnaire

d) Flow chart

6. Which of the following is incorrect

For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall :

- 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;
- Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- 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
- Not consider the like 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.

7. When significant risk had been identified by the auditor, then:

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

S No.	Ans	Reason
1	a	<u>Risk Assessment Procedures</u> refers 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 risk of material misstatement.
2	b	Test of Controls are audit procedures designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.
3	b	Extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
4	a	The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms.
5	c	
6	d	Auditor shall consider the like 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.
7	d	When significant risk had been identified by the auditor, then: <ul style="list-style-type: none"> Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient. Auditor will perform test of details also.

Ch-6 Materiality

SA 320 Materiality in Planning & Performing an Audit

1. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____

- a) Independence
- b) Professional Judgment**
- c) Professional skepticism
- d) Professional behaviour

2. SA 320 on “Materiality in Planning and Performing an Audit” requires that an auditor

- 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.

S No.	Ans	Reason
1	b	Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of <u>Professional Judgment</u>
2	b	SA 320 on “Materiality in Planning and Performing an Audit” requires that an auditor should consider materiality and its relationship with audit risk while conducting an audit.

SA 530 Audit Sampling

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

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

2. In random Sample, each item of population has

- 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

S No.	Ans	Reason
1	d	Both tolerable & expected rate of deviation considered while deciding extent of TOCs.
2	a	In random Sample, each item of population has equal chance of selection

Case Study

A firm of Chartered Accountants by the name of YZ and Associates was appointed to audit the books of accounts of NH Limited for the FY 2021- 22. YZ and Associates consisted of two partners by the name of Mr. Y and Mr. Z.

NH Limited was into manufacturing business of carpets. The demand of carpets manufactured by NH Limited was not just in India, but also in international markets. As a result, the volume of transactions related to the business of manufacturing carpets was also huge. Mr. Y, the engagement partner, knew that it would not be possible to audit each and every transaction, so he decided to use the technique of Audit Sampling for the purpose of audit of NH Limited.

The audit engagement team consisted of four members. One team member, Mr. Rahul, was of the opinion that the population from which the sample was required to be selected for the purpose of audit must have three important characteristics, namely, appropriateness, completeness and reliability. According to opinion of second team member, Mr. Sachin, every individual item that make the population is important from the point of view of creating a sample for the purpose of audit.

For different items of Financial Statements, Mr. Y and his team members used different methods for selecting the sample.

The examples of which are as follows:

(1) For the purpose of creating a sample of Repair and Maintenance Expenses, following information was available:

Number of items in Population = 400

Sample Size = 50

Sampling Interval = $[400/50] = 8$

Out of the 400 Repair and Maintenance Expenses transactions during the FY 2021-22, a transaction each from sampling interval of 8 units was selected to create a sample size of 50 units for the purpose of audit.

(2) A sample was created for Power and Fuel Expenses with the help of random number tables.

(3) For the purpose of creating a sample of Printing and Stationery Expenses no structured way was used. A sample was created without following a particular technique.

(4) A sample was created for Travelling Expenses related to business of NH Limited by selecting transactions of amount exceeding ₹ 12,000.

i. With respect to the repair and maintenance expenses incurred by the company during the FY 2021-22, which of the following methods of sample selection was used by the audit engagement team?

- a. Haphazard Sampling.
- b. Systematic Sampling.
- c. Random Sampling.
- d. Block Sampling.

ii. For checking the power and fuel expenses which of the following methods of sample selection is used by the audit team.:

- a. Systematic Sampling.
- b. Haphazard Sampling.
- c. Block Sampling.
- d. Random Sampling.



iii. By using which method of sample selection did the audit team select the sample for printing and stationery expenses?

- a. Block Sampling.
- b. Systematic Sampling.
- c. Random Sampling.
- d. Haphazard Sampling.

iv. By following which sample selection method did the audit team create the sample for auditing the travelling expenses related to business of NH Limited?

- a. Monetary Unit Sampling.
- b. Random Sampling.
- c. Block Sampling.
- d. Systematic Sampling.

v. Mr. Sachin was of the opinion that every individual item that make the population is important from the point of view of creating a sample for the purpose of audit. These individual items making the population are called as:

- a. Population Units.
- b. Transaction Units.
- c. Required Units.
- d. Sampling Units.

Ans i) b ii) d iii) d iv) a v) d



Ch-7 Automated Environment

1. In BB Limited every business activity was being carried out manually. The top management of BB Limited decided to change the business environment of BB Limited by using computer systems and computer systems related technology to carry out all the major business activities of BB Limited.

This business environment of BB Limited, where all the major business activities are done using computer systems and computers related technology is an example of:

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

2. Which of the following is a General IT control?

- a) IT Environment
- b) Application Control
- c) Access Security
- d) IT Dependent Control

3. _____ are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.

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

4. _____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.

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

5. Which of the following is an automated control?

- a) Program change
- b) System generated report
- c) Application control
- d) Configurations

6. Which of the following Audit testing methods is most effective as an audit test and gives the best audit evidence?

- a) Inquiry
- b) Observation

- c) Inspection
- d) Reperformance

7. _____ are also known as pervasive or indirect controls:-

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

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

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

9. Who is mainly responsible for implementation of internal financial controls in a company?

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

10. When deviations from controls upon which the auditor intends to rely are detected,

- a) the auditor shall not make any inquiries to understand these matters and their potential consequences
- b) the auditor shall make specific inquiries to understand these matters and their potential consequences
- c) the auditor shall make general inquiries to understand these matters and their potential consequences
- d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences

11. As per Section 134 (5)(e) of Companies Act, 2013 in case of listed Companies, the _____ shall state that the Directors had laid down Internal financial controls to be followed by the company and that such Internal financial controls are adequate and were operating effectively.

- a) Directors' responsibility statement
- b) Auditors' responsibility statement
- c) SEBI responsibility statement
- d) Government responsibility statement

12. User Training is an activity related to which of the following General IT Controls?

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



13. The Objective of establishing Security Policies and Procedures is to

- To ensure that production systems are processed to meet financial reporting objectives.
- To ensure that modified systems continue to meet financial reporting objectives
- To ensure that access to program sand data is authenticated and authorized to meet financial reporting objectives.
- To ensure that systems are developed, configured and implemented to meet financial reporting objectives.

14. Which of the following Audit Testing methods give the least audit evidence?

- Inquiry
- Inspection
- Observation
- Reperformance

S No.	Ans	Reason
1	d	Automated environment refers to business environment where <ul style="list-style-type: none"> ✓ processes, ✓ operations, ✓ accounting and ✓ even decisions are carried out by using computer systems – also known as Information Systems (IS) or Information Technology (IT) systems.
2	c	General IT-controls that maintain integrity of information and security of data commonly include controls over the following: <ul style="list-style-type: none"> ✓ Data centre and network operations ✓ Program change ✓ Access security ✓ Application system acquisition, development, and maintenance (Business Applications)
3	a	<u>Application controls</u> are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.
4	b	IT Dependent controls are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.
5	d	Configurations is an automated control.
6	d	<u>Reperformance</u> is most effective as an audit test and gives the best audit evidence.
7	a	General IT Controls are also known as pervasive or indirect controls.
8	c	Data Analytics is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information
9	b	Directors are mainly responsible for implementation of internal financial controls in a company.
10	b	When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences.
11	a	As per Section 134 (5)(e) of Companies Act, 2013 in case of listed Companies, the Director's Responsibility Statement shall state that the Directors had laid down Internal financial controls to be followed by the company and that such Internal financial controls are adequate and were operating effectively.
12	b	Program Change



		<p>Objective: Ensure that modified systems continue to meet financial reporting objectives.</p> <p>Activities:</p> <ul style="list-style-type: none"> ✓ Change management process ✓ Change Requests – record, manage, track ✓ Making & Testing Changes ✓ User training
13	c	<p>Access Security</p> <p>Objective: Ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives.</p> <p>Activities:</p> <ul style="list-style-type: none"> ✓ Security Organization & Management ✓ Security Policies & Procedures ✓ Application Security ✓ Data Security ✓ Operating System Security ✓ Network Security ✓ Physical Security
14	a	Inquiry is most efficient & gives least audit evidence.

*Ch-8 SA 500/501/505/510***SA 500 Audit Evidence**

1. Which of the following is not an Audit procedure to obtain audit evidence:

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

2. In some cases, the absence of information (for example, management's refusal to provide a requested is used by the auditor, and therefore, also constitutes _____.

- a) Audit documentation
- b) Audit Check list
- c) Audit evidence
- d) Audit procedures

3. As the number of transactions of WY Limited for the financial year 2018- 19 were in very large number, the auditor of WY Limited decided to use the technique of Audit Sampling. Before selecting the sample from Repair and Maintenance Expenses, the auditor of WY Limited wished that entire data of Repair and Maintenance Expenses of WY Limited for financial year 2021-22 should have three characteristics. These three characteristics are:

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

4. SK Aakash and Associates is a Partnership Firm of Chartered Accountants. Mr. SK, one of the partners of SK Aakash and Associates, while explaining his audit team members about the importance of audit evidence informed them about sufficiency and appropriateness of audit evidence. Sufficiency and appropriateness of audit evidence means:

- a) Simplicity
- b) Quantity
- c) Quality
- d) Quantity and Quality both

5. Audit evidence includes

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

Ans 1) d 2) c 3) d 4) d 5) b



SA 501: Specific Consideration for Selected Items

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

The auditors want to obtain sufficient appropriate audit evidence regarding inventories. In above context, answer the following questions: -

i. Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit evidence regarding existence and condition of inventory?

- a. It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.
- b. Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.
- c. The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-à-vis company's plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.
- d. The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting.

ii. Below are given certain cluster of matters which are relevant in planning attendance of auditor at physical inventory counting. Which of the following clusters consists of a likely inappropriate combination?

- a. Nature of inventory, timing of physical inventory counting and stages of completion of work in progress
- b. Nature of inventory, timing of physical inventory counting and valuation method of inventory
- c. Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system
- d. Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system

iii. Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?

- a. Observance of performance of management's count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting
- b. Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting
- c. Performing test counts, inspection of inventory, Observance of performance of management's count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting



- d. Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts

iv. During attendance at physical inventory counting, the auditor inspects inventory. Following outcomes stated as I, II & III are given below of this inspection procedure: -

Outcome I --- Existence of inventory

Outcome II ---- Ownership of inventory

Outcome III ----- Condition of inventory

Which of following statements is most likely true?

- a. Outcomes I, II and III are all necessarily established after inspection.
- b. Only Outcomes I and III are established after inspection and Outcome II is never established.
- c. Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.
- d. Outcome II and III are established after inspection. However, outcome I may not be necessarily established.

v. It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/s PQR, a proprietary concern which had sent paddy to this company's plant for extraction of rice. What would be treatment of this item in financial statements of company?

- a. The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.
- b. The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern.
- c. The value of 67 quintals rice would not be reflected in company's financial statements.
- d. The value of 67 quintals rice would be reflected in proprietary concern's financial statements as per method of valuation adopted by the company.

Ans i) d ii) b iii) d iv) c v) c

SA 505 External Confirmations

1. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

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

2. 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.

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



d) Both 1 & 2 are correct

3. Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client

Statement 2: When no reply is received w.r.t external confirmations, the auditor should perform alternate procedures regarding the balances.

- a) Only statement 1 is correct
- b) Only statement 2 is correct
- c) Both 1 & 2 are correct
- d) Both 1 & 2 are incorrect

Ans 1) c 2) c 3) c

Ch-9 SA 550/560/570/580

SA 560: Subsequent Events

1. What is proper meaning of term “Date the financial statements are issued” with respect to SA 560?

- a) It reflects the date that auditor’s report and audited financial statements are signed by auditor.
- b) It reflects the date that auditor’s report and audited financial statements are provided to the entity.
- c) It reflects the date that audit is completed and sufficient appropriate audit evidence is obtained.
- d) It reflects the date that auditor’s report and audited financial statements are made available to third parties.**

2. Read the situations below carefully from perspective of an auditor. Identify one which is not a “Subsequent Event”.

- a) A pharma company is in business of manufacturing and export of cough syrups. Its Profit before tax for year 2023-24 is Rs. 10 crores. Few Children have died in an African nation by consumption of spurious cough syrup in September, 2023. The company is trying to settle with foreign government a lumpsum settlement of Rs.20 crore as on 30.6.24 when audit is nearing completion.
- b) The draft financial statements of a wholesaler engaged in business of trading of TVs, washing machines and air-conditioners for year 2023-24 are ready showing a profit before tax of Rs.50 lakhs. A burglary of Rs.1 crore took place in showroom on 15.7.24 before audit report was signed.
- c) Audit report dated 1.7.24 was issued in respect of an entity engaged in extraction of certain minerals. By legislation, government has banned extraction of such minerals on 10.7.24.
- d) An incident of fire took place in a company on 13th August, 2023 resulting in damages to inventories amounting to Rs.5 crore. The inventories are insured and company has shown this amount as receivable from insurance company as on 31st March,2024 in its financial statements. No further information is available as on date of signing audit report on 16.7.24.

S No.	Ans	Reason
1	d	“Date the financial statements are issued” reflects the date that auditor’s report and audited financial statements are made available to third parties.
2	d	No event after reporting date and before date of audit report & also no significant matter after date of audit report.

SA 570: Going Concern

1. CA X is nearing completion of audit procedures during course of audit of a company. He has found nothing unusual till now. The company is earning handsome profits since last many years and there is little debt burden on it. It is also in process of expanding its business by taking loan from a bank. The bank has also granted “in-principle” approval for lending money to the company. Which of the following statements is most appropriate in evaluation of going concern assumption being followed by management?

- a) Appropriateness of management’s assessment may be made by auditor without performing detailed evaluation procedures.



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- b) Appropriateness of management's assessment would be made by auditor by performing detailed evaluation procedures.
- c) Appropriateness of going concern assumption would be made by auditor directly by skipping management's assessment.
- d) Appropriateness of going concern assumption would be made by auditor by necessarily examining cash flow forecast.

2. Whose primary responsibility is to assess an entity's ability to continue as a going concern?

- a) Management
- b) Auditors
- c) Both management and auditors
- d) Regulator

3. Going concern is one of the _____

- a) fundamental auditing responsibilities
- b) fundamental accounting assumptions
- c) fundamental auditing assumptions
- d) fundamental accounting reporting frameworks

4. Which of following is not an objective of auditor in accordance with SA 570?

- a) To conclude on appropriateness of management's use of going concern basis of accounting in preparation of financial statements
- b) To conclude whether entity would be able to pay its bank loans on due dates
- c) To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.
- d) To report in accordance with SA 570.

5. 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) Loss of key management without replacement
- b) Adverse key financial ratios
- c) Inability to pay creditors on due date
- d) Current year profit turns to loss after providing depreciation

6. Following are examples of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. Which of following is an example of operating event/conditions?

- a) Adverse key financial ratios
- b) Inability to pay creditors on due dates
- c) Indications of withdrawal of financial support by creditors
- d) Shortages of important supplies

7. An entity is not viewed as a going concern. What is its likely impact on recording of inventories in financial statements?



- a) Inventories may need to be written down.
- b) Inventories may need to be written up.
- c) Inventories would, in all likelihood, continue to be recorded at their historical costs.
- d) The going concern issue doesn't affect recording of inventories in any case.

8. Potential effects of inherent limitations on an auditor's ability to detect material misstatements are _____ for conditions that may cause an entity to cease to continue as a going concern.

- a) lower
- b) greater
- c) unchanged
- d) undeterminable

S No.	Ans	Reason
1	a	If overall condition of business is good, then Appropriateness of management's assessment may be made by auditor without performing detailed evaluation procedures.
2	a	Mgt has primary responsibility is to assess an entity's ability to continue as a going concern.
3	b	Going concern is one of the <u>fundamental accounting assumptions</u> .
4	b	
5	d	Current year profit turns to loss after providing depreciation is not an example of an event or condition that may cast significant doubt on entity's ability to continue as a going concern.
6	d	Shortages of important supplies is an example of operating event/conditions.
7	a	Inventories may need to be written down as company is about to shut down in near future.
8	b	Potential effects of inherent limitations on an auditor's ability to detect material misstatements are greater for conditions that may cause an entity to cease to continue as a going concern.

SA 580 Written Representations

1. If the auditor of a company concludes that the written representations are not reliable, what should be appropriate for him?

- a) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of disclaimer of opinion.
- b) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of adverse opinion.
- c) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of qualified opinion.
- d) The auditor shall report the matter to MCA directly.

2. Which of following statements is false?

- a) Written representations are an important source of audit evidence.
- b) If management does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.
- c) A request for written representations in many cases may prompt management to consider such matters more rigorously, thereby, enhancing the quality of the representations.



- d) The fact that management has provided reliable written representations affects the nature or extent of other audit evidence that the auditor obtains about specific assertions.

3. Which of the following falls within meaning of “Written representations” in accordance with relevant SA?

- a) Books of accounts
- b) Financial statements
- c) Written statements by management
- d) Assertions contained in financial statements

4. Which of following statements is true about “Written representations”?

- a) Written representations constitute sufficient appropriate audit evidence.
- b) Written representations should be after date of financial statements but near reporting date of financial statements.
- c) Auditor’s report cannot be dated before date of written representations.
- d) Qualifying language cannot be used in written representations.

S No.	Ans	Reason
1	a	If the auditor of a company concludes that the written representations are not reliable, then auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor’s report in accordance with SA 705 having regard to the requirement of disclaimer of opinion.
2	d	The fact that management has provided reliable written representations doesn’t affects the nature or extent of other audit evidence that the auditor obtains about specific assertions.
3	c	Written representations are Written statements by management.
4	c	Auditor’s report cannot be dated before date of written representations.

Ch-10 SA 260/265

1. SA 265 deals with: -

- a) auditor's responsibility to communicate with those charged with governance in an audit of financial statements
- b) auditor's responsibility to communicate to those charged with governance deficiencies in internal control identified by auditor in an audit of financial statements
- c) auditor's responsibility to communicate to those charged with governance deficiencies in internal audit identified by auditor in an audit of financial statements
- d) auditor's responsibility to communicate with those charged with governance significant matters raised by auditor in an audit of financial statements

2. "Significant deficiencies" in internal control _____?

- a) may exist even though auditor has not identified misstatements during the audit.
- b) cannot exist when auditor has identified any misstatement during the audit.
- c) are only dependent on actual occurrence of misstatements.
- d) are only dependent on likelihood that a misstatement could occur and the potential magnitude of misstatement.

3. An effective two-way communication established by auditor with those charged with governance is important for a number of reasons. Which of following is not one of such reasons?

- a) It helps in understanding matters related to the audit.
- b) It helps auditor in obtaining information from those charged with governance.
- c) It helps those charged with governance in fulfilling their responsibility to oversee the financial reporting process.
- d) It helps those charged with governance to accurately know about future prospects of the company.

S No.	Ans	Reason
1	b	SA 265 deals with auditor's responsibility to communicate to those charged with governance deficiencies in internal control identified by auditor in an audit of financial statements.
2	a	"Significant deficiencies" in internal control may exist even though auditor has not identified misstatements during the audit.
3	d	Self-explanatory

Ch-11 Analytical Procedures

1. 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:

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

2. What is the primary objective of analytical procedures used in the overall review stage of an audit?

- a) To help to corroborate the conclusions drawn from individual components of financial statements
- b) 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.

3. What are analytical procedures?

- 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

4. The basic assumption underlying the use of analytical procedures is:

- a) It helps the auditor to study relationship among elements of financial information
- b) Relationship among data exist and continue in the absence of known condition to the contrary
- c) Analytical procedures will not be able to detect unusual relationships
- d) None of the above

5. 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.

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

6. Which of the following is not an analytical procedure?

- 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



S No.	Ans	Reason
1	a	Trend analysis is an example of Analytical Procedure.
2	a	Primary objective of analytical procedures used in the overall review stage of an audit is to help to corroborate the conclusions drawn from individual components of F.S.
3	c	Analytical procedures are substantive tests designed to study relationships between financial and non-financial data.
4	b	The basic assumption underlying the use of analytical procedures is relationship among data exist and continue in the absence of known condition to the contrary.
5	d	In the planning stage, audit procedures assist the auditor in understanding the client's business and identifying the areas of potential risks.
6	a	Tracing of purchases recurred in the purchase book to purchase invoices is TOD.



Ch-12 Audit Report

1. CA Shubham, during course of audit of accompany, has faced non-cooperation by management with respect to certain significant matters. As a result, sufficient appropriate evidence could not be obtained by him in many areas of financial statements. He has decided to disclaim opinion. While drafting audit report, he should take care _____?

- a) To include key audit matters in audit report
- b) To include management's view point in audit report
- c) To provide a detailed statement on auditor's responsibilities required by SA 700
- d) To amend the description of the auditor's responsibilities required by SA 700 to include some specific references

2. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve _____.

- a) Reasonable Presentation
- b) Fair Presentation
- c) Absolute Presentation
- d) Presentation

3. The auditor's report includes a section with a heading "Responsibilities of Management for the Financial Statements." This section of the auditor's report shall describe management's responsibility for:

I. Preparing the financial statements in accordance with the applicable financial reporting framework.

II. such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

III. Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

- a) I,II
- b) II,III
- c) I,II,III
- d) I,III

4. 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.

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

5. Which one is a disadvantage of joint audit?

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- a) Lower staff development costs
- b) Lower workload
- c) Improved service to client
- d) Lower attention to common work areas

6. CARO, 2020 requires a company auditor to report on certain specified matters. Where you are likely to locate such reporting in independent auditor's report of a company?

- a) Key audit matters
- b) Opinion section
- c) Section containing report on other legal and regulatory requirements
- d) Other Matter paragraph

7. Which of following is not an element of audit report in accordance with SA 700?

- a) Title
- b) Addressee
- c) Audit strategy
- d) Auditor's opinion

8. UDIN (Unique Document Identification Number) is required to be stated by practising Chartered Accountant on:

-

- a) Each audit report only
- b) Each audit report and each certificate
- c) Each audit report issued under Companies Act, 2013 only
- d) Each audit report issued under Companies Act, 2013 only and each certificate

9. The description of the auditor's responsibilities for the audit of the financial statements shall be included:

I. Within the body of the auditor's report.

II. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix.

III. By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.

- a) I,II
- b) I,III
- c) I,II or III
- d) II or III

10. An auditor disclaims opinion when _____?

- a) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be material.
- b) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and adverse.
- c) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and pervasive.

- d) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and perverse.

11. In which of the following circumstances, auditor is not likely to express a modified opinion?

- a) Profit before tax of a company is Rs.10 lakhs. The company has charged Rs.15.00 lakhs in machinery repair account which, in fact, pertains to cost of a machinery.
- b) Profit before tax of accompany is Rs.20 lakhs. The company has overstated its inventories by Rs.10000 due to valuation issues.
- c) Profit before tax of a company is Rs.10 lakhs. The company has not made a provision for irrecoverable debts amounting to Rs.7 lakhs.
- d) A company's accounting records including data on systems, bills, vouchers have all been destroyed during a devastating fire in its premises on 31.12.22. The company did not have a proper back-up strategy. Therefore, company rebuilt its account books for first 9 months from information available from bank statements, GST portal and third parties. The draft financial statements show profit before tax of Rs.50 lakhs.

12. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from _____, whether due to fraud or error.

- a) Material misstatement
- b) Material uncertainty
- c) Material errors
- d) Material ambiguity

13. Which is a reporting requirement for a company auditor under section 143(3) of Companies Act, 2013?

- a) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company
- b) Whether any director is disqualified from being appointed as a director under section 164(2)
- c) Whether personal expenses have been charged to revenue account
- d) Whether loans and advances made by the company have been shown as deposits

14. Which of the following statements is in accordance with SA 700?

- a) Basis for opinion is provided in audit report when modification in opinion is made.
- b) Basis for opinion is provided in audit report when qualified or adverse opinion is made.
- c) Basis for opinion is provided in audit report when disclaimer of opinion is made.
- d) Basis for opinion is provided in audit report irrespective of type of opinion made.

15. Which of the following is not a type of modified opinion:

- a) qualified opinion
- b) adverse opinion
- c) disclaimer of opinion
- d) negative opinion.

16. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled " _____ " or otherwise as appropriate to the content of the section.

- Report on Other Legal Requirements
- Report on Other Legal and Regulatory Requirements.
- Report on Other Regulatory Requirements.
- Report on Regulatory Requirements.

17. Which is false regarding communication of "Key Audit Matters"?

- It is not a substitute for disclosures in financial statements.
- It is not a substitute where modified opinion is required.
- It is a separate opinion on individual identified matters.
- It is not a substitute for reporting under SA 570 when a material uncertainty exists casting significant doubt on an entity's ability to continue as going concern.

S No.	Ans	Reason
1	d	When auditor disclaims opinion → amend the description of the auditor's responsibilities required by SA 700 to include some specific references
2	b	When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation.
3	c	The auditor's report includes a section with a heading "Responsibilities of Management for the Financial Statements." This section of the auditor's report shall describe management's responsibility for: I. Preparing the financial statements in accordance with the applicable financial reporting framework. II. such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. III. Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.
10	a	The auditor shall express <u>adverse</u> 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	c	Self-explanatory.
6	c	In Section containing report on other legal and regulatory requirements, CARO 2020 reporting is done.
7	c	Audit strategy not included in audit report.
8	b	UDIN is required for every audit report and each certificate.
9	c	Self-explanatory.
10	c	Auditor disclaims opinion when he is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and pervasive.
11	b	₹10,000 isn't material against profit of ₹20 Lakhs.
12	a	Self-explanatory.
13	b	All others are inquiries under sec 143(1)



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14	d	Basis for opinion is provided in audit report irrespective of type of opinion made.
15	d	Disclaimer, Adverse & Qualified are different types of modified opinion.
16	b	If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled " <u>Report on Other Legal and Regulatory Requirements</u> " or otherwise as appropriate to the content of the section
17	c	KAM isn't a separate opinion on individual matters.

Ch-13 CARO 2020

1. While reporting under CARO, 2020, it is duty of statutory auditor of company to report: -

- a) Fraud of less than ₹ 1 crore committed by officers or employees of company during the year
- b) Fraud of less than ₹ 1 crore committed by officers or employees of company during the year
- c) Fraud of ₹5 crore or more committed by officers or employees of company during the year
- d) Any fraud by the company or on the company noticed or reported during the year

2. BB SK & Co are the auditors of Jinesh Ltd. While auditing the fixed assets of Jinesh Ltd, BB SK & Co verified the following and made following observations:

Maintenance of proper records showing full particulars of tangible assets, including quantitative details and situation. Physical verification of the fixed assets All the title deeds of the immovable properties are held in the name of Jinesh Ltd. Did the auditor missed to undertake any verification of fixed assets as per CARO,2020?

I. Revaluation of fixed assets is undertaken or not.

II. Jinesh Ltd is holding any benami property

III. Maintenance of proper records showing full particulars of intangible assets.

- a) I,II
- b) I,II,III
- c) II,III
- d) III

3. As per CARO, 2020, physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of ___ or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;

- a) 5%
- b) 10%
- c) 1%
- d) 20%

4. For which of following company, provisions of CARO,2020 would be applicable?

- a) Boost Up Training (OPC) Private Limited
- b) RCI Bank Limited
- c) PST Industries Limited
- d) Moon Insurance Limited

5. Under relevant clause of CARO,2020, auditors are required to report the extent of arrears of outstanding Provident Fund as on the last day of the financial year for a period of :-

- a) Exceeding 9 months
- b) Exceeding 3 months
- c) Exceeding 6 months

d) Exceeding 12 months

6. CA P is auditor of a manufacturing company. It is also required to maintain cost records and get its cost audit conducted as per legal requirements. In this respect, which of the following is correct description of reporting under CARO, 2020?

- Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law
- Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law. Whether cost audit has been conducted? If so, date of cost audit report
- Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and whether such accounts and records have been so made and maintained
- Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law. Whether cost audit has been conducted? If so, date of cost audit report along with details of adverse remarks, if any in cost audit report

7. Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020

- Clause (xi)
- Clause (xii)
- Clause (xiii)
- Clause (xiv)

S No.	Ans	Reason
1	d	As per clause (xi) Para 3 CARO 2020, auditor needs to report any fraud by the company or on the company noticed or reported during the year.
2	b	Refer clause (i) Para 3 CARO 2020.
3	a	Refer clause (iib) Para 3 CARO 2020.
4	c	CARO 2020 applicable on public company.
5	c	Refer clause (viiia) Para 3 CARO 2020.
6	c	Refer clause (vi) Para 3 CARO 2020.
7	a	Refer clause (xi) Para 3 CARO 2020.

Ch-14 Bank Audit

1. The LFAR is to be submitted before _____ every year

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

2. Which of the following is a Non-Funded facility as sanctioned by any bank:-

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

3. Drawing Power in case of a Consortium advance is computed and allocated to member banks by the

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

4. The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank:-

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

5. CA Keswani has been conducting bank audits for last more than 5 years. Which of the following statements is true in context of audit of banks?

- a) The transactions observed in course of bank audit are likely to be less complex due to well laid out systems and procedures.
- b) Banks make extensive use of technology and automation leading to complex business environment.
- c) Banks make extensive use of technology and automation leading to simplified business environment.
- d) Strict vigilance by banking regulator denotes lack of effective internal control system in banks.

6. Which of the following is not classification of NPA

- a) Impaired
- b) sub standard
- c) doubtful
- d) Loss

7. Engagement Team Discussions are usually done at which stage of Bank audit?

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

8. Regulating body in case of banks is:

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

9. Which of following is not a legal disclosure requirement relating to classification of advances in financial statements of a bank?

- a) Term loans
- b) Bills purchased and discounted
- c) Cash credits, overdrafts and loans repayable on demand
- d) Agricultural loans

10. Which of the following statements is true regarding financial statements of a bank?

- a) Financial statements of a bank are to be prepared in accordance with Third Schedule to Banking Regulation Act, 1949.
- b) Financial statements of a bank are to be prepared in accordance with Schedule III of Companies Act, 2013.
- c) Financial statements of a bank are to be prepared in accordance with Schedule II of Reserve Bank of India Act, 1934.
- d) Financial statements of a bank are to be prepared in accordance with format prescribed by Comptroller and Auditor General of India.

11. Mr. Aakash has availed a Personal Loan for his Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Activa Scooter for INR 60,000. He 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 ?

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

12. 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?

- a) Pledge
- b) Mortgage
- c) Assignment

d) Set-off

S No.	Ans	Reason
1	c	The LFAR is to be submitted before 30 th June every year.
2	a	<p>Funded loans → Loans where there is actual transfer of funds from bank to borrower. Example → Term loans, Cash credits, Overdrafts, Demand Loans, Bills Discounted & Purchased, Participation on Risk Sharing basis, Interest-bearing Staff Loans.</p> <p>Non-funded facilities → do not involve such transfer. Examples: Letters of credit, Bank guarantees, etc.</p>
3	b	<p>Drawing Power Allocation in case of Consortium Cash Credit A/c:</p> <ul style="list-style-type: none"> ✓ Lead Bank responsible for computing DP of borrower & allocate the same to member banks. ✓ In special circumstances, at request of Borrower, Lead Bank may allot a higher or lower share of drawing power to member bank, as against their share of advances.
4	d	DP is Important concept for Cash Credit (CC) facility availed from banks & financial institutions. Its limit up to which a firm or Co. can withdraw from working capital limit sanctioned.
5	b	Banks make extensive use of technology and automation leading to complex business environment.
6	a	No such classification.
7	b	Engg team discussions: Done at planning stage of audit
8	c	RBI is regulating body of banks.
9	d	<p>Classification of advances in financial statements of a bank:</p> <ul style="list-style-type: none"> • Term loans • Bills purchased and discounted • Cash credits, overdrafts and loans repayable on demand
10	a	Financial statements of a bank are to be prepared in accordance with Third Schedule to Banking Regulation Act, 1949.
11	d	Classification is done borrower wise not facility wise.
12	c	<p>Assignment represents a transfer of existing or future debt, right or property belonging to a person in favour of another person.</p> <ul style="list-style-type: none"> ✓ Only actionable claims (i.e., claim to any debt other than secured debt) such as book debts & life insurance policies are accepted by banks as security by way of assignment. ✓ An assignment gives assignee absolute right over the moneys/debts assigned to him.



Ch-15 Govt Audit

1. Which of following is hallmark of “propriety audit”?

- a) Compliance with rules and regulations
- b) Verification of incurred expenditure for purpose of grant
- c) Verification of authorization of competent authority itself to sanction expenditure
- d) Bringing out improper expenditure although incurred in accordance with rules

2. After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the

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

3. 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

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

4. Keswani Limited is a government company. Who has the power to conduct supplementary audit of such a company under provisions of Companies Act, 2013?

- a) ROC
- b) Auditor appointed by ROC
- c) C & AG of India
- d) Statutory auditor of BIDS Limited

5. _____ 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.

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

6. 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:

- 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;



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- 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.

7. _____ is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them:-

- a) Propriety audit
- b) Audit against Rules and orders
- c) Performance Audit
- d) Audit against Provision of funds

8. While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?

1. Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd.
 2. Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or wilful omission or negligence to levy or collect taxes or to issue refunds.
 3. Whether the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
 4. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.
- a) Only statement 1 is correct
 - b) Statements 1 & 2 are correct
 - c) Statements 1,2,3,4 are correct
 - d) Statements 1,2,3 are correct

S No.	Ans	Reason
1	d	Propriety audit is bringing out improper expenditure although incurred in accordance with rules.
2	c	After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the Public Accounts Committee.
3	a	Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the <u>President/governor</u> who shall cause them to be laid before House of Parliament/State Legislature.
4	c	C& AG has power to conduct supplementary audit of Govt Co.
5	a	<u>Audit against provision of funds</u> 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.
6	d	Charitable trust isn't a category of public enterprise.
7	c	Performance Audit is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them.
8	b	Others are part of expenditure audit.



Ch-16 Audit of Co-op Society

1. 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

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

Case Study

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

During the audit, Best Tea House informs the auditors that they have been in operation for the last five years, and no audit was required earlier since their turnover had not exceeded the prescribed limit. While examining the books of account of Best Tea House, RAS & Associates notice that as stated under section 43(h) of the Central Act, certain rules were framed prescribing the books and accounts to be kept by Best Tea House.

The auditors also understand that according to section 5 of the Central Act, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of a certain percentage of the total number of shares or of the value of shareholding to a specified amount.

RAS & Associates were concerned with this provision so as to watch any breach relating to holding of shares. While examining the loans of Best Tea House, the auditors notice that the society has given a loan to a relative named Mr. P, of a member of the society, Mr. T, of an amount not exceeding ₹ 1000. RAS & Associates examined the overdue debts and checked its classification which they are required to report.

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

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

Based on the above information, answer the following questions:

i. According to section 5 of the Central Act, what is maximum percentage of the total number of shares and what is the maximum value of shareholding that RAS & Associates were concerned with, so as to watch any breach relating to holding of shares?



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- a) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 5,000
- b) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 5,000
- c) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 1,000
- d) Twenty percent of the total number of shares or of the value of shareholding upto ₹ 1,000

ii. As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than:

- a) A member and with the special sanction of the Registrar, relatives of the member not exceeding an amount of ₹ 1000.
- b) A member and with the special sanction of the Registrar, another registered society.
- c) A member and with the special sanction of the Registrar, relatives of the member.
- d) A member and with the special sanction of the Registrar, another registered society not exceeding an amount of ₹ 1000.

iii. Overdue debts for a period from _____ to _____ and more than _____ were classified and reported by RAS & Associates.

- a) 3 months to 6 months and more than 6 months.
- b) 6 months to 3 years and more than 3 years.
- c) 6 months to 5 years and more than 5 years.
- d) 3 months to 5 years and more than 5 years.

iv. To whom does RAS & Associates report the few transactions noticed during audit?

- a) Registrar of Co-operative Societies
- b) Secretary of Best Tea House.
- c) State Government
- d) Management Committee of Best Tea House

Ans i) d ii) b iii) c iv) a

Ch-17 Audit of Different types of Entities

1. While conducting the audit of a local body , the auditor's areas of audit do not include

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

2. As part of conducting audit of a partnership firm, you are inspecting its partnership deed. Which of the following clauses is not likely to appear in a partnership deed?

- a) Profit sharing ratio
- b) Nature of partnership business
- c) Authorized capital
- d) Interest on capital

3. The Auditor of a Sole Proprietor Concern is appointed by

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

4. Which of following falls within meaning of "Small LLP"?

- a) LLP whose contribution is Rs.20 lacs. Its turnover in immediately preceding financial year is Rs. 1 crore
- b) LLP whose contribution is Rs.50 lacs. Its turnover in immediately preceding financial year is Rs. 1 crore.
- c) LLP whose contribution is Rs.25 lacs. Its turnover in immediately preceding financial year is Rs. 40 lacs.
- d) LLP whose contribution is Rs.1 crore. Its turnover in immediately preceding financial year is Rs. 2 crores.

5. LLP, whose turnover does not exceed ₹ _____ or whose contribution does not exceed ₹ _____, is not required to get its accounts audited.

- a) 40 Lakhs, 25 Lakhs
- b) 50 Lakhs, 25 Lakhs
- c) 40 Lakhs, 20 Lakhs
- d) 60 Lakhs, 30 Lakhs

6. As per Rule 24 of LLP Rules, 2009, Statement of Account and Solvency shall be filed in _____ with the _____, within a period of _____.

- a) Form 5, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates.
- b) Form 5, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates.

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- c) Form 8, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates.
- d) Form 8, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates

7. Every LLP would be required to file annual return in Form with ROC within 60 days of closer of financial year :-

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

S No.	Ans	Reason
1	d	In audit of a local body , auditor's areas of audit include a) Budgetary Procedure b) Expenditure Control c) Accounting System
2	c	Authorised capital is in case of company.
3	c	Auditor of a Sole Proprietor Concern is appointed by Sole Proprietor himself.
4	c	"Small LLP" is LLP whose contribution is Rs.25 lacs. Its turnover in immediately preceding financial year is Rs. 40 lacs.
5	a	LLP, whose turnover does not exceed 40 Lacs or whose contribution does not exceed 25 Lacs, is not required to get its accounts audited.
6	d	As per Rule 24 of LLP Rules, 2009, Statement of Account and Solvency shall be filed in Form 8 with the Registrar, within a period of , 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates.
7	a	Every LLP would be required to file annual return in Form 11 with ROC within 60 days of closer of financial year

Ch-18 Audit of Items of F.S.

1. Useful life of assets is given in Schedule _____ of Companies Act 2013.

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

2. Which of the following is not correct:-

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

3. Statement I : A capital reserve can never be utilised for writing down fictitious assets or losses.

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.

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

4. Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion:

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

5. Which of the following item should not be treated as an asset, as per provisions of Accounting Standard 26 :

Answer - 1 : Computer software

Answer - 2 : Internally generated goodwill

Answer - 3 : Fishing License

Answer - 4 : Brand Names

6. The securities premium account may be applied by the Company for the following purposes:

Answer - 1 : payment to creditors for material

Answer - 2 : purchase of fixed assets

Answer - 3 : repayment of loans

Answer - 4 : writing off the preliminary expenses

7. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion :

- Answer - 1 : Rights and obligations
- Answer - 2 : Existence
- Answer - 3 : Valuation
- Answer - 4 : Completeness

8. Wages paid to workers would qualify as:

- Answer - 1 : Revenue expenditure
- Answer - 2 : Capital expenditure
- Answer - 3 : Revenue or capital expenditure depending upon facts and circumstances.
- Answer - 4 : None of the above

9. In preparing financial statements, Company's management makes implicit or explicit claims (i.e. assertions) regarding completeness, cut-off, existence/ occurrence, valuation/ measurement, rights and obligations and _____ of Assets, Liabilities, Equity, Income, Expenses and Disclosures in accordance with the applicable accounting standards

- a) presentation and disclosure
- b) presentation
- c) disclosure
- d) duties and responsibilities

10. Which assertion is common among the statement of profit and loss and balance sheet captions:

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

11. KK Ltd is declared wilful defaulter by State Bank of India. "Wilful defaulter" here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by:

- a) the Reserve Bank of India
- b) State Bank of India
- c) SEBI
- d) Punjab National Bank

12. During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised:

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



13. _____ are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy

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

14. 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:

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

15. Financial statements of a company have been put up for audit before the auditor. On going through financial statements, he wants to verify some major bills debited in “Machinery repair” account. The purpose of it is to ensure that bills are entered correctly and their classification is proper. As regards verification of bills debited in “Machinery repair” account, identify what he intends to perform?

- a) Tests of Controls
- b) Tests of transactions
- c) Tests of balances
- d) Risk assessment procedures

16. Jainam Industries Ltd share capital as on 31 March, 2023 and 31 March, 2024 is Rs. 50,00,000. The same was seen from the balance sheet presented by the Management. The auditor should seek a written confirmation /representation from _____ that there were no changes to entity’s capital structure during the year.

- a) Management of Jainam Industries Ltd.
- b) Company Secretary of Jainam Industries Ltd.
- c) Chief Financial Officer of Jainam Industries Ltd.
- d) Chief Executive Officer of Jainam Industries Ltd.

17. Which of the following is not correct with respect to the inventory held by a Company, ABC Limited, in its Balance Sheet :-

- a) All inventory units held by the company should have been recorded and recognized in the financial statements.
- b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.
- c) Inventory should be recognized at cost or net realizable value whichever is lower.
- d) Inventory balance as at the year end does not include any element of next year

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



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- 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)

19. Cut-off testing is performed during audit of sales to address the following assertion:

- a) Occurrence
- b) Measurement
- c) Cut-off
- d) All of the above

20. During the audit of sales, the auditor found that recorded sales represent goods which were ordered by valid customers and were dispatched and invoiced in the period. The auditor is addressing which of the following assertion:

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

21. _____ 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:-

- a) Provision
- b) Reserve
- c) Contingent Liability
- d) Liability

22. Which of the following is not an example of revenue expenditure –

- 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

23 CA Muskan Mishra is auditor of two concerns viz. Well Star Homes and Well Star Stores. The partners in both the firms are common. While auditing financial statements of Well Star Homes, she has noticed that few expenditure bills pertaining to Well Star Stores have been entered in its books. Which assertion of Well Star Homes is disproved in above situation?

- a) Completeness
- b) Accuracy
- c) Occurrence
- d) Classification.



24. 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?

- 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.

25. 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:

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

S No.	Ans	S No.	Ans	S No.	Ans
1	a	11	a	21	c
2	d	12	b	22	d
3	b	13	c	23	c
4	d	14	b	24	c
5	b	15	b	25	d
6	d	16	b		
7	b	17	b		
8	c	18	b		
9	a	19	c		
10	c	20	a		



Miscellaneous Case Study

1. Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2021-22. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India. Sumant & Co. is appointed as the principal auditor for the entire group. Companies Act 2013 prescribes in detail the terms of this audit engagement. Further, there are many branch auditors appointed for the outlets in the other cities.

The company also has an internal audit function conducted on quarterly basis by Ram & Co. Following are the observations during the course of the statutory audit:

(a) One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.

(b) One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around ₹ 1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share.

(c) The gratuity valuation of the employees of the retail chain is done by an external valuer. The auditor, considering the quantum involved appoints an external auditor's expert for the verification of the actuarial calculation of gratuity.

From the above facts, answer the following questions by choosing the correct answer:

1. As per SA 210 – Agreeing the Terms of Audit Engagement, which of the following statement is correct?

- a) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.
- b) Since law prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.
- c) The auditor has to take an extract of the law prescribing the details of the terms of the audit engagement and obtain the counter signature of the management in it.
- d) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement, however it need not seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.

2. With respect to the treatment of discount on redemption of points in payback card, what should be the action of the external auditor?

- a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts



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- b) The auditor can place reliance on the management's accounting policy as prima facie they are only responsible for preparation of financial statements.
- c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly.
- d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditor's opinion has higher authority than external auditor's opinion.

Question - 3 : What is the main objective of the external auditor, when he uses the work of the internal audit function of Ram & Co.?

- a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.
- b) To appropriately direct, supervise and review the work of the internal audit function
- c) Review the internal audit report and audit the areas not covered by the internal audit function
- d) Enquire from management on the special points that arose during internal audit and follow up on the course of action on those points.

iv. The external auditor finds that the branch auditor of the outlet in the Chennai region, which is in the verge of closing down, is audited by an auditor who is not a member of the Institute of Chartered accountants of India. What should the external auditor do?

- a) Since the professional competence of the auditor is in question, the external auditor should himself visit the premise and audit the accounts.
- b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.
- c) The auditor can rely on the financial statements of that component by obtaining written representation from management that the branch auditor is otherwise well qualified.
- d) Since the professional competence of the auditor is in question, the external auditor should co-ordinate with the branch auditor and call for the books of accounts and other explanations.

v. Which of these is not a factor affecting the external auditor's evaluation of the objectivity of the internal audit function?

- a) Whether the organizational status of the internal audit function supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgment.
- b) Whether the internal audit function is free of any conflicting responsibilities.
- c) Whether the internal auditors have adequate technical training and proficiency in auditing.
- d) Whether those charged with governance oversee employment decisions related to internal audit function.

Ans i) b ii) c iii) a iv) b v) c

2. DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS & Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas.

The following is extract of financial information of the company: - (figures in rupees crores)

S No.	Particulars	Year 2022-23	Year 2021-22
1	Turnover	30.00	15.00
2	Inventories	5.00	2.00
3	PPE (Gross block)	1.25	1.25
4	PPE (Net block)	1.00	1.25
5	Gross Profit	6.00	3.75
6	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements, engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.

Based on above, answer the following questions: -

i) Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?

- Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
- Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
- The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is low.
- The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is high.

ii) CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?

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- Inspecting and reviewing company's plan for physical verification of PPE
- Assessing depreciation method used
- Verifying cost of PPE items acquired during the year with purchase bills
- Recalculation of depreciation charged in statement of profit and loss

iii) Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?

- Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
- Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.
- Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.
- Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.

iv) CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of _____?

- Ratio analysis forming part of substantive analytical procedures
- Trend analysis forming part of substantive analytical procedures
- Reasonable test forming part of substantive analytical procedures
- Structural modelling forming part of substantive analytical procedures

v) Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?

- SQC 1, SA 220, SA 501, SA 505
- SA 550, SA 510, SA 220, SA 610
- SA 700, SA 510, SA 220, SA 500
- SQC 1, SA 700

Ans i) d ii) c iii) a iv) b v) d

3. CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard. He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

Further, during the course of audit, he has noticed as under: -

- As required by the management, bank reconciliation is required to be performed monthly. However, the same is not carried out as stipulated due to time constraints faced by accountant.**
- The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.**



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- **Wage sheets are not verified by a responsible official as required by management.**
- **Staff of the entity is responsible for bringing cash from centers in nearby areas to entity's premises from where it is deposited into entity's bank account. However, concerned officer has not renewed insurance for cash in transit.**

Based on above, answer the following questions: -

i) The auditor has performed procedures to obtain audit evidence about design and implementation of controls. Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?

- Observing application of control
- Inspecting documentation pertaining to control
- Inquiry about application of control
- Studying design of control

ii) Examination and evaluation of internal control is indispensable for CA M. Raja. It provides him necessary comfort relating to completeness of accounting information. However, review of internal controls of the entity will not enable him to know _____

- whether errors or frauds are likely to be located in ordinary course of operations of business
- whether an effective internal audit department is operating
- whether his opinion needs modification
- whether any administrative control has bearing on his work

iii) As regards weaknesses identified by the auditor in control system, which of the following represent(s) significant deficiencies in internal control?

- Not performing bank reconciliation timely and not verifying wage sheets by responsible official only
- Not performing bank reconciliation timely and lack of proper sequence in purchase orders only
- Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit
- Lack of insurance for cash in transit only

iv) Which of the following is most appropriate regarding auditor's responsibility in accordance with SA 265?

- To communicate significant deficiencies in internal control to management
- To communicate significant deficiencies in internal control along with explanation of their potential effects to management
- To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control
- To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management

Ans 1) a 2) c 3) c 4) d