

# TRUE AND FALSE

## IMPORTANT QUESTIONS

1. The auditor is expected to, and can, reduce audit risk to zero and can therefore obtain absolute assurance.
2. The concept of materiality is an important and relevant consideration for the auditor in financial statement.
3. Audit evidence obtained from external confirmation is always reliable.
4. CA K has resigned as an auditor after 2 months of his appointment in NML Ltd. He needs to file ADT-4 with the Registrar within 60 days from the date of resignation.
5. Satisfactory Control environment is an absolute deterrent to fraud.

6. K Ltd., a non-government company, was incorporated on 01-10-2019. Mr. B, Managing Director of K Ltd., himself appointed the first auditor of the company on 31-12-2019.
7. All Non-Governmental Organisations (NGOs) registered under the Companies Act, 2013 are allowed to maintain accounts either on accrual basis or cash basis.
8. When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method
9. The preparation of financial statements involves judgment by management.
10. Evolving one audit programme applicable to all business under all circumstances is not practicable
11. Inquiry alone ordinarily does not provide sufficient audit evidence.
12. The SAs do not ordinarily refer to inherent risk and control risk separately.
13. Intentional errors are most difficult to detect and auditors generally devote greater attention to this type

14. All automated environments are not complex.
15. A combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is known as meaningful data.
16. When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method
17. One of the objectives of the written representation is to support other audit evidence relevant to the financial statements
18. computer software which is the integral part of the related hardware should be treated as fixed asset/tangible asset.
19. The auditor appointed under section 139 may be removed from his office before the expiry of his term by Board resolution only.
20. The matter of difficulty, time, or cost involved is in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
21. The auditor must include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking etc.

22. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, the auditor need not seek direct communication with the entity's external legal counsel.
23. Collateral security refers to the security offered by the borrower for bank finance or the one against which credit has been extended by the bank. This security is the principal security for an advance.
24. The first auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society
25. Familiarity threats, which occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees.
26. The auditor's opinion helps determination of the true and correct view of the financial position and operating results of an enterprise.
27. When establishing the overall audit strategy, the auditor need not determine materiality for the financial statements as a whole.

28. The policy of income recognition, in case of a Bank, should be subjective.
29. The assignment is the creation of an equitable charge which is created in favor of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower.
30. As per SA 240 the primary responsibility for the prevention and detection of fraud rests with Auditors.
31. Article 151 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.
32. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments.
33. all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding hundred crore rupees or more shall constitute an Audit Committee.
34. As per sub-section (5) of the section 140, the Tribunal cannot direct the company to change its auditors.

35. SA 210 does not require the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.
36. Government audit does not serve as a mechanism or process for public accounting of government funds.
37. An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 180 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.
38. In the planning stage, analytical procedures would not in any way assist the auditor.
39. Statistical sampling has narrower application where a population to be tested consists of a large number of similar items.
40. Risk assessment procedures are not performed to obtain

an understanding of the entity and its environment

41. Audit Committee is to be formed by each and every company and the auditor has no compulsion to attend the meeting of the Audit Committee.
42. The auditor should study the Memorandum and Articles of Association to see the validity of his appointment.
43. Overall audit plan sets the scope, timing and direction of the audit, and guides the development of the more detailed audit strategy.
44. The Constitution of India contains no specific provisions regarding the appointment, salary and duties and powers of the C&AG. Moreover, the constitution does not guarantee the independence of the C&AG of India.
45. When we are designing audit procedures to address an inherent risk or “what can go wrong”, we consider the nature of the risk of material misstatement.
46. If an entity has a known number of employees at fixed rates of pay throughout the period, there would be more need to perform tests of details on the payroll.

47. The term “**relative**”, as defined under the Companies Act, 2013, means anyone who is closely related to another.
48. One of the key principles of accrual basis of accounting requires that an asset’s cost is proportionally expensed based on the period over which the asset is expected to be used.
49. The assessment of risks is a matter capable of precise measurement.
50. According to Section 53 of the Companies Act, 2013, a company can issue shares at a discount.
51. As per Section 139(6), the first auditor of a company, including a Government company, shall be appointed by the Board of Directors within 60 days from the date of registration of the company.
52. Audit procedures used to gather audit evidence may be effective for detecting an intentional misstatement.
53. An audit is an official investigation into alleged wrongdoing.



54. There is no relation between Audit Plans and knowledge of the client's business
55. Planning is not a discrete phase of an audit, but rather a continual and iterative process.
56. Audit documentation is a substitute for the entity's accounting records.
57. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 30 days after the date of the auditor's report.
58. When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall not perform substantive procedures that are specifically responsive to that risk.
59. Specialised audit tools like IDEA, ACL are required to perform data analytics.
60. General IT controls support the functioning of Application controls.
61. Overall audit plan sets the scope, timing and direction of

the audit, and guides the development of the more detailed audit plan.

- 62. Self-review threats, which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client.
- 63. The auditor need not discuss elements of planning with the entity's management in any case.
- 64. Subjective examination connotes critical examination and scrutiny of the accounting statements.
- 65. An intangible asset is an identifiable monetary asset.