

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQS). For 30 marks.
3. Part II comprises questions which require descriptive type answers for 70 marks.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs written in the descriptive type answer book will not be evaluated.

PART-I

Q.1 Multiple Choice Questions

(30 Marks)

1. PQR & Firm is partnership firm having three partners Mr. P, Mr. Q and Mr. R they are appointed as the auditor of J ltd which is a public company having paid up share capital of ₹12 cores and having loans and borrowing of ₹ 49 cores. Answer the following questions based on the section 139(2) of the companies act 2013.

- (i) Whether the provision of rotation will be applicable to J Ltd as per rules prescribed in Companies (Audit and Auditors) Rules, 2014, for applicability of section 139(2) the class of companies
- (a) Yes, it is applicable because paid up capital is more than ₹ 10 cores.
 - (b) No, it's not applicable because Loans and borrowing does not exceed ₹ 50 cores.
 - (c) No, it's not applicable because the section is not applicable to private companies.
 - (d) Both A and B
- (ii) What would be the maximum term of the PQR & firm in J Ltd?
- (a) One term of five consecutive years.
 - (b) Two terms of five consecutive years each.
 - (c) 10 years.
 - (d) No limit as provisions are not applicable.
- (iii) What if PQR & firm is already holding appointment as auditor in J Ltd for last 8 years as on the date of commencement of the act. What would be the remaining term of PQR & firm in J Ltd?
- (a) 2 years as maximum 10 years for a firm.
 - (b) Two terms of five consecutive years each.
 - (c) 3 years of transition period.
 - (d) None the above
- (iv) What if in the above case after the completion of 3 years Mr. J joins the PQR & Firm who has just completed his term as an auditor in J Ltd last year?
- (a) NO effect to PQR & Firm it can continue as the auditor of the company J Ltd.
 - (b) J cannot join PQR & Firm as he is having cooling period.
 - (c) PQR & Firm will be given notice period of 60 days after which it will be disqualified.
 - (d) PQR & Firm will be disqualified as J's tenure has expired in a company immediately preceding the financial year

(4 x 2 = 8 Marks)

2. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:
- (a) Discuss the matter with TCWC and Management.
 - (b) Report the matter to Central government as there are exceptional circumstance
 - (c) Determine the professional and legal responsibilities & consider whether it is appropriate to withdraw from the engagement,
 - (d) All of the above
- (2 Marks)**
3. Which of following statement is incorrect
- (a) Recalculation consists checking reasonableness of appropriates of accounting policies
 - (b) Inspection consists of examining records, documents whether internal or external in paper form or electronic form and physical examination of assets
 - (c) An external confirmation represents audit evidence obtained by auditor as direct written response to the auditor from a third party.
 - (d) Evaluating responses of inquiry is an integral part of inquiry process.
4. _____ framework means comparative information is included as an integral part of current period financial statements.
- (a) Corresponding figures
 - (b) Comparative financial statements
 - (c) Both option (a) and option (b)
 - (d) Either option (a) or option (b)
5. The auditor shall determine materiality for the financial statements as a whole. When,
- (a) At the time of initially planning of the audit
 - (b) At the time of evaluating the results of audit procedures
 - (c) Establishing the overall audit strategy
 - (d) There is one or more particular classes of transactions

6. All inventory units held by the audit entity and that should have been recorded, has been recognized in the financial statements. The assertion involved is:
- (a) Existence
 - (b) Completeness
 - (c) Rights and obligations
 - (d) Valuation
7. When auditor concludes that financial statements as a whole are free from material misstatements and he has no reservation for any material item of the financial statements, he shall express
- (a) Qualified opinion
 - (b) Unmodified opinion
 - (c) Adverse opinion
 - (d) Disclaimer of opinion
8. Which of the following is not purpose of capital expenditure
- (a) For acquiring fixed assets
 - (b) For maintaining the fixed assets
 - (c) For making additions / enhancements to the existing fixed assets
 - (d) Minimizing cost of production
9. 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.
10. While verifying intangible assets, an auditor would recompute amortization charges and determine whether amortization period is reasonable. The auditor tries to establish by doing it
- (a) Valuation
 - (b) Existence
 - (c) Disclosure
 - (d) Possession

11. Holding financial interest in a client and close business relationship with him give rise to
- (a) Self- review threat (b) Advocacy threat
(c) Familiarity threat (d) Self-interest threat
12. Auditor of Co-Operative Society is appointed by
- (a) Managing Committee of Co-Operative Society
(b) Registrar of Co-Operative Society
(c) Members of Co-Operative Society
(d) None of these
13. _____ is the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
- (a) Inherent Risk (b) Control Risk
(c) Sampling Risk (d) Non-Sampling Risk
14. The risk for the company that an auditor may issue an unqualified report due to auditor's failure to detect some misstatement either due to fraud or error is
- (a) Financial accounting risk (b) Analytical risk
(c) Taxation risk (d) Audit risk
15. The LFAR is to be submitted before every year
- (a) 30th September (b) 31st July
(c) 30th June (d) 31st May
16. Which of the following is an automated control?
- (a) Program change (b) System generated report
(c) Application control (d) Configuration
17. Sufficient audit evidence is a measurement of
- (a) Quality of audit evidence (b) Quantity of audit evidence
(c) Both of (a) and (b) (d) None of these

- 18.** Auditing Practices Committee has been converted into
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|----------|-----------|
| (a) IFAC | (b) ICSI |
| (c) AASB | (d) IAASB |
- 19.** In which of the following sampling, sampling units are selected from population at fixed intervals
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|---------------------|-------------------------|
| (a) Random Sampling | (b) Systematic Sampling |
| (c) Block Sampling | (d) Cluster Sampling |
- 20.** Statement(1)
As per SA-550, auditor should examine whether related party transactions have been appropriately accounted for and disclosed in the financial statements as per financial reporting framework; though he need not check authorization of such transactions by management.
Statement (2)
Auditor should consider whether management has appropriately accounted and disclosed the related party transactions in their financial statements as per applicable financial framework as it might affect his audit opinion.
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|---------------------------------------|
| (a) Only Statement (1) is correct |
| (b) Only Statement (2) is correct |
| (c) Both the statements are correct |
| (d) None of the Statements is correct |
- 21.** In establishing the overall audit strategy, the auditor shall:
- i. Identify the characteristics of the engagement that define its scope
 - ii. Ascertain the nature, timing and extent of resources necessary to perform the engagement
 - iii. Ascertain the reporting objective of the engagement to plan the timing of the audit and the nature of the communication required
 - iv. Consider the factors that, in the auditor's professional judgement are significant in directing the engagement team.
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|-------------------------|-----------------------------|
| (a) Both (i) and (ii) | (b) All (i), (ii) and (iii) |
| (c) Both (iii) and (iv) | (D) All of the above |

22. What techniques should the auditor use in assessing the risk of material misstatements?
- (a) The auditor should obtain written representation from the entity's management
 - (b) The auditor should relate the identified risks to what can go wrong at assertions level
 - (c) The auditor should consider the implications of the identified risks for the auditor's report
 - (d) The auditor should familiarize themselves with the client's industry and current market conditions.

(1 x 20 = 20 Marks)

PART-II

Descriptive questions

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.

(70 Marks)

Q.1 Examine with reasons whether the following statements are correct or incorrect.

(Answer any seven out of eight)

- (a) Generally, the reliability of audit evidence is increased when it is obtained from internal source (within the entity).
- (b) The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the assertion levels only
- (c) The auditor shall report the matter under 143(12) to the Board or the Audit Committee, as the case may be, immediately but not later than 72 hours of his knowledge of the fraud, seeking their reply or observations within 45 days;
- (d) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file within 90 days after the date of the auditor's report.
- (e) General IT control include both automated and manual controls that operate at a business process level. Automated Application controls are embedded into IT applications viz.,

- (f) As per SA 240 The auditor is concerned with all the frauds that are affecting the financial statements.
- (g) Auditor is not required to do periodic review of the audit programme.
- (h) Further in addition to the audit certificate in the prescribed form and various schedules stated above, the auditor of co-operative society in the applicable State has to answer three sets of questionnaires called as audit memos.

(2 x 7 = 14 Marks)

Q.2 (a) “An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so.” Discuss.

(4 Marks)

(b) The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. Discuss

(4 Marks)

(c) Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised

(3 Marks)

(d) The establishment of the overall audit strategy and the detailed audit plan are closely inter-related. Explain

(3 Marks)

Q.3 (a) XYZ Ltd is engaged in trading of electronic goods and having huge accounts receivables. For analyzing the whole accounts receivables, auditor wanted to use sampling technique. In considering the characteristics of the population from which the sample will be drawn, the auditor determines that stratification or value-weighted selection technique is appropriate. SA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques. Advise the auditor in accordance with SA 530.

(4 Marks)

(b) Explain the meaning, objectives and scope of internal audit functions as per SA 610. Also discuss who can be appointed as Internal Auditor?

(4 Marks)

(c) Evolving one audit program applicable to all business under all circumstances is not practicable. Explain

(3 Marks)

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

(3 Marks)

Q.4 (a) The auditor A of ABC & Co.- firm of auditors is conducting the audit of XYZ Ltd and while performing testing of additions wanted to verify that all PPE (Property Plant and Equipment) purchase invoices are in the name of the entity he is auditing. For all additions to land, building in particular, the auditor desires to have concrete evidence about ownership. The auditor is worried about whether the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor.

(4 Marks)

(b) Explain the audit procedure for:

- Rent expenses
- Power and Fuel expenses

(4 Marks)

(c) Discuss the disclosure requirement for equity share capital as per Schedule III (Part 1) to Companies Act, 2013

(3 Marks)

(d) Explain clearly the purpose of communicating key audit matters.

(3 Marks)

Q.5 (a) Paramount Exports Ltd is a manufacturer exporter having its own production capacity and also gets the job work done through various job workers. The auditor of Paramount Exports Ltd. Considers that inventory held with job workers is material to the financial statements. Required-Suggest the audit procedures in the given case.

(4 Marks)

(b) The scope of auditor's inquiry under clause (x) of paragraph 3 of Companies (Auditor's Report) Order, 2016 is restricted to frauds 'noticed or reported' during the year. Explain

(4 Marks)

(c) If CARO, 2016 is applicable for the company in question, the auditor shall comment/ report on these points in his audit report under "Report on other legal & regulatory requirements" Para. – Discuss.

(3 Marks)

(d) Pride India Ltd is a manufacturer of various FMCG (fast moving consumable goods) range of products. The company is having several cases of litigation pending in courts. The auditor wanted to identify litigation and claims resulting to risk of material misstatements. Required-Suggest the procedures with reference to SAs.

(3 Marks)

Q.6 (a) Discuss the special steps involved in audit of club.

(4 Marks)

(b) In carrying out an audit of income, the auditor is primarily concerned with obtaining reasonable assurance that the recorded income arose from transactions, which took place during the relevant period and pertain to the bank. Discuss

(4 Marks)

(c) Write a short note on 'Computation of drawing power'.

(3 Marks)

(d) "Audit against the propriety seeks to ensure that expenditure conforms to certain principles" Discuss with reference to the government audit.

(3 Marks)