

Paper 3 : Advanced Auditing and Professional Ethics (Old Course)

- 1 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
- 2 Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion
- (a) Right and obligations
 - (b) Valuation
 - (c) Completeness
 - (d) Existence
- 3 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 of opinion
 - (d) Clean
- 4 The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-
- (a) Responsibilities of the auditor
 - (b) Description of methods to be followed for obtaining audit evidence
 - (c) Responsibilities of management
 - (d) Objective and scope of the audit of the financial statements
- 5 The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:
- (a) Sufficiency of audit evidence
 - (b) Appropriateness of audit evidence
 - (c) Accounting estimates
 - (d) Reasonableness of audit evidence

6 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

7 Which of the following company is not exempted from reporting under CARO, 2016?

- (a) Banking company.
- (b) Insurance company.
- (c) Company licensed to operate under section 8 of the Companies Act, 2013.
- (d) Private limited company having paid up capital of Rs. 5 crore.

8 Section 144 of the Companies Act, 2013 does not excludes the statutory auditor of the company to render the services of -

- (a) Investment advisory
- (b) Investment banking
- (c) Branch auditor
- (d) Actuarial

9 As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?

- (a) Friend of a family member of a person who has the authority and responsibility for planning.
- (b) Holding debentures in the entity.
- (c) The entity's holding of debentures in other entities.
- (d) The entity's holding of equity in other entities.

10 When does an auditor shall modify the opinion in the auditor's report?

- (a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
- (b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
- (c) (a) and (b) both.
- (d) Either (a) or (b).

11 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) Either (a) or (b)
- (d) none of the above

12 Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:

- (a) Authorization.
- (b) Performance reviews.
- (c) Information processing.
- (d) All of the above

13 If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

- (a) Withdraw from the engagement immediately.
- (b) Report to Audit team regarding withdrawal.
- (c) Determine the professional and legal responsibilities applicable in the circumstances.
- (d) Ask the management for his withdrawal.

14 In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

- (a) reasonable assurance
- (b) absolute assurance
- (c) Limited assurance
- (d) None of the above

15 When is evidential matter, generally, considered sufficient in case of stock exchange member audit?

- (a) When it constitutes entire population
- (b) When it is objective and relevant
- (c) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
- (d) When auditor collects and evaluates it independently

16 The scope of the audit of Depositories including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the

i) auditor's report

- ii) engagement letter
- iii) representation letter
 - (a) only (i)
 - (b) Both (i) and (ii)
 - (c) Both (i) and (iii)
 - (d) All of the above

17 Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?

- i) Information about integrity of management
 - ii) Disagreement with management concerning auditing procedures
 - iii) Review of internal control system.
 - iv) Organisation structure
- (a) (i) and (ii)
 - (b) (ii) and (iii)
 - (c) (i) , (ii) and (iii)
 - (d) (i) and (iii)

18 In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:

- (a) conclude that the cashier is not telling truth
- (b) consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.
- (c) conclude that the Finance Head is not a responsible person
- (d) conclude that daily cash summary is not relevant for the investigation

19 Current period adjustments are those adjustments that are made:

- (a) only on the first occasion of the preparation and presentation of consolidated financial statements
- (b) only on the first occasion of the audit of consolidated financial statements
- (c) in the accounting period for which the consolidation of financial statements is done
- (d) None of the above

20 Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”

- (a) Inherent Risk
- (b) Detection Risk

- (c) Control Risk
- (d) None of the above

21 CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct .

- (a) Clause (6) of Part I of the First Schedule
- (b) Clause 2 of Part I of the Second Schedule
- (c) Clause 12 of Part I of the First Schedule
- (d) Clause 2 of Part IV of the First Schedule

22 As an auditor appointed under section 44AB of the Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits and gains under section 32AC, 33AB or 33ABA or 33AC

- (a) clause 24
- (b) clause 40
- (c) clauses 31
- (d) clause 23

23 As per CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.

- (a) Under Clause (xi) of paragraph 3 of the CARO, 2016,
- (b) Under Clause (xvi) of paragraph 3 of the CARO, 2016,
- (c) Under Clause (xv) of paragraph 3 of the CARO, 2016,
- (d) Under Clause (xiv) of paragraph 3 of the CARO, 2016,

24 As per Clause (i)(c) of Paragraph 3 of the CARO, 2016, the auditor is required to report on :

- (a) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.
- (b) whether the company has entered into any non-cash transactions with directors or persons connected with him
- (c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
- (d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

25 LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of CARO 2016 the auditor is required to report -

- (a) Under Clause (viii) of paragraph 3 of the CARO, 2016,
- (b) Under Clause (xi) of paragraph 3 of the CARO, 2016,
- (c) Under Clause (x) of paragraph 3 of the CARO, 2016,
- (d) Under Clause (ix) of paragraph 3 of the CARO, 2016,