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AUDITING & ASSURANCE TRUE OR FALSE STATEMENTS_39E

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1. INTRODUCTION TO AUDIT

<u>True OR FALSE QUESTIONS:</u>

1. **Expression of opinion is irrelevant in auditing.**

   False: "An audit is an independent examination of financial information of any entity, whether profits oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon.

2. **Audit is relevant only for profit oriented entities.**

   False: "An audit is an independent examination of financial information of any entity, whether profits oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon.

3. **Financial statements are prepared for the need of single user.**

   False: Financial statements should be prepared and presented by keeping in view of common information needs of wide range of users.

4. **Accounting standards are not applicable to General purpose Financial Statements.**

   False: Accounting standards are applicable to General purpose Financial Statements.

5. **The primary objective of an audit is prevention and detection of frauds and errors.**

   True: Detection of fraud and errors in the financial statements is not the primary objective of audit. The primary objective of an audit is to express an opinion on the financial statements regarding whether they are showing true and fair view or not. **(N 15 MTP II, N 15 RTP, N 14, N 14)**

6. **There is an unavoidable risk in auditing.**

   True. There is an unavoidable risk that some material misstatements may not be detected due to the inherent limitations of an audit.

7. **True and Fair view is relevant in auditing.**

   True. Auditor has the duty to report to the appropriate person/body whether the statement of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organization.

8. **Audit is legally obligatory for all types of business organizations.**

   False: Audit is not legally obligatory for all types of business organizations or institutions. On this basis audits may be of two broad categories i.e., audit required under law and voluntary audits.

9. **In case of statutory audit, scope will be decided by appointing person.**

   False: The objective and scope of an audit in case of Statutory audit are determined by by the respective statute itself.

10. **Non Statutory audit is a mandatory audit.**

    False: It is not mandatory under any law and is required to be undertaken only at the desire of the client.

11. **Audit of a company is an example for a Statutory audit.**

    True. The audit of a Company is mandatory under Companies Act, 2013.

12. **Audit is advantageous to the government.**

    True. Government may require audited and certified statement before it gives assistance or issue a license for a particular trade.

13. **An error refers to intentional act.**

    False: The term "error" refers to unintentional mistakes in the Financial Statements.

14. **An auditor is responsible for obtaining reasonable assurance.**

    True. An Auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

15. The risk of not detecting error is higher than the risk of not detecting fraud.

False: The risk of not detecting fraud is higher than the risk of not detecting error.

16. Due to inherent limitations of an audit, auditor is in a position to detect all material misstatements.

False: Due to inherent limitations of an audit, there is an unavoidable risk that some material misstatements will not be detected, even though the audit is properly planned and performed in accordance with the SA' s.

17. The risk of not detecting management fraud and employee fraud are same.

False: The risk of not detecting management fraud is higher than the risk of not detecting employee fraud.

18. Auditor is liable for subsequent discovery of frauds and errors in all cases.

False: The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill.

19. In the audit of XYZ Ltd, auditor is in the opinion that he need not prove with his documentation, when a negligence suit is brought against to him.

False: When a negligence suit is filed on auditor, then he should prove with his working papers that he exercised reasonable care and skill in the audit, otherwise he is held responsible.

20. The existence of errors becomes apparent in the process of preparation of accounts are known as Non-Self-Revealing errors.

False: The existence of errors becomes apparent in the process of preparation of accounts are known as Self-Revealing errors.

21. Procedural errors having the impact on the trail balance.

False: Procedural error is the error that occurs in the implementation of procedures. These errors will not **have** any impact on the trial balance.

22. The investigation should be conducted only by a CA.

False: No specific qualification is required for Investigation.

23. Auditor need to possess certain personal qualities.

True. Auditor should also possess certain personal qualities such as, tact; caution; firmness; good temper; judgment; patience; clear headedness and commonsense; reliability and trust, etc.

24. The auditor is more concerned with Macroeconomics.

False: The auditor is more concerned with Micro economics rather than with the Macro economics.

25. Auditor deals basically with the figures, he need not interact with the people.

False: Auditor deals basically with the figures contained in the financial statements but he shall be required to interact with a lot of people in the organization.

26. The knowledge of human behavior is very essential for an auditor.

True. The knowledge of human behavior is very essential for an auditor so as to effectively discharge his duties.

27. In case of Error of Commission one aspect of transaction, either debit or credit is omitted to be recorded.

False: When a transaction is miss recorded either wholly or partially is an Error of Commission.

28. Compensating Error means recording a transaction twice.

False: Compensating Errors are those errors which offset against each other

29. Audit has no basic principles.

False: Audit has certain basic principles which are integrity, objectivity, independence, confidentiality, skill and competence etc.

30. Compliance with statements of auditing is mandatory for auditors.

True: Auditors should comply with the statements on auditing relating to auditing matters in the audit of financial information covered by their audit reports.

31. Guidance notes are recommendatory in nature.

True: Guidance notes are recommendatory in nature and they are designed to provide guidance to members.

32. Independence means the judgment of a person is subordinate to the wishes and directions of person who engaged him.

False: Independence means that the judgment of a person is not subordinate to the wishes and directions of other person who have engaged him i.e. the audit decisions should be taken without giving importance to his personal wishes.

33. Professional skepticism refers to a negative mind.

False: Professional Skepticism refers to questioning mind and a critical assessment of audit evidence.

34. Audit procedures that are effective for detecting error may not be effective in detecting fraud.

True. Audit procedures that are effective for detecting error may not be effective in detecting fraud.

35. Accounting starts where auditing ends.

False: Audit starts where accounting ends.

36. Audit work starts with suspicious.

False: Investigation starts with suspicious.

37. Auditor need not require any technical knowledge.

False: Auditor requires technical knowledge regarding accounting, auditing and taxation laws etc.

38. Auditor needs to check only the arithmetical accuracy of the books of accounts.

False: Auditor' duty is not limited to check arithmetical accuracy of the books of accounts, he has to perform vouching, verification, needs to verify internal controls, obtain confirmations, performing analytical reviews etc.

39. Audit serves as a moral check on employees.

True: Audit serves as a moral check on employees since auditor may detect frauds in his audit.

40. Auditor is not an insurer.

True: While examining the evidence relating to a business entity or the state of affairs of the company, the auditor's duty is limited only to the verification of the evidence that is made available to him in ordinary course of audit or the evidence that which he would call upon to examine on a doubt about something being wrong. Hence, an auditor is not an insurer. **(N 08)**

41. The object for an audit is changed with nature, size & form of the business.

False: The object for an audit does not changed with nature, size and form of the business i.e. the expression of opinion on the financial statements.

42. Auditor needs to express his opinion regarding true and correct view of the Financial Statements.

False: Auditor needs to express his opinion regarding true and fair view of the Financial Statements.

43. Auditor need not comply SA in some cases regarding relevance.

True: Auditor need not comply SA in some cases regarding when they have no relevance.

44. There is no remedy to the auditor when he departure from compliance of any SA.

False: In such a case, auditor shall perform alternative audit procedures to achieve the aim of that requirement.

45. The auditor has the duty to give advices to directors (or) shareholders regarding what they ought to do.

False: The auditor has no duty to give advices to directors (or) shareholders regarding what they ought to do. His duty is confined to expression of opinion.

46. In the audit of Shankar Ltd, Mr. Yogi is the auditor feel that he need not maintain the integrity in his audit.

False: Mr. Yogi in his audit, he has to maintain integrity because it is one of the basic principles governing an audit.

47. M/s ABC & co. a partnership firm is in the opinion, that audit is compulsory to them.

False: Audit is not compulsory to the partnership firm except under sec 44AB, 44AE, 44AD of Income Tax Act, 1961.

48. In the audit of Star Ltd, Mr. Rao being the auditor of a company thinks that there is no bar on him for following management suggestions as it is.

False: Mr. Rao being the auditor of a company, he has to maintain independence i.e., one of the responsibilities of auditor as per SA 200.

49. Central government appointed Mr. Hari as an investigator for Nature Ltd. to verify purchases. He thinks that he can start his work with a positive mind.

False: Investigator should start his work with suspicious.

50. In the audit of books of accounts of Devi Ltd. Mr. Vivek being a statutory auditor assumed that he is responsible for detection of each and every fraud.

False: Auditor is responsible for expression of opinion. It is not possible to detect 100% frauds because of presence of inherent limitations of an audit.

51. Mr. Swami is a practicing chartered accountant says that every auditor should obtained knowledge by way of learnt from books.

False: Knowledge acquisition is depends on the common sense and alertness of the mind according to the circumstances so that it cannot be learnt from books.

52. Mr. Gopi is an auditor of M/s fortune ltd. is in the opinion that he can share the audit information with his friends and relatives.

False: Auditor should maintain confidentiality i.e. he should not disclose audit information to the outsiders except with the consent of client or due to statutory requirement.

53. Mr. Nani is a practicing chartered accountant of Raj Ltd. wishes to express his opinion on financial statements without verifying them because he satisfied with the behavior of company management and employees so that they are honest.

False: Auditor should not express his opinion on financial statements without verifying them.

54. In the audit of evergreen ltd. Mr. Rahim is the auditor opinion that the seniority of company accountants will influence his ability to detect frauds.

True: The Auditor's ability to detect fraud is affected by seniority of persons involved in the fraud.

55. Mr. Prasanth, an auditor of a CPCS ltd. observed that the company's management having no integrity but he is in the opinion that it may not result in increase of risk of occurring frauds and errors.

False: Lack of integrity to the management is one of the risk factors for occurring frauds and errors.

56. An audit is a dependent examination of financial information of any entity, whether profits oriented (or) not and irrespective of its size (or) legal form, such an examination is conducted with a view to express an opinion there on.

False: An audit is an independent examination of financial information of any entity, whether profits oriented (or) not and irrespective of its size (or) legal form, such an examination is conducted with a view to express an opinion there on.

57. In the course of audit of Achyutha Ltd. Mr. Srinivasan is the auditor observed that some stock was missed in godown, he thinks that it was not the case of misappropriation of assets even management not given proper explanation to him regarding such event.

False: This is the case of misappropriation of assets.

58. The management of sweet ltd. decided that they need not follow accounting standards while preparing the financial statements because they are meant only for reference.

False: Accounting standards compliance is mandatory.

59. 'Errors of commission' is where a transaction has been omitted either wholly or partially.

False: When a transaction has been omitted either wholly or partially it is known as "Error of Omission" whereas "Error of Commission" is where a transaction has been mis-recorded either wholly or partially.

60. Procedural error arises as a result of transactions having been recorded in a fundamentally incorrect manner.

False: Procedural error arises when there is error in implementation of the procedure. If transaction has been recorded in a fundamentally incorrect manner it will result in error of principle but not Procedural errors. **(N 14 MTP I, N 15 MTP II, M 08, N 08)**

61. The basic objective of audit does not change with reference to nature, size or form of an entity.

True: An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. It is clear that the basic objective of auditing, i.e., expression of opinion on financial statements does not change with reference to nature, size or form of an entity. **(PM, N 16 MTP I, M 17 RTP, M 15)**

62. It is not necessary to follow standards on auditing as they are meant only for reference purposes.

False: While discharging attestation functions, it shall be the duty of auditor to ensure that the standards on auditing are followed in the audit of financial information covered by their audit reports. If for any reason member has not been able to perform an audit in accordance with standards, his report should draw attention to the material departures. **(N16)**

63. As per sec. 128(1), the company can maintain its books of accounts by following accrual basis and double entry system at the option of the management.

False: As per sec 128(1), the company should maintain its books of accounts by following accrual basis and double entry system.

64. Every company should follow schedule III format for preparation of their financial statements.

False: Insurance companies, banking companies, companies engaged in the generation or supply of electricity and companies governed by any other specific Act or law are need not follow schedule III formats but they have to follow specified formats in relevant governing act for the preparation of their financial statements.

65. It is necessary for the auditor to maintain professional skepticism throughout the audit.

True: As per SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", professional skepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. Thus, it is necessary for the auditor to maintain professional skepticism throughout the audit. **(N16) (M 16 MTP II, M 14)**

66. There is no difference between the terms. "External Audit" & "Statutory Audit".

False: An audit is called External audit whenever an independent audit is carried out either as per law i.e. statutory audit or as per agreement i.e. voluntary audit. Therefore it covers all independent audits - whether Voluntary audits or statutory audits. Therefore the term External audit is wider than statutory audit but not the same. **(RTP)**

67. The auditor compares entries in Books of Accounts with vouchers and if the two agree, his work is done.

False: Auditing is not about comparison of Books of accounts with the supporting documents. The auditor should also report on true & fair view to ensure whether acceptable policies are consistently applied, regulations have been observed & appropriate disclosures have been made in financial statements. **(M 10)**

68. Standards on Review Engagements (SREs) - to be applied in the audit of projected Financial Information. (N 16 , M 15 RTP)

False: Standards on Review Engagements (SREs) - to be applied in the review of historical financial information but not the projected Financial Information. However Standards on assurance engagements (SAE) are applied in the audit of projected Financial Information.

69. Errors of duplication affect the Trial Balance. (M16)

False: Error of duplication is another type of error of commission which means recording the same transaction twice. Therefore, this error will not affect the trial balance

70. Auditor's opinion is on True & Fair view of Financial Statements.

True: the auditor should express opinion on true and fair view of financial statements in terms of whether acceptable policies are consistently applied, regulations have been observed & appropriate disclosures have been made in Financial Statements.

71. Auditor needs to be independent.

True: Independence means that judgment of a person is not subordinate to wishes of any person. Independent audit enhances credibility of financial statements of client. Therefore the auditor needs to be independent.

72. Audit Financial Statements help the lenders.

True: Lenders can use the audited Financial Statements while making decision about credit worthiness of loan applicant & later on, they can judge recoverability of their funds. Therefore audited Financial Statements help the lenders.

73. Auditor does not need communication skills, as he is concerned only with financial information.

True: During conduct of audit, he has to interact with various officers and staff of client for the purpose of obtaining audit evidence. Moreover the discipline of behavioral science is closely linked with auditing. Therefore the auditor must also possess some communication skills also.

74. Auditor does not need knowledge of Accounting.

False: Auditor expresses opinion on financial statements. If he does not have expert knowledge on accounting, he cannot check whether Financial Statements prepared by entity's management are showing true & fair or not.

75. Financial Statements should show "True & Correct" view of the affairs of the entity. (N 13)

False: Financial Statements shall show True & Fair view of the affairs of the entity. There has been a shift of emphasis from arithmetical accuracy to the question of reliability to the financial statements. A statement may be reliable even though there are some errors or even frauds, provided they are not so big as to vitiate the picture. The word "Correct" was somewhat misplaced as the accounting largely consists of estimates.

76. The purpose of an audit is to enhance the degree of confidence of intended users in the Financial Statements.

True: Audi will increase the confidence of intended users such as employees, shareholders, government, research scholars etc.

77. Guidance Notes are mandatory in nature. (M 16 RTP)

False: 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature but not mandatory.

78. Auditor is responsible for prevention & detection of misstatements.

False: Primary responsibility of prevention, detection & correction of fraud and error is that of management. Thus if auditor performs his work in accordance with basic principles governing an audit and he exercised reasonable care and skill, then he cannot be held liable for non-detection of misstatement in financial statements.

79. Financial Statements include P&L Account and Balance sheet but not notes to accounts.

False: Financial statements mean whole set of accounts including P&L account, Balance Sheet, Cash flow statement, Funds flow statement and notes to accounts. Therefore financial statements include Note to accounts also.

80. Audit is independent examination of operations conducted by management.

False: Audit is independent examination of financial statement of an entity to express opinion thereon. It is thus examining financial information, not operations of entity. However the auditor considers internal controls of the entity to determine his audit procedures but not to express opinion on internal controls.

81. The concept of "True and Fair" is a fundamental concept in auditing.

True: Auditor is required to express his opinion on the Financial Statements whether they are showing true and fair view or not.

82. Management of Jahnavi Ltd. contemplates that they need not prepare their books of accounts on accrual basis.

False: As per Sec 128, the company is required to maintain its books of accounts on accrual basis.

83. Management of SAHASRA Ltd. which is an insurance company says that they need not follow schedule III formats specified in Companies Act 2013 in their preparation of Financial Statements.

True: Insurance Company is not required to comply with schedule III format specified in the companies act, it should follow the format specified in the insurance act.

84. Financial statements must comply with the accounting standards specified under section 133.

True: Financial statements must comply with the accounting standards specified under section 133 so as to give true and fair view of the Financial Statements of the company.

85. SHIVAM Ltd. is a company in which Mr. Ram is a MD thinks that fundamental accounting assumptions are need not followed in the preparation of financial statements.

False: As per AS-1 on "Disclosure of Accounting policies", the company should follow fundamental accounting assumptions in the preparation of Financial Statements.

86. Going concern assumption means the entity can continue its business for an infinite period.

False: Going concern assumption means the entity can continue its business for a foreseeable future.

87. According to the accrual concept, revenues should be recognized when they are received.

False: According to the accrual concept, revenues should be recognized when they are earned irrespective of cash received or not.

88. M/s PAVAN Ltd. is a company in which Mr. Kohli is the accounts manager hope that they have to disclose the fact of compliance of fundamental accounting assumptions in the preparation of Financial Statements.

False: If fundamental accounting assumptions are followed then need not disclose such fact because their acceptance and use are assumed.

89. It is the responsibility of auditor to select an appropriate accounting policy.

False: It is the responsibility of management to select an appropriate accounting policy.

90. ASSAR Pvt. Ltd. is a company saying that as per substance over form concept they should give importance to the legal form than substance.

False: As per substance over form concept they should give importance to the substance than the legal form.

91. There are some exceptional situations, where management can change their accounting policies.

True: Circumstances when a change in accounting policies can be made only if such change is required by AS or provision of any law or for appropriate presentation of financial statements.

92. The management of SUN Ltd. argues that they need not disclose effect of changes in accounting policies because it is not ascertainable.

False: In such a case such fact should be disclosed.

93. Principles of auditing are uniform in an audit of any organization.

True: Principles are universal i.e., they are common to all audits irrespective of nature of organization.

94. Mr. Ram Prasad is a statutory auditor of Excellent Ltd. is of the opinion that the company management having control on internal evidence.

True: company management have control on internal evidence because they can manipulate internal evidence.

95. In the audit of MTR Ltd. Mr. Venkat is a statutory auditor thinking that the concept of "true & fair view" is not subject to his professional judgment.

False: The concept of "True & Fair view" is matter of the professional judgment of the auditor.

96. Management of MUKUNDA Ltd. is opinioned that they can recognize anticipated profits as per prudence concept.

False: As per prudence concept, recognize anticipated losses but should not recognize anticipated profits.

97. Mr. Banti an articled assistant of CHOTU & CO says that the selection of accounting policies for one entity to another entity may vary because it is management's choice.

True: it is the responsibility of the management to select accounting policies so that financial statements prepared are showing true and fair view. They may vary from entity to entity

98. Auditor is responsible for proper preparation and presentation of the Bank Reconciliation Statement.

False: Auditor is not responsible for preparation and presentation of the Bank Reconciliation Statement. His role is only checking and reviewing the BRS. Preparation and presentation of the Bank Reconciliation Statement is the responsibility of the management.

99. Specific disclosure is required of the fundamental accounting assumptions followed in the Financial Statements. (M 14)

False: as per AS 1, "Disclosure of Accounting Policies", specific disclosure of the Fundamental Accounting Assumption is required if they are not followed in the Financial Statements. The Fundamental Accounting Assumptions are Going Concern, Consistency and Accrual as per AS1.

100. Primary responsibility for preparation and presentation of Financial Statements lies with the auditor.

False: Primary responsibility for preparation and presentation of Financial Statements lies with the management.

101. Audit of Financial Statements does not relieve management from their responsibilities.

True: Audit of Financial Statements does not relieve management from their responsibilities.

102. Standards on review engagements are to be applied in the audit of historical financial information.

False: Standards on review engagements are to be applied in the review of historical financial information

103. Deviation in Accounting Policies is to be reported in auditor's report. (N 13)

False: It is not that all deviations in accounting policies be reported in the auditor's report. Only those deviations in accounting policies are to be reported in the auditor's report in respect of which proper disclosure regarding such deviations in the accounting policies have not been made.

104. Financial Statements are responsibility of management.

True: The management is responsible for maintaining an upto date and proper accounting of various transactions entered into during the course of the year.

105. PQR & Co. a partnership firm running trading business appointed Mr. Sai as its auditor. The auditor is having the opinion that the scope of audit is determined by Partnership Act, 1932.

False: The scope of Partnership firm Audit is not defined in Partnership Act 1932. It is determined by the partners of PQR & Co. who appoint the auditor. So auditor's opinion is wrong.

2. AGREEING TO AN AUDIT

1. Terms of engagement can supersede the pronouncements of the institute.

False: Terms of engagement cannot supersede the pronouncements of the institute.

2. Management is responsible for sending of letter of engagement to the auditor.

False: Auditor is responsible for sending of letter of engagement to the management.

3. Letter of engagement does not contain any matters of management responsibilities.

False: Letter of engagement should contain management responsibilities.

4. BRIGHT Ltd., appointed Mr. Srinivas as its stationary auditor. He feels that he can accept this engagement immediately without verifying requirement as per SA-210.

False: Auditor is required to accept audit engagement as per SA-210, only when preconditions are presented and there is a common understanding between the auditor and the management and, where appropriate TCWG of the terms of audit engagement.

5. **The auditor of WHITE STAR Ltd., thinking that term of engagement need not decide in advance.**

   False: The terms of engagement should be decide in advance i.e. before starting the actual audit to avoid the disputes.

6. **It is necessary to issue audit engagement letter each year for repetitive audits.(N 14 MTP II)**

   False: As per SA 210, "Agreeing the Terms of Audit Engagements", it is not necessary to issue audit engagement letter each year for repetitive audit. It is enough if the same had been issued at the time of taking initial engagement. Therefore, the statement that it is necessary to issue audit engagement letter each year for repetitive audits is not correct.

7. **The audit engagement letter is sent by the client to auditor. (M 16 RTP)**

   False: The Audit engagement letter is sent by the auditor to his client. And it is very necessary in case of voluntary audits since the objective and scope of audit in this case is determined by the appointing authorities. So, to avoid any misunderstanding, the auditor should issue a letter of engagement.

8. **Term of engagement must not be decided in advance.**

   False: Client and auditor should agree on terms of engagement by way of an audit engagement letter, to avoid any misunderstanding. Thus, auditor should send an engagement letter, preferably before commencement of engagement.

3. APPOINTMENT OF AUDITOR AND ALLIED ASPECTS

1. **The qualification of a person to become a company auditor is specified in SEC-143 of the companies ACT 2013.**

   False: The qualification of a person to become a company auditor is specified in SEC-141 of the companies Act 2013.

2. **M/s RANI Ltd. management wants to appoint Mr. Mahesh who is a chartered accountant but not engaged in practice as its company auditor.**

   False: An individual can be appointed as an auditor of a company only if he is a chartered accountant holding certificate of practice.

3. **If a firm or LLP is appointed as an auditor of a company in such a case every partner in the firm is eligible to sign on the audit report.**

   False: If a firm or LLP is appointed as an auditor of a company in such a case only partners who are chartered accountants only eligible to conduct the audit and sign on audit report.

4. **A firm or LLP is eligible to appoint as Company Auditor provided majority no. of its partners other than CA's are practicing in India.**

   False: A firm is eligible to appoint as company auditor provided majority no. of its partners who are practicing in India are chartered accountants.

5. **SIVA RAJ Ltd. wants to appoint LAXMAN Ltd. as its company auditor in which shareholders / directors are Chartered Accountants.**

   False: Body corporate is disqualified from appointment as an auditor u/s 143(1). Here LAXMAN Ltd. is a body corporate.

6. **MASION Ltd. wants to appoint Mr. Prasad who is a finance director of the company as its auditor.**

   False: As per Sec 143(3), an officer or employee of the company are disqualified from appointment as an auditor. Here finance director is an officer.

7. **SUJANA Ltd. wants to appoint Mr. Narayana as its auditor who is in partnership with one of the directors of the company.**

   False: As per Sec 143(3), a person who is a partner or employee to the officer or employee of the company is disqualified form appointment as an auditor. The definition of officer includes directors.

8. **An Auditor who received advance fees from the company is disqualified from acting as its auditor irrespective the amount.**

   False: An auditor who received advance fees from the company is said to be indebted to the company. Disqualification is attracted only if indebtness amount is more than Rs 5 lakhs.

9. **Mr. Bhav Singh Auditor of SINGAM Ltd. opinioned that there is no chance for disqualification when he received audit fees on progressive basis.**

   True: If auditor received fees on progressive basis as per the terms of engagement then it not amounts to indebtness so disqualification is not attracted.

10. **Mr. Ramanujan who is a practicing Chartered Accountant feels that he can provide investment banking services along with the audit, because it is allowed in SEC -144 of the companies act, 2013.**

    False: As per Sec 144, auditor should not render services like investment banking services, internal auditor, investment advisory services along with the performance of the audit.

11. **An auditor who purchased goods on credit from a company shall be disqualified from appointment as its auditor irrespective of the amount.**

    False: As per Sec 143(3), an auditor who purchased goods on credit from a company an amount more than the Rs 5 lakhs then only he is disqualified.

12. **Every listed company should constitute audit committee subject to satisfaction of conditions under Sec. 177 of the Company's Act 2013.**

    False: Every listed company is required to constitute an audit committee in their company as per Sec 177 without satisfying any condition.

13. **As per Sec. 177 of companies Act 2013, audit committee should consist of directors, such that all are having the knowledge of reading and understanding of the financial statements.**

    False: The audit committee should consist of minimum of 3 directors. Majority of the members of the audit committee shall be the independent directors and able to read and understand the financial statements.

14. **Mr. Swaroop auditor of STYLE Ltd. thinking that he has the right to be heard and vote in audit committee meetings of the company.**

    False: The auditor of a company shall have a right to be heard in the meetings of the audit committee, when they considering the auditor's report. But even in such case he shall not have the right to vote.

15. **If there is a disagreement between board and audit committee of the company regarding selection of the auditors, then audit committee will refer its own recommendation i.e. the name of proposed auditor to the shareholders of the company.**

    False: If there is a disagreement between board and audit committee of the company regarding selection of the auditors, then board will refer its own recommendation i.e. the name of proposed auditor to the shareholders of the company.

16. **The First Auditor of a government company will be appointed by its board.**

    False: The first auditor of a government company will be appointed by the comptroller and auditor general of India.

17. **The First Auditor of a company whether it is government or non-government shall hold office from the conclusion of 1st AGM to conclusion of 6th AGM.**

    False: The first auditor of a government company or non-government company shall hold office up to the conclusion of 1st AGM.

18. **The tenure of subsequent auditor in case of a Government Company will expire on the date of conclusion of 1st AGM.**

    False: The tenure of subsequent auditor in case of a government company will expire on conclusion of AGM i.e. next AGM.

19. Casual vacancy refers to vacancy arising in the office of auditor on accounts of expiry of his term.

False: Casual vacancy refers to vacancy arising in the office of auditor on accounts of any reason other than on account of expiry of his term.

20. In case of Government Company, the first auditor will be appointed by the CAG within 60 days from its date of registration.

True: In case of Government Company, the first auditor will be appointed by the CAG within 60 days from its date of registration of the company.

21. The concept of rotation of auditors is applicable to a small company.

False: The concept of rotation of auditors is not applicable to a small company and one person company.

22. "Consecutive years" shall mean all the preceding financial years for which the individual auditor has been the auditor until there has been a break by 3years or more.

False: "Consecutive years" mean all the preceding financial years for which the individual auditor has been the auditor until there has break by 5 years or more.

23. The right of members to remove an auditor (or) the right of auditor to resign from office of the company shall be affected by the concept of rotation.

False: The right of members to remove an auditor (or) the right of auditor to resign from office of the company shall not be affected by the concept of rotation.

24. The term 'same network' includes the firms operating or functioning whether to or in future under the different brand name, trade name or common control.

False: The term 'same network' includes the firms operating or functioning whether to or in future under the same brand name, trade name or common control.

25. Retiring auditor can be reappointed in the all circumstances.

False: Retiring auditor cannot be reappointed in some cases like not possessing qualification u/s 141, disqualified u/s sec 141(3), 141(4) and 144 of the companies act etc.

26. A company need not obtain a written certificate from a person regarding SEC 141 (3) (g) of the companies Act 2013 before his appointment or reappointment as its auditor.

False: A company needs to obtain a written certificate from a person regarding SEC 141(3) (g) of the companies Act 2013 before his appointment or reappointment as its auditor.

27. Where at any AGM no auditor is appointed or re appointed then the existing auditor shall vacate from his office of the company.

False: Where at any AGM no auditor is appointed or re appointed then the existing auditor shall continue to be the auditor of the company.

28. The remuneration of the auditor of a company shall be fixed in GM, irrespective of whether he is a first auditor or subsequent auditor.

False: The remuneration of the auditor of a company shall be fixed in the GM or in such manner may be decided in the general meeting. However, board may fix remuneration of the first auditor appointed by it.

29. Consequences of not fixing the remuneration at the time of re-appointment of retiring auditor, then the existing remuneration will be decreased by 50%.

False: Consequences of not fixing the remuneration at the time of re-appointment of retiring auditor, then the existing remuneration will continue.

30. Special notice is not required when the company wants to appointment of auditor other than the retiring auditor.

False: Special notice is required when the company wants to appointment of auditors other than the retiring auditor.

31. Special notice is required when the company wants to appointment of auditor other than the retiring auditor, if he completed 5 years/10 years as provided U/S 139(2).

False: Special notice is not required when the company wants to appointment of auditor other than the retiring auditor, if he completed 5 years/10 years as provided u/s 139(2).

32. Mr. Chakravarthy is a retiring auditor of the M/s SKY Ltd. the company wants to appoint Mr. Sundar as its auditor in the coming AGM instead of retiring auditor. The company's management argued with Mr. Chakravarthy that he has no right to make representation.

False: The Retiring auditor is entitled to make representation against his removal.

33. If the tribunal is satisfied that the right to make representation is being abused by the auditor then the tribunal may order that the copy of the representation need to be sent to the members but the auditor can read out at the meeting.

False: If the tribunal is satisfied that the right to make representation is being abused by the auditor then the tribunal may order that the copy of the representation need to be sent to the members and also auditor need not read out at the meeting.

34. A person who is in full time employment elsewhere can be appointed as a company auditor provided, he is chartered accountant holding certificate of practice.

False: As per Sec 141, a person who is in full time employment elsewhere cannot be appointed as a company auditor because he is disqualified.

35. A Chartered Accountant in practice can hold appointments as auditor for more than 20 companies at any time.

False: A Chartered Accountant in practice can hold appointments as auditor for maximum 20 companies at any time as per Sec 143(3) (g).

36. In the computation of ceiling limit as per Sec. 141(3) (g), private limited companies having a paid up share capital of 100 crore or more should be included.

True: Because private limited companies having a paid up share capital less than Rs 100 crores are excluded in the computation of ceiling limit as per SEC 143(3) (g).

37. The limit of the audit assignments for an auditor who is an individual or as a partner of a firm can accept is 50 numbers.

False: The limit of the assignments for an auditor who is an individual or as a partner of a firm is 20 companies.

38. Audit of one person companies should be included in the computation of ceiling limit as per Sec. 141 (3) (g).

False: Audit of one person companies are excluded in the computation of ceiling limit as per SEC 141 (3) (g).

39. The auditor has right to access books, documents, vouchers etc. during all time i.e. in working days & nonworking days.

False: The auditor has right to access books, documents, vouchers etc. at all times i.e. during working days and working hours.

40. Auditor can verify statutory records along with the Financial books.

True: Auditor has the right to access any books and documents which are necessary for his purpose of audit including statistical records, minutes and statutory registers etc.

41. Company should maintain its books of accounts at its registered office as per SEC128 without any exceptions.

False: The board of directors of a company can shift their books of accounts from registered office to any other place in India provided board resolution should be passed in a board meeting and inform to ROC within 7 days from the passing of such board resolution.

42. If the Auditor is unable to get the required information then he has nothing to do.

False: If the auditor unable to get the required information, then he can mention the same in his audit report.

43. All notices of general meetings and board meetings must be send to the auditor of the company whether the Financial Statements are discussed or not in such meetings.

False: Auditor has the right to receive the notices of general meetings only in which whether financial statements are discussed or not but, he has no right to receive the notices of board meetings.

44. The auditor shall attend the GM in person in all cases unless otherwise exempted by the company.

False: The auditor shall attend the GM either by himself or through his authorized representative, who shall also be qualified to be an auditor (unless otherwise exempted by the company).

45. Lien refers to unlawful possession of some others property.

False: Lien refers to lawful possession of some other's property.

46. As per SA230, auditor can exercise lies on his working papers.

False: As per SA 230, auditor cannot exercise lien on his working papers because he is the legal owner of that working papers. So the question of exercising of lien on working papers is not arise.

47. In view of SEC 128 of the companies ACT 2013 auditors lean is impracticable.

True: As per SEC 128, the company should maintain its books of accounts at its registered office, so auditor cannot exercise lien on client's books.

48. Auditor has the duty to report on matters contained in SEC 143(1) in his audit report irrespective of comments.

False: Auditor has the duty to report on matters contained in SEC 143(1) in his audit report only when there are comments.

49. Auditor has the duty to report on matters contained in SEC 143 (3) in his audit report irrespective of comments.

True: Auditor has the duty to report on matters contained in SEC 143 (3) in his audit report irrespective of comments.

50. Whenever personal expenses have been charged to revenue accounts then auditor should disclose this observation in his audit report as per SEC 143(3).

False: If company charged personal expenses to revenue account then auditor needs to disclose such fact his audit report as per SEC 143(1).

51. According to the Companies Act 2013, only ICAI has the authority to prescribe the standards on auditing or any addendum there to.

False: As per SEC 133 of the Companies Act, 2013 only central government has the power to prescribe the standards on auditing or any addendum there to.

52. If the auditor has reason to believe that an offence of fraud involving an amount of less than 1 crore is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the CG.

False: If the auditor has reason to believe that an offence of fraud involving an amount is more than Rs 1 crore is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the CG.

53. The auditor should intimate to CG regarding fraud as per SEC 143 (12) is not applicable to a company secretary in practice conducting secretarial audit under section 204.

False: The auditor should intimate to CG regarding fraud as per SEC 143(12) is mutatis mutandis to a company secretary in practice as well as cost accountant in practice.

54. The first auditor of a Government company was appointed by the Board in its meeting after 10 days from the date of registration. (RTP - N17)

False: According to section 139(7) of the Companies Act, 2013, in the case of a Government company, the first auditor shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration of the company. If CAG fails to make the appointment within 60 days, the Board shall appoint in next 30 days.

55. A Chartered Accountant holding securities of S Ltd. having face value of 950 is qualified for appointment as an auditor of S Ltd. (RTP - N17)

False: As per the provisions of the Companies Act, 2013, a person is disqualified to be appointed as an auditor of a company if he is holding any security of or interest in the company.

56. The auditor shall express a qualified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (RTP - N17)

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

57. Usually branch auditor will be appointed by board of directors of the company.

False: Usually branch auditors are also appointed by the members. However, shareholders in general meeting, instead of appointing branch auditor, may authorize the board of directors to appoint branch auditors.

58. The branch auditor shall submit his report to the company's management.

False: The branch auditor shall submit his report to the company's auditor (or) principal auditor.

59. An Accountant can also eligible for appointment as branch auditor provided such branch is situated in a country outside India.

True: Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of accounts of the branch office in accordance with laws of that country.

60. Every company is required to constitute an audit committee.

False: Only companies which are specified in the Sec 177 are required to constitute an audit committee.

61. Director's relative can act as an auditor of the company. (PM, M 16 MTP, N 16 MTP I, M 15)

False: As per section 141(3) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor of a company whose relative is a Director or is in the employment of the company as a Director or Key Managerial Personnel.

62. Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company. (M 16 MTP II, M 15 RTP, RTP - N17)

True: As per Section 139(10) of the Companies Act, 2013, where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

63. The First Auditor appointed by BOD can be removed by the Board at it is subsequent meeting. (N 14 MTP I, N 07, N 08)

False: Removal before expiry of term is only with previous Approval of Central Govt. and Special Resolution by members and not in meeting of the board of directors.

64. Auditor has no right to access Minute Books of the Company (N 14 MTP II) (OR)

The auditor of A Ltd. Company wanted to refer to the minute books during audit but board of directors refused to show the minute books to the auditors. (PM, N 15)

False: As section 143 of the companies Act 2013 grants rights to auditor to access books of account & vouchers of the company. He is also entitled to require information & explanation from company. Therefore, he has a statutory right to inspect the minute book.

65. Permission of Central Government is not required, when the auditors are to be removed before the expiry of their term, but the same is needed when the auditors are changed after the expiry of his term. (N 14 MTP II) (N 16)

False: As per Section 140(1) of the Companies Act, 2013, an auditor may be removed from office before the expiry of his term, by the company in a general meeting, after obtaining prior permission of Central Government as removal of auditor before expiry of his term i.e. before he has submitted his report is a serious matter and may adversely affect his independence.

66. A Body Corporate is not qualified for appointment as Auditors of a Company. (N 14 MTP II)

True: Section 141(3) of the Companies Act, 2013 evidently excludes a body corporate to be qualified for appointment as auditors of company. Therefore, the statement that a Body Corporate is not qualified for appointment as Auditors of a Company is Correct:

67. A casual vacancy caused by resignation of the auditor can be filled by the Board of Directors and no further approval of shareholders is required. (N 15 MTP II, N 09, M 14)

False: As per section 139(8) of the Companies Act, 2013, any casual vacancy in the office of an auditor shall be filled by the Board of Directors within 30 days. However, if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

68. A Chartered Accountant holding securities of S Ltd. having face value of Rs.950 is qualified for appointment as an auditor of S Ltd. (PM, N 16 MTP II, M 17 RTP, N 15)

False: As per the provisions of the Companies Act, 2013, a person is disqualified to be appointed as an auditor of a company if he is holding any security of or interest in the company.

As the chartered accountant is holding securities of S Ltd. having face value of Rs.950, he is not eligible for appointment as an auditor of S Ltd.

69. Reporting on adequate internal financial controls system of a company is out of the scope of statutory auditor. (N 16 MTP II, N 15 MTP I)

False: Section 143(3) of the Companies Act, 2013 requires the statutory auditor of the company to state in auditor's report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

70. An auditor appointed under section 139 may be removed from his office before the expiry of his term by an ordinary resolution of the company. (N 16 MTP II, M 15 MTP I)

False: As per sub-section (1) of Section 140 of the Companies Act, 2013, an auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the prior approval of the Central Government in that behalf as per Rule 7 prescribed under Companies (Audit & Auditors) Rules, 2014:

71. Mr. Rajat, an auditor, recovering fees on progressive basis is said to be indebted to the company. (M 15 MTP I, N 13)

False: According to the Research Committee of the Institute, a question often arises as to whether indebtedness arises in cases where in accordance with the terms of his engagement by a client (e.g. resolution passed by the general meeting) the auditor recovers his fees on a progressive basis as and when a part of work is done without waiting for the completion of the whole job. Where in accordance with such terms, the auditor recovers his fees on a progressive basis, he cannot be said to be indebted to the company at any stage. In view of the above, Mr. Rajat cannot be said to be indebted to the company.

72. An officer of the company is not qualified for appointment as Auditor of a Company.

True: Section 141(3)(b) of the Companies Act, 2013 evidently excludes an officer or employee of the company to be qualified for appointment as auditor of a company. Therefore, the statement that an officer is not qualified for appointment as Auditor of a Company is Correct **(M 15 MTP I)**

73. The right of lien is not un-conditional. (N 16, M 07)

False: Conditions are

a) The book must belong to the company;

b) The document must have come into the possession of auditors with the authority of the Board;

c) The auditor has done work assigned to him on such documents; &

d) Such of the books can be retained which are connected with the work on which fees has not been paid.

74. Disqualification of Directors u/s 164(2) applies only in case of Directors of a Public Company.

False: Disqualifications u/s 164(2) applies to Directors of all Companies.

75. An Auditor can be appointed as First Auditor of a newly formed Company simply because his name has been stated in the Articles. (OR)

First auditor can be appointed by inclusion of their name in articles.

False: The only method of appointment of first auditors is as laid down in sec. 139(6) and (7). Therefore the auditors of a newly formed company cannot be appointed through the Articles.

76. The First Auditors of a Public Limited Company appointed by the Board of Directors hold office till the conclusion of its First AGM. (RTP)

True: According to Section 139(6) of the companies act, 2013, First Auditors will hold office until the conclusion of First AGM.

77. If appointment of a person as an Auditor is void-ab-initio, it should be treated as a casual vacancy. (N 07)

False: Casual vacancy = vacancy created by the Auditor ceasing to act after he was validly appointed and the appointment was accepted. If the appointment is void ab-initio, it is not a casual vacancy.

78. If the Auditor appointed at the AGM refuses to accept the same, the Company can appoint another person by holding General Meeting.

True: Here the Auditor appointed at the AGM refuses to accept the same. Hence there is no casual vacancy. Therefore only company can appoint Auditor by holding AGM but not by the board of directors

79. Government companies are also to be considered for the ceiling on number of audits.

True: As per Section 141(3) of Companies Act, 2013 Government companies are also to be considered for ceiling on number of audits. Only the following companies are excluded for computing ceiling: **(N 07)**

a) Private limited companies with paid up capital of less than Rs. 100 crores.

b) Small companies.

c) Dormant companies

d) One person companies.

80. The Auditor should study the Memorandum and Articles of Association to see the validity of his appointment. (PM, M 10, N 15)

False: The auditor should study the Memorandum of Association to check the objective of the company to be carried on, amount of authorized share capital etc. and Articles of Association to check the internal rules, regulations and ensuring the validity of transactions relating to accounts of the company.

To see the validity of appointment, the auditor should ensure the compliance of the provisions of section 139, 140 and 141 of the Companies Act, 2013.

In addition, the auditor should study the appointment letter & the prescribed Form submitted to the Registrar of the Companies to see the validity of his appointment.

81. The Auditor of a company is entitled to attend any general meeting of the company as his duty (N 08)

True: As per section 146, All notices and communication relating to any general meeting shall be forwarded to the auditor of the company and the auditor shall unless otherwise exempted by the company attend either by himself or through his authorized representatives who shall be qualified to be auditor. The auditor will have right to heard on the matters related to business. He is duty bound to attend or take part in the discussion. Further, he is entitled to attend only the general meetings and not the meetings of the Board.

82. The Auditor has no compulsion to attend the Meeting of the Audit committee (M 10)

True: As such, there is no statutory duty on the part of Auditor to attend Audit committee Meetings. However the auditor has a right to attend the meetings of audit committee which concerns him as an auditor.

83. Statutory Auditor cannot also be responsible for writing up the books of the company.

True: According to Section 144 of the companies act, 2013, The statutory Auditor cannot render Accounting and bookm keeping services to the auditee. Therefrore the auditor cannot undertake to write up the books of account of a company [sec. 144] **(M 03)**

84. An Auditor is considered to lack independence, if the Partner of the Audit Firm owns the building in which the Client's Business is situated. (M 07)

False: Here partner (auditor) owned the building and given to his client on rent. In this situation generally partner (auditor) may not influenced by the personal wishes of the client. Just because of the fact that the auditor is residing in the preimses of cliwent, it doesn't automatically affects the auditors independence.

85. AB & Co. is an audit firm having partners Mr. A and Mr. B. Mr. C, the relative of Mr. B is holding securities having face value of Rs.2,00,000 in XYZ Ltd. AB & Co. is qualified for being appointed as an auditor of XYZ Ltd. (PM, N 15)

False: As per the provisions of the Companies Act, 2013, a person is disqualified to be appointed as an auditor of a company if his relative is holding any security of or interest in the company of face value exceeding Rs.1 lakh. Therefore, AB & Co. shall be disqualified for being appointed as an auditor of XYZ Ltd. as Mr. C, the relative of Mr. B who is a partner in AB & Co., is holding securities in XYZ Ltd. having face value of Rs.2 lakh.

86. Manner of rotation of auditor will not be applicable to company A, which is having paid up share capital of RS.15 Crores and having public borrowing from nationalized bank of Rs. 50 crore because it is a Private Limited Company. (PM, M 17 RTP, N 15)

False: According to section 139 of the Companies Act, 2013, the provisions related to rotation of auditor are applicable to all private limited companies having paid up share capital of RS 20 crore or more; and all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of Rs.50 crore or more. Although company A is a private limited company yet it is having public borrowings from nationalized bank of Rs.50 crores, therefore it would be governed by provisions of rotation of auditor.

87. Managing director of A Ltd. himself appointed the first auditor of the company. (PM, N 15)

(OR)

The Managing Director of PQR Ltd. himself wants to appoint. Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director. (N 06)

False: As per section 139(6) of the Companies Act, 2013, the first auditor of a company, other than a government company, shall be appointed by the Board of directors within 30 days from the date of registration of the company, in case the Board fails then the appointment can be done by members within 90 days at EGM.

Therefore, the appointment of first auditor made by the managing director is in violation of the provisions of the Companies Act, 2013.

88. Mr. N, a member of the Institute of Chartered Accountants of England and Wales, is qualified to be appointed as auditor of Indian Companies. (PM, N 15)

False: A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant (CA as per CA Act,1949).

It may be noted that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

Thus, Mr. N is disqualified to be appointed as an auditor of Indian Companies.

89. The auditor has to report to Central Govt. within 90 days of his knowledge of an offence involving fraud.

False: If an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within 60 days of his knowledge and after following the prescribed procedure.

90. The remuneration of subsequent auditors appointed under the Companies Act, 2013 shall be fixed by the Board of Directors. (N 15, N 16 RTP)

False: According to Section 142 of the Companies Act, 2013, the remuneration of subsequent auditors of a company shall be fixed in its general meeting or in such manner as may be determined therein

91. Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company kept at the registered office of the company only.

False: As per section 143(1) of the Companies Act, 2013, every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company kept not only at the registered office of the company but also at any other place too. **(M 15, N 16 - RTP)**

92. The company shall place the matter relating to appointment of auditors for ratification by members at 5th AGM only. (N 16 RTP)

False: The Company shall place the matter relating to appointment of auditors for ratification by members at every AGM not just only 5th AGM.

93. There is no need of written consent of the auditor for appointing him as an auditor in a company. (N 16 RTP)

False: Before appointing an auditor, the written consent of the auditor to such appointment and a certificate form him that appointment shall be in accordance with the conditions as may be prescribed shall be obtained from the auditor.

94. Where a person appointed as an auditor of a company incurs any of the disqualifications after his appointment, he shall vacate his office as such auditor. (N 15 RTP)

True: As per section 141(4) of the Companies Act, 2013, where a person appointed as an auditor of a company incurs any of the disqualifications after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

95. If the auditor of the company has reason to believe that an offence in involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Audit Committee. (N 15 RTP)

False: As per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to Central Government within 60 days of his knowledge and after following the prescribed procedure.

96. In case of failure of the Board to appoint the first auditor, it shall inform the members of the company. (N 15 RTP)

True: According to section 139(6) of the Companies Act, 2013, in the case of failure of the Board to appoint the auditor with in 30 days of incorpation, then it shall inform the members of the company who shall appoint the first auditor with in next 90 days at an EGM.

97. In case of failure of the Board to appoint the first auditor, it shall inform the Central Government. (M 15 RTP)

False: According to section 139(6) of the Companies Act, 2013, in the case of failure of the Board to appoint the auditor, it shall inform the members of the company, members shall appoint auditor within 90 days at EGM.

98. An auditor appointed under the Companies Act, 2013 shall provide to the company only such other services as are approved by the company in general meeting. (M15 RTP)

False: According to section 144 of the Companies Act, 2013, an auditor appointed under this act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee.

99. AGM is not held in time, auditor automatically vacates his office. (M 13)

False: An auditor appointed for a particular period i.e., from conclusion of one annual general meeting until conclusion of the next annual general meeting. In case the annual general meeting is not held within the period prescribed, the auditor will continue in office till the annual general meeting is actually held and concluded. Therefore, auditor shall continue to hold office till the conclusion of the annual general meeting. Auditor's office is not vacated automatically if AGM is not held in time.

100. CARO, 2016 does not apply to a foreign company. (M 13)

False: CARO, 2016 applies to all companies including foreign companies except Banking, Insurance, Sec. 8 Companies, one person companies, small companies and Private Ltd. Companies subject to certain conditions.

101. While conducting audit of Government Companies, the auditors are paid their Professional Fees as prescribed by the Government. (M 10)

False: As per section 142 of the Companies Act, 2013 the fees of auditors of Government Companies is fixed by the company in a general meeting or in such a manner as the company in general meeting may determine.

102. Provisions of Companies (Auditor's Report) order 2016 , apply to clubs, chambers of commerce, research institutes etc, which have been established under Section 8 of the Companies Act, 2013. (N 09)

False: Companies (Auditor's Report) Order, 2016 provides that it shall not apply to companies which have been licensed to operate under Section 8 of the Companies Act, 2013 to promote commerce, art, science, religion, charity and Such companies include clubs, chambers of commerce, research Institutes etc.

103. Mr. X, a Chartered Accountant, is an employee of Mis M & N Co., a firm of Chartered Accountants of India. The firm is the Auditors of ABC & Co. L td. After auditing the accounts of the Company the Auditor firm allowed Mr. X, their employee, to sign the audit report; which he did. (N 09)

False: An employee Chartered Accountant cannot sign the auditor report on behalf of the auditing firm. Only a partner in the firm can sign the audit report in compliance with the section 141(2) of companies Act, 2013.

104. Mr. Aditya, a practicing Chartered Accountant can appointed as a "Tax Consultant" of ABC Ltd., in which his father Mr. Singhvi is the Managing Director. (N 13, M 16)

True: A Chartered Accountant who is a relative of Director, or KMP is disqualified from appointment & MD falls under the definition of KMP (Section 141(3) of Companies Act, 2013).

In this case, Mr. Aditya is a "Tax Consultant" and not a "Statutory Auditor" of ABC Ltd., hence will not get attracted to disqualification.

105. Audit of Private Limited Companies are to be excluded while calculating ceiling on number of audits. (N 13)

False: Only Private Limited Companies having paid up capital less than RS 100 Crores are excluded while calculating ceiling on number of audits but not all the private companies.

106. Companies (Auditor's Report) Order, 2016 shall not apply to a Private Limited Company whose paid up capital and reserves are not more than rupees fifty lakhs. (M 14)

True: Assume all other conditions are also satisfied.

Companies which are not covered under Companies (Auditor's Report) Order, 2016 includes a private limited company with a paid-up capital and reserves and surplus not more than rupees 1 crore and which does not have outstanding borrowings not exceeding rupees 1 crore from any bank or financial institution and total revenue including discontinuing operations does not exceeding rupees 10 crores and which is not a subsidiary company (or) holding company of a public company.

107. The Board of directors can fill casual vacancy caused due to resignation of an auditor, who shall hold the office until the conclusion of the next annual general meeting. (M 14)

True: If the casual vacancy arises by way of resignation of the auditor, then the vacancy shall be filled by the BOD within 30 days subject to approval of same by shareholders within 3 months of such appointment.

108. It is the responsibility of the Auditor to ensure that Statement of Profit and Loss and Balance Sheet of the company shall comply with the Accounting Standards. (N 14)

False: It is the responsibility of the company to ensure that statement of profit and loss and balance sheet of the company shall comply with the accounting standards. However, according to Section 143(3) of the Companies Act, 2013, it is the duty of the auditor to report that the statement of profit and loss and balance sheet of the Company are complying with the accounting standards.

109. The first Auditor is generally appointed by the company at a General Meeting. (N 14)

False: As per Section 139(6) and 139(7) of the Companies Act, 2013, the first auditor(s) of a company shall be appointed by the Board of Directors in case of Non - Government Company and CAG in case of Government company by following specified procedure in those provisions.

110. The members of XYZ Ltd. preferred a complaint against the auditor stating that he has failed to send the auditor's report to them. (M 16)

False: As per the provisions of the Companies Act, 2013, it is no part of the auditor's duty to send a copy of his report to members of the company. The auditor's duty concludes once he forwards his report to the company. It is the responsibility of company to send the report to every member of the company.

111. Statutory auditor has certain rights w.r.t branch office of Client Company as well.

True: If the accounts of any branch office are audited by a person other than companies auditor, then, statutory auditor has right to visit the branch office and to access at all times to the books, accounts and vouchers of the company maintained at the branch office.

112. C.A. Mr. X is the auditor of PQ Ltd. In which one of his relatives has a substantial interest. Is Mr. X qualified to be an auditor. (N 08)

False: CA Mr. 'X' is not qualified to be an auditor of PQ Ltd as per Chartered Accountant Amendment Act, 2006 & Section 141(3) of Companies Act, 2013 since the auditor's relative is holding shares in the company.

113. Amar, a partner in the firm of M/s Balaram & Co, Chartered Accountants, is the Secretary of Chand Ltd. Amar or Balaram & Co, can be appointed as the Company Auditor.

(OR)

Akshay is an Officer in Shri Udyog Ltd. He is also a Partner of PQR Co, a Partnership Firm. Babu is also a Partner of PQR Co. Babu is offered by Akshay, to act as Auditor of Shri Udyog Ltd. Comment. (RTP)

False: Amar, being an officer of the Company is disqualified.

114. Balu holds a majority of shares in Aswathama Ltd. Can Balu be appointed as Statutory Auditor of the Company? Will the answer differ if Balu holds only one share in that Company? (M 89)

False: A person holding any security of the company, is not eligible to appointed as Auditor.

[Note: Security means an instrument which carries voting rights Both majority shareholding and holding of one share only, constitute disqualification.]

115. If a Limited Liability Partnership Firm is appointed as an auditor of a company, every partner of a firm shall be authorized to act as an auditor. (PM, M 16 MTP I, M 17 RTP, M 15)

False: As per section 141(2) of the Companies Act, 2013, where a firm including a limited liability partnership (LLP) is appointed as an auditor of a company, only the partners who are Chartered Accountants shall be authorized to act and sign on behalf of the firm.

116. Every class of companies maintaining cost records as per Companies (Cost Records and Audit) Rules, 2014 is required to comply with cost audit rules. (N15 MTP I, N 15)

False: As per the Companies (Cost Records and Audit) Rules, 2014, the requirement for cost audit shall not be applicable to a company whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or which is operating from a special economic zone or which is engaged in the generation of electricity for captive consumption.

117. Audit Committee is to be formed by each and every company.

False: "Audit committee" is required to be constituted u/s 177 for listed companies and certain prescribed class (es) of companies. Therefore Audit committee is not required to be formed by each and every company.

118. Where a person appointed as an auditor of a company incurs any of the disqualifications after his appointment, he will still continue as an auditor. (M 15 RTP)

False: Where a person appointed as an auditor of a company incurs any of the disqualifications after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

119. Central Government permission is required when auditors are to be removed before expiry of their term, but not so when auditors are changed after expiry of their term. (N 16)

True: Removal of auditor before expiry of his term i.e. before he has submitted his report is a serious matter and may adversely affect his independence. Hence, the permission of the Central Government is required when auditors are removed before expiry of their term and the same is not needed when they are not re-appointed after expiry of their term.

120. The first auditor of PQR Ltd., a Government Company was appointed by the board of directors of the Company (N 13, M 15, M 16)

False: The First auditor of Government Company shall be appointed by C & AG within 60 days from the date of registration of the company. Alternatively if C & AG fails to do, BOD can appoint in next 30 days. Thus, the appointment of first auditors made by the Board of Directors of PQR Ltd. is null and void.

121. Auditor must send audit report to every member of company.

False: It is the duty of the auditor to make a report to the members. However he is not required to send his report to every member.

122. **The management of STAR Ltd., decided to maintain their books of accounts in electronic mode.**

True: The Company can keep its book of account or other relevant books and papers in electronic mode

123. **Whenever a company do not comply accounting standards in the preparation of its financial statements, then such company need not disclose any information regarding such non-compliance in the financial statements.**

False: In such a case the company shall disclose in its financial statements the following matters i.e. the deviation from the accounting standards, the reason for such deviation and the financial effects, if any, arising out of such deviation.

124. **The company cannot remove its auditor before the expiry of his term.**

False: The Company can remove its auditor before expiry of his term provided procedure mentioned in the rule 7 of CAAR, 2014 followed. It has to obtain the prior permission of central government.

125. **The company needs to pass a unanimous resolution for removal of its auditor before expiry of his term.**

False: The Company needs to pass a special resolution as per rule 7 of CAAR, 2014 for removal of its auditor before expiry of his term. **(M16 RTP)**

4. RISK ASSESSMENT AND INTERNAL CONTROL

1. **The management of pure ltd. is in the opinion that the internal control system designed by them having no limitations.**

False: Internal controls are suffering from certain inherent limitations of an audit like collusion, management fraud and abusing authority etc.

2. **Inherent risk, control risk and misstatement risks are 3 components of audit risk.**

False: Inherent risk, control risk and detection risk are 3 components of audit risk.

3. **Auditor is responsible for inherent risk and control risk.**

False: Management is responsible for inherent risk and control risk. Auditor is responsible for detection risk.

4. **For a given level of audit risk, the acceptable level of detection risk bears a direct relationship to the assessed risks of material misstatement at the assertion level.**

False: For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risk of material misstatement at the assertion level.

5. **In case of control risk, entity's internal controls will not be prevented, or detected and corrected the misstatements.**

True: In case of control risk, internal controls will not be prevented, or detected and corrected the misstatements.

6. **Detection risk is the responsibility of the auditor**

True: Detection risk is risk that the procedures performed by the auditor to reduce audit risk to an acceptable level will not detect a misstatement that exist and that could be material, either individually or when aggregated with other misstatements. So auditor is responsible.

7. **Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individuals or when aggregated with misstatements in other balances or classes, assuming related internal controls are failed.**

False: Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or when aggregated with misstatements in other balances or classes, assuming there are no related internal controls.

8. **When inherent and controls risks are low, the auditor can accept a higher detection risk.**

   True: The combination of inherent risk and control risk bears an inverse relationship with detection risk.

9. **Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls. (M 17 RTP)**

   False: Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.

10. **Inherent and control risk should be assessed on a combined basis.**

    True: The auditor should make a combined assessment of the inherent and control risk. This is because the management often reacts to inherent risk situations by designing suitable internal control system to prevent or detect and correct material misstatement.

11. **There is direct relationship between detection risk and combined level of inherent and control risk.**

    False: There is an inverse relationship between detection risk and the combines level of inherent and risk. Thus when inherent and control risk are high, acceptable detection risk should be low to reduce the audit risk to an acceptable level.

12. **Inherent and control risk, and detection risk have same meaning. (M15 MTP I, N 13)**

    False: Inherent and control risks differ from detection risk in that they exist independently of an audit of financial information. Inherent and control risks are functions of the entity's business and its environment and the nature of the account balances or classes of transactions, regardless of whether an audit is conducted. Even though inherent and control risks cannot be controlled by the auditor, the auditor can assess them and design his substantive procedures to produce an acceptable level of detection risk, thereby reducing audit risk to an acceptably low level.

13. **When inherent, control risks are low, an auditor can accept a lower detections risk.**

    False: When Inherent and control risk are low auditor may enjoy higher level of detection risk. Because detection risk has an inverse relationship with that of combined assessment of inherent and control risk.

14. **Internal control is the process designed, implemented and maintained by auditor to achieve his objective i.e. for expression of opinion.**

    False: Internal control is the process designed, implemented and maintained by management to achieve their objectives like safeguarding of assets, prevention and detection of frauds and errors etc.

15. **Internal control can provide only absolute but not reasonable assurance that its objective relating to prevention and detection of errors & frauds, safeguarding of assets etc., are achieved.**

    False: Internal controls can provide only reasonable assurance but not absolute assurance that its objective relating to prevention and detection of errors &frauds, safeguarding of assets are achieved.

16. **Management of STAR Ltd. believe that the internal control system which is implementing by them in the company can prevent, detect and correct 100% frauds & errors in their company since it is very best control system.**

    False: Due to inherent limitations of internal control system, company cannot prevent, detect and correct 100% frauds and errors.

17. **Mr. Gopi, auditor of NATH Ltd. is in the opinion that he can prepare narrative record without conducting actual testing and observation of internal control system.**

    False: Narrative record should be prepared by the auditor only after conducting actual testing and observation of internal control system in the audit of a small company.

18. It is very easy to identify weaknesses in internal controls in narrative record method.

False: Narrative record doesn't readily identify weaknesses or gaps in the internal control system.

19. Narrative record is an incomplete and brief description of the system as found in operation by the auditor.

False: Narrative record is a complete and exhaustive description of the system as found in operation by the auditor.

20. Management of MAYUR Ltd. thinking that there is no chance for collusion by their employees with the outsiders in the company.

False: Collusion is one of the inherent limitations of internal control system of the company. This cannot be eliminated.

21. Check list is a series of instructions (or) questions which management of the company must follow (or) answer.

False: Check list is a series of instructions (or) questions which audit staff must follow (or) answer.

22. Internal control questionnaire refers to a complete series of questions in a logical and sequential order prepared by the management concerning internal control.

False: Internal control questionnaire refers to a complete series of questions in a logical and sequential order prepared by the auditor concerning internal controls.

23. Mr. Rahul is an audit staff of VINAYAKA & CO, in the course of audit of SHAKTI Ltd. feels that "yes" answer to the questions in ICQ represents weakness in the internal control system of the company.

False: "Yes" answer to the questions in ICQ represents strength in the internal control system of the company.

24. Letter of weakness refers to a letter submitted by management to the auditor regarding weaknesses in internal control systems which were observed by them.

False: Letter of weakness refers to a letter submitted by auditor to the management regarding weaknesses in internal control system which was observed by him.

25. The checklist is usually issued to the client and answers to the questions are filled by client's employees.

False: Internal control questionnaire is usually issued to the client and answers to the questions are filled by client's employees. Check list is usually answered by audit staff.

26. A flowchart is a graphic presentation of few parts of the company's system of internal control such as the nature of its activities and various channels of goods and materials as well as cash, inward and outward.

False: A flowchart is a graphic presentation of each part of the company's system of internal control such as the nature of its activities and various channels of goods and materials as well as cash, inward and outward.

27. An ICQ is considered to be the most concise i.e. briefest way of recording the auditor understanding and evaluation of the internal control system in the correct perspective.

False: A flow chart is considered to be the most concise i.e. briefest way of recording the auditor understanding and evaluation of the internal control system in the correct perspective.

28. Internal control evaluation is considered as a substitute for the internal control questionnaire.

False: Internal control evaluation is not considered as a substitute for the internal control questionnaire.

29. The internal control questionnaire brings to light importance of those weakness disclosed by ICE.

False: The ICE brings to light importance of those weakness disclosed by the internal control questionnaire.

30. **Internal check has been defined as checks on the day to day transactions which operate continuously as a part of the routine system whereby the work of one person is not automatically checked by the work of another by making both jobs complementary to each other.**

    False: Internal check has been defined as checks on the day to day transactions which operate continuously as a part of the routine system whereby the work of one person is automatically checked by the work of another by making both jobs complementary to each other.

31. **he management of AYUSH Ltd. decided to take necessary steps so that a single person should have an independent control over an important aspect of the business in order to frame a good internal check system in their company.**

    False: No single person should have an independent control over an important aspect of the business. It is one of the considerations in framing a good internal check system.

32. **The 'letter of engagement' sent by the auditor to the management should consist exhaustive list of weaknesses in the internal control mechanism.**

    False: 'Letter of weakness' sent by the auditor to the management should consist of list of weaknesses observed by him in the audit.

33. **It is the Auditor's duty to prepare flowchart of a company in his audit because it involves time consuming.**

    False: Generally in the cases of big companies, management will prepare flow charts relating to internal controls of the company.

34. **ICQ is a tool available to the auditor to review the internal control system for a company.**

    True: ICQ, check list, narrative record, and flow charts are the tools available to the auditor to review the internal control system for a company

35. **Flow chart is a complete and exhaustive description of the system as found in operation by the auditor.**

    False: Narrative record is a complete and exhaustive description of the system as found in operation by the auditor. Flow chart is a graphic presentation of each part of the company's system of internal control such as the nature of its activities and various channels of goods and materials as well as cash, both inward and outward.

36. **Answers to the checklist instructions are usually yes, no or not applicable along with remarks column.**

    False: Check list have no remarks column. ICQ have remarks column.

37. **Check list involves the range of various symbols and signs.**

    False: Flow chart involves the range of various symbols and signs.

38. **Letter of weakness does not contain any suggestions of the auditor to overcome the weaknesses in internal controls observed by him weak.**

    False: Letter of weakness is generally consisting of weaknesses and suggestions to overcome such weaknesses.

39. **The employees of the company who are involving in the internal check should submit a separate report to the management.**

    False: The employees who are participating in the internal check need not submit any separate report.

40. **There is no responsibility on the part of auditor to communicate material weakness in internal controls noticed by him to the management as per SA-265.**

    False: As per SA-265, auditor is responsible to communicate material weakness in internal control noticed by him to the management.

41. Narrative Record is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer. (M 15 RTP)

False: Narrative Record is a complete and exhaustive description of the system as found in operation by the auditor. On the other hand, a Check List is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer.

42. A flow chart is a graphic presentation of each point of the company's system of internal control. (N 16)

True: Flow chart is a graphic presentation of each part of the entity's system of internal control. It minimizes the amount of narrative explanation and thereby achieves a presentation not possible in any other form. It gives bird's eye view of system for suggestion.

43. In case of ICE, the questions are prepared in positive frame.

False: In case of ICE, the questions are prepared in negative frame.

44. Check list is a complete and exhaustive description of the system as found in operation by the auditor. (N 16 RTP)

False: Narrative Record is a complete and exhaustive description of the system as found in operation by the auditor. On the other hand, a Check List is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer.

45. Internal control questionnaires are a good source of identifying weakness in internal control system. (M 16)

True: The questionnaire form provides an orderly means of disclosing control defects. It is the general practice to review the internal control system annually and record the review in detail. In the questionnaire, generally questions are so framed that a 'Yes' Answer denotes satisfactory position and a 'No' Answer suggests weakness.

46. Auditor should not communicate weakness in internal control system to the management as he checks only financial statement.

False: Any material weakness in the internal control noticed by the auditor should be communicated in writing to the management in a timely manner. However such communication should mention that the audit has not been conducted to determine the adequacy of internal controls

47. Preparation of flowchart can be time consuming.

True: Flowchart is graphic presentation of each part of entity's internal control system. It is time consuming to prepare a flowchart, which is concise yet showing every important aspect of I.C.

48. Letter of weakness is issued by the Management. (PM, M 16 MTP I, N 16 RTP, M 15)

False: Letter of weakness is a report issued by auditor stating the weakness in internal control mechanism. It also suggests measures by which the weakness in the system to be corrected and the control system be made better protected.

49. Written Representation and External Confirmations are tools available for review of Internal Controls.

False: Narrative Record, Flowchart, ICQ and Checklist are the tools to review Internal Controls. Written Representation and External Confirmations are tools available to obtain audit evidence.

50. Owner- Manager may override controls in Smaller Entities, since the system of Internal Control is less structured.

True: The Owner – Manager may be more able to override controls because the system of internal control is less structured. Therefore in such cases it is highly advisable for the auditor to maintain professional skepticism throughout the audit.

51. Management of YATHRA Ltd. feels that an employee having physical custody of assets should also maintain corresponding books of accounts.

False: Persons having physical custody of assets must not be permitted to have access to the books of account.

52. Risk of material misstatement may be defined as the risk that the Financial Statements a materially misstated subsequent to audit. (M 16 RTP)

False: Risk of material misstatement may be defined as the risk that the Financial Statements are materially misstated prior to audit but not subsequent to the audit.

53. Audit risk is the risk that an auditor may give an appropriate opinion on financial information which is materially misstated.

False: Audit risk is the risk that an auditor may give an inappropriate opinion on financial information which is materially misstated.

54. Mr. Naik, auditor of ABC Ltd. opinioned that he need not acquire the knowledge of company business for conducting the audit.

False: The auditor needs to obtain knowledge of the client's business in order to understand the classes of transactions, account balances, and disclosures in the financial statements.

55. M/s Rahim Ltd. appointer Mr. Subhani as its auditor, he decided that not to verify minutes of shareholders (or) board of directors and clients annual report to shareholders because it cannot help for obtaining the knowledge of company business.

False: Auditor can obtain knowledge from clients annual report, minutes of shareholders or directors, internal finance management reports etc.

5. PLANNING OF AUDIT

1. Successor auditor need not communicate with the predecessor auditor as per SA 230, before starting /accepting the audit engagement.

False: As per SA-300, successor auditor needs to communicate with the predecessor auditor before accepting the audit engagement.

2. Management of Trilok Ltd. feels that it can give instructions to its auditor Mr. Siva regarding nature, timing and extent of audit by giving audit programme to him.

False: Management has no power to specify nature, timing and extent of audit. Auditor will determine nature, timing and extent of audit to be performed by specifying in the audit programme to the audit staff.

3. Audit plan is a detailed audit programme of applying the audit procedure in the given circumstances for accomplishing the audit objectives.

False: Audit programme is a detailed audit plan of applying the audit procedure in the given circumstances for accomplishing the audit objectives.

4. The auditor of M/s Ganeshan Pvt. Ltd. feels that he need not review the audit programme periodically since no use.

False: Auditor needs to review audit programme to know whether it is adequate for obtaining audit evidence about the transactions or to include some additional works which were left out originally, but found relevant for the particular audit situation or to drop any original work framed earlier that was found to be unnecessary or irrelevant.

5. Mr. Gopal is a statutory auditor of Gaganam Ltd. decided to destroy the audit programme after completion of audit since it has no usage in the future.

False: Audit programme serves as a guide for audits to be carried out in the succeeding year.

6. The auditor of Maha Raj Ltd. is of the opinion that he need to mention timing for the work of his audit staff in the preparation of audit programme.

True: The audit timing is built in audit programme so it becomes a schedule of audit plan.

7. Mr. Vamsi, one of the audit staff of GC & Co. firm of Chartered Accountant decide that he need not sign on audit programme after completion his work while conducting the audit of Bharathi Ltd. since only auditor has the right to make sign on audit programme prepared for such company.

False: Audit staff must sign on the audit programme after completing the audit work, it holds their responsibility for the work performed.

8. **Mr. Kesav is a practicing Chartered Accountant feels that standardized audit programme supplied by him to his audit staff cannot kill their initiative.**

   False: One of the disadvantages of standardized audit programme is it may kill the initiative of audit staff.

9. **Mr. Mukundan, an auditor of Crane Ltd. is of the opinion that he need not discuss with his audit staff before preparation of audit programme because it is time waste process.**

   False: The auditor needs to consult with his audit staff while preparing the audit programme to avoid the disadvantages like mechanical.

10. **M/s Rajan Ltd, appointed Mr. Ganapathi as its statutory auditor. He verified internal control system of the company observed that it is weak. So he decided to adopt test check in his audit.**

    False: Auditor can adopt test check in his audit only when internal controls are strong. If internal controls are week then he should not go for test check.

11. **Mr. Prasad is the auditor of Shine Ltd., decided to verify items which are covered in sec.143 (1) and sec. 143(3) exhaustively because here he should not adopt test check.**

    True: Test check is not suitable for areas covered in sec 143(1) and sec 143(3).

12. **An auditor of a public company feels that he need not take any precautions before adopting test check method because test check is recognized by SA-530.**

    False: Auditor has to take some precautions before applying test check method such as identification of areas where test check may not be done, unbiased selection of the transactions, number of transactions to be selected etc.

13. **The auditor need not select items for the sample in such a way that each sampling unit in the population has a chance of selection, because it is subject to his professional judgment.**

    False: The auditor needs to select items for the sample in such a way that each sampling unit in the population has an equal chance of selection.

14. **Mr. X is the auditor of Moon Ltd., is in the opinion that by adopting statistical sampling in his audit, he can reduce the sampling risk to zero.**

    False: Even statistical sampling method is adopted by the auditor sampling risk cannot be reduced to zero.

15. **Under random sampling method, all items in the population have no chance for getting selection in a sample.**

    False: Under random sampling method, all items in the population have equal chance for getting selection in a sample.

16. **In stratified random sampling, the group name is known as a 'Cluster'.**

    False: In stratified random sampling, the group name is known as a 'strata'.

17. **In cluster sampling, auditor is going to verify each and every cluster.**

    False: In cluster sampling, auditor is going to verify only selected clusters.

18. **Block of consecutive items are selected in a cluster sampling**

    False: Block of consecutive items are selected in block sampling.

19. **Materiality is to be considered only with respect to quantitative details.**

    False: Materiality is to be considered with respect to quantitative details and also in qualitative dimensions

20. **Materiality is not a matter of professional judgment of auditor.**

    False: Materiality is a matter of professional judgment of the auditor.

21. There is a direct relationship between materiality and the degree of audit risk.

False: There is an inverse relationship between materiality and the degree of audit risk..

22. Continuous audit is one which is commonly understood to be an audit which begins after the books have closed at the end of the accounting period and thereafter is carried on continuously until completed.

False: Continuous audit is one in which the auditor's staff is engaged continuously in checking the accounts of the client during the whole year rounded at quite frequent intervals say weekly, monthly, quarterly etc.

23. Final audit is one in which the auditor's staff is engaged continuously in checking the accounts of the client during the whole year rounded at quite frequent intervals say weekly, monthly, quarterly etc.,

False: Final audit is one which is commonly understood to be an audit which begins after the books have closed at the end of the accounting period and thereafter is carried on continuously until completed.

24. Mr. Varma, an auditor of KRANTI Ltd., decided to go for final audit because detailed examination is possible in such audit.

False: If Mr. Varma wants to conduct detailed examination in audit then he needs to choose continuous audit.

25. Early detection of frauds and errors is possible in case of final audit.

False: Early detection of frauds and errors is possible in case of continuous audit.

26. Stratification is the process of dividing a population into sub populations, each of which is a group of sampling units which have dissimilar characteristics. (Often monetary value).

False: Stratification is the process of dividing a population into sub populations, each of which is a group of sampling units which have similar characteristics. (Often monetary value)

27. For adopting test check approach, internal control should be strong.

True: Auditor can go for test check only when internal controls are strong.

28. Test check can be adopted in respect of opening and closing balances.

False: Test check is not suitable for the areas of opening balances and closing balances.

29. Mr. Samba, auditor of DEV Ltd., feels that homogeneous transactions are not suitable for test check in the audit.

False: Homogeneous transactions are suitable for test check.

30. All frauds and errors can be detected by adopting test check approach.

False: Auditor cannot detect 100% frauds and errors because of inherent limitations of an audit. Test check is one of the inherent limitations of an audit.

31. Mr. Deepak, an auditor of LIGHT Ltd. feels that for adopting statistical sampling, he needs to acquire an in-depth knowledge of statistics.

False: Auditor need not require an in-depth knowledge of statistics in adopting statistical sampling. Random number tables are readily available.

32. Misstatements are considered to be material if they, individually but not in the aggregate, could influence the economic decisions of users taken on the basis of the financial statements.

False: Misstatements are considered to be material if they, individually or in the aggregate, could influence the economic decisions of users taken on the basis of the financial statements.

33. The "Audit sampling" means verifications of each and every transaction in the population.

False: The "Audit sampling" means verification of few selected transactions from the entire population.

34. Sampling risk is one component of the audit risk.

False: Audit risk is the risk that the auditor may give an inappropriate opinion when the financial statements are materially misstated. Audit risk has three components viz. inherent risk, control risk and detection risk. It does not include sampling risk.

35. It is mandatory on the part of the auditor to adopt sampling technique in the every audit.

False: Auditor can adopt sampling technique only when it is suitable i.e., internal controls should be strong, transactions should be homogenous in nature etc.

36. Even if 100% checking is done, the risk of reaching of an inappropriate opinion can't be completely eliminated by the auditor.

True: Because of inherent limitations of an audit, risk of reaching an inappropriate opinion can't be completely eliminated.

37. Statistical sampling is scientific in nature.

True: Statistical sampling is scientific in nature because of random numbers and theories of probability are used.

38. Sample gives always a wrong audit opinion.

False: By using statistical sampling methods auditor can give an appropriate opinion.

39. The terms 'Sample' and "Population" have same meaning.

False: Population refers to entire set of data from which a sample is selected and about which the auditor wish to draw conclusions. So sample is a part of the population.

40. Planning is indispensable part of audit process.

True: The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. It should be based on knowledge of the client business.

41. Auditor must maintain confidentiality subject to certain exceptions.

True: The principle of confidentiality is one of the basic principles of auditing. Auditor is generally not expected to disclose the information of his client to others. But however he can disclose the information to others, if

- Permitted by his client and
- If he has to disclose it as per any statutory obligation dictated by any law.

42. Test checks refers to the routine audit checks that are carried out in the normal course of audit. (N16 MTP II, N 15 MTP I, M 07)

False: Test checks refers to an audit procedure wherein only a part is checked to form an opinion instead of checking all the transactions.

43. Material items are only quantitative in nature.

False: Material items are those which may influence the judgment of users of financial statements. It may be quantitative and qualitative as well. For example penalties paid for contravention of any law is material item by its qualitative nature irrespective of the quantity of amount.

44. Final audit reduces the chance of manipulation in accounts.

True: Final Audit begins after the books have been closed at end of accounting period & then carried on continually till completion. Work is carried out in single continuous sitting. Thus there will be no manipulation in accounts, once closed.

45. In continuous audit auditor goes to client site only at end of year.

False: When audit is conducted during the financial year *i.e.,* accounts are checked the whole year round it is termed as continuous audit. Usually Audit staff is present at client's site almost during entire accounting period.

46. Continuous audit doesn't have any limitation.

False:

Records may be altered after being examined by auditor,

Not suitable for small organization,

Audit staff may overlook a matter not completely examined on last visit.

47. "Audit Sampling" means the application of audit procedures to 100% of items within a population. (M 15 MTP II)

False: "Audit Sampling" means the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

48. Audit Sample need not be selected on random basis for application of Statistical Techniques.

False: Random selection is a pre- requisite for application of Statistical Techniques.

49. The method which involves dividing the population into groups of items is knows as block sampling. (RTP N17, N 16)

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

50. Cluster sampling is less effective than random sampling. (M 16)

True: In cluster sampling population is divided into group called cluster and a number of cluster is selected on random basis. In case of random sampling, each item is randomly chosen and so every item has an equal chance of being selected. Thus, cluster sampling is less effective.

51. Stratified random sampling is useful for population having similar characteristics.

False: Stratification means dividing a heterogeneous population into more homogenous sub populations. Sample is taken from each sub population. It is useful for diversified population.

52. Tolerable error & size of sample are inversely related.

False: Tolerable error is maximum error in population that auditor is ready to accept for a given sample size. Greater sample size is needed in case of smaller tolerable error.

53. Sampling risk and sample size are inversely related.

True: Sampling risk arises from possibility that auditors conclusion based upon sample may be different from conclusion that would have been reached, if same audit procedure were applied on entire population. If acceptable sampling risk is low, large sample is needed.

54. Audit risk has three components.

True: Audit risk is the risk that the auditor may give an inappropriate opinion when the financial statements are materially misstated. Audit risk has three components viz. inherent risk, control risk and detection risk.

55. Management of Rahul Ltd. is thinking that it is the duty of their auditor to take proper steps for safeguarding the company assets.

False: Management is responsible for the maintanence of adequate accounting records and internal controls for safeguarding assets of the company.

56. As per SA 300, risk assessment procedures are to be performed by the auditor.

False: As per SA-315, risk assessment procedures are to be performed by the auditor.

57. Mr. Balu being a statutory auditor of Ganga Ltd. feels that overall audit strategy prepared by him is not aim for setting the scope, timing and direction of the audit.

False: 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.

58. Audit firms are not required to conduct audit assistants meetings frequently.

False: There should be frequent audit assistants meetings so that all audit staff can exchange their experience with others.

59. Sampling is a major inherent limitation of audit.

True: Auditor uses sampling during performance of audit. It is not possible for him to conduct detailed checking due to time constraints and other practical problems. As he doesn't check each & every item, so it is impossible for him to detect all fraud & errors.

6. PERFORMING OF AUDIT

1. The sufficiency and appropriateness of audit evidence are interrelated.

True: SA 500 on 'Audit Evidence' expounds this concept. According to it, the sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. Appropriateness is the measure of the quality of audit evidence. SA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level. **(M 15 MTP II, N 16 MTP I)**

2. "Sufficiency" refers to quality of audit evidence.

False: "Sufficiency" refers to quantity of audit evidence.

3. If Internal Control is satisfactory, External Evidence is more reliable than Internal Evidence. (N 07)

False: Usually external audit evidence is more reliable than internal evidence. However, Internal Evidence is more reliable when related internal control is Satisfactory. Therefore, If Internal Control is satisfactory, Internal Evidence is more reliable than External Evidence.

4. Compliance procedures are the tests designed to obtain audit evidence as to completeness, accuracy & validity of data produced by accounting system. (M08, M13)

False: Compliance procedures are the tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Here, auditor is concerned with assertions that the control exists & is operating effectively.

5. However substantive procedures are the tests designed to obtain audit evidence as to completeness, accuracy & validity of data produced by accounting system. Substantive procedures do not test the balances of accounts. (M 16)

False: Substantive procedure is an audit procedure designed to detect material misstatements at the assertion level. It comprise (i) tests of details (of classes of transactions, account balances, and disclosures), and (ii) substantive analytical procedures.

6. Compliance procedure is undertaken to check transactions & balances.

True: Compliance procedures are undertaken to examine the internal control system to know the existence and operating effectiveness of internal controls. However substantive procedures are undertaken to check transactions & balances

7. Substantive procedures are carried out to check data produced by accounting system.

True: Substantive procedures are undertaken to check completeness, accuracy and validity of **Inspection consists of looking at a process or procedure being performed by others**

False: Observation consists of looking at a process or procedure being performed by others.

Whereas inspection means examination of documents and records. However both are audit methods to obtain audit evidence. **(M16 RTP)**

8. External confirmation means representation from management.

False: It is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item. Whereas representations from the are called Written representations as per SA 580.

9. Auditor should consider consistency of evidence.

True: The audit evidences obtained through different sources or of different nature should be consistent. If there is inconsistency among different evidences relating to a single item, auditor should perform additional procedures to resolve inconsistency.

10. Audit procedure and Audit technique are not one and same thing. (N 15 RTP, M 08, M 14)

True: The two terms, procedure and technique are often used interchangeably. However, a distinction does exist. Procedure may comprise a number of techniques and represents the broad frame of the manner of handling audit work and the technique stands for the methods employed for carrying out the procedure.

11. There is no difference in the term Audit technique and Audit procedures. (M 14)

False: The two terms, Procedure and Technique are often used interchangeably. However, a distinction does exist. Procedure may comprise a number of techniques and represents the broad frame of the manner of handling audit work and the technique stands for the methods employed for carrying out the procedure.

12. Scrutiny of Bank Reconciliation Statement is one of the audit techniques. (M 16 MTP I, N 16 RTP, M 15)

True: For collection and accumulation of audit evidence, certain methods and means are available and these are known as audit techniques. The scrutiny of Bank reconciliation Statement is one of the Audit techniques commonly adopted by the auditors.

13. One of the techniques or methods used for gathering evidence is substantial review.

False: One of the techniques or methods used for gathering the audit evidence is analytical review but not the substantial review. Analytical review means analysis of trends and ratios, Identification of abnormal deviations and Investigation of those deviations. **(N 07, N 16)**

14. Mr. Ramesh auditor of Muthoot Ltd. feels that he need to take proper steps for safe custody of his working papers without chance of disclosing to others.

True: Auditor needs to adopt reasonable procedures for custody and confidentiality of his working papers.

15. In the course of audit of M/s Raisers Ltd. Mr. Murali acting as auditor feels that he need not based on his working papers for expression of opinion in his audit report.

False: Working papers acting as audit evidence that the conclusions reached are appropriate on the basis of results of audit procedures performed.

16. Mr. Swami Naidu is thinking that he should furnish the copies of his working papers when client requested him since they containing client's information.

False: Auditor may at his discretion, provide the copies of his working papers when client requested him.

17. Mr. Murthy is a practicing Chartered Accountant feels that he has to maintain his working papers relating audit of public companies for a minimum period of 7 years and 5 years in case of private companies.

False: The auditor should retain his working papers for a minimum 7 years from the date of the auditor's report in case of any client.

18. SA 230 deals with auditor's responsibilities relating to fraud in an Audit of Financial Statement. (N14 MTP II, N 15 MTP II)

False: SA 230 deals with "Audit Documentation" whereas SA 240 deals with "The Auditor's responsibilities relating to Fraud in an Audit of Financial Statements".

19. As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor. (M17 RTP)

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

20. Working papers does not contain audit note book.

False: Working papers contains audit note book.

21. Written representations obtained by auditor from the management form part of permanent audit file.

False: Written representations obtained by auditor from the management form part of current audit file.

22. Notes regarding significant accounting policies obtained by auditor from the management form part of current audit file.

False: Notes regarding significant accounting policies obtained by auditor from the management form part of permanent audit file.

23. Mr. Laxman, auditor of White Ltd., decided that he need not maintain 2 audit files i.e., permanent audit file and current audit file since it is a recurring audit.

False: In case of recurring audit, auditor has to maintain 2 audit files i.e., permanent audit file and current audit file.

24. Mr. Ravi is a practicing Chartered Accountant feels that he need not maintain a fresh audit note book for each and every year of audit of a company.

False: Auditor should maintain fresh audit note book for every audit.

25. Mr. Lokesh, auditor of PQR Ltd., feels that queries which were raised by him to the management in his audit should be recorded in audit note book.

True: Queries which were raised to the management by the auditor should be recorded in audit note book.

26. Results of surprise checks are always included in auditor's report.

27. False: It is not necessary in all cases for the surprise checks to be included in the auditor's report on the accounts. They should however be included if, in the opinion of the auditor, they are material and affect a true and fair view of the accounts. **Working papers are papers prepared and obtained by the management and retained by them, in connection with the preparation of their financial statement.**

False: Working papers are papers prepared and obtained by the auditor and retained by him, in connection with the performance of his audit.

28. Mr. Sudheer, an auditor of SRIRASTHU Ltd., having the opinion that he should maintain working papers only in the physical form.

False: Auditor can maintain his working papers either in electronic form or physical form.

29. As per SQC-1, auditor should assemble his final audit file within 40 days from the date of his audit reports.

False: Auditor has to assemble his final audit file within 60 days from the date of his audit report as per SQC-1.

30. Audit note book consists of nature, timing and extent of audit procedures to be performed by the audit staff.

False: Audit programme consist of nature, timing and extent of audit procedures to be performed by the audit staff. Audit note book generally consist of queries which were raised by the auditor to the management during the audit.

31. In case of final audit, management has the chance for alteration of company's books of accounts.

False: In case of continuous audit, management has the chance for alteration of company's

32. Copies of communication with other auditors, experts and other third parties are part of permanent audit file. (N 15 RTP)

False: Copies of communication with other auditors, experts and other third parties are part of current audit file. Permanent audit file normally includes information concerning the legal and organizational structure of the entity , copies of audited financial statements for previous years, copies of management letters, etc.

33. Audit note book constitutes the basic record for the auditor in respect of audit carried out by him. (M 16 RTP)

False: Audit working papers constitute the basic record for the auditor in respect of the audit carried out by him. Audit note book is part of audit working papers.

34. The auditee firm has no right to compel the auditor to provide copies of the working papers. (N 09)

True: Working papers are the property of the auditors. Auditee has no right to compel the auditor's firm to provide them with the copies of working papers. However, the auditors may at their discretion make portions of or extracts from their working papers available to the auditee.

35. Extracts and copies of important legal documents, agreements and minutes relevant to the audit is part of current audit file. (N 14)

False: Extracts and copies of important legal documents, agreements and minutes relevant to the audit is part of a permanent audit file.

Current audit file contains information, documents, statements etc. relevant for use only for current period audit assignment.

36. An Auditor is bound to provide copies of the working papers to the CEO of the company. (N 14)

False: Working papers are the property of the auditor, thus he is not bound to provide copies of the working papers to anyone unless otherwise specified by law or regulation. However, the auditor may, at his discretion, make portions of or extracts from his working papers available to CEO of the Company.

37. Audit program helps the assistants in several ways.

True: It contains instruction for staff as to work to be done. Moreover due to properly written program there is no chance of forgetting / overlooking some important matter. Program clearly sets out as to who is required to do a particular work, thus responsibility can be fixed.

38. Audit program cannot be of any use in future.

False: It serves as a guide for audits to be carried out in succeeding years. Moreover, in case auditor faces some case for negligence, it can be used as evidence to prove the work performed by him.

39. Audit program does not suffer from limitations.

False: The program often becomes rigid & inflexible. Assistants are not able to change it as per requirements of specific case. Moreover hard & fast program hurts the initiative & judgmental skills of hard working assistants.

40. Auditor need not give any instructions to the client before starting his audit.

False: Auditor needs to give certain instructions to the client before starting his audit like management is responsible for preparation of financial statements, designing and implementing proper internal controls etc.

41. Working papers should be kept up to four years.

False: As per ICAI, documentation is the property of auditor & he should maintain it at least upto seven years from date of singing of audit report. Working papers are maintained to demonstrate that the audit was carried out accordance with the basic principles.

42. Documentation is required to be kept by auditor.

True: Working papers are maintained by the auditor to demonstrate that the audit was carried out accordance with the basic principles and to show as evidence in court of law when the auditor is charged with gross negligence.

43. Working papers are property of client, as it contains client's information. (N 15)

False: Working papers are the property of the auditor and he is entitled to retain them. He may, at his discretion, make portions of or extracts from his working papers available to clients.

44. Examination in depth implies examination of all transactions from the beginning to the end through the entire flow of the transactions.

False: Examination in depth implies examination of few selected transactions from the beginning to the end through the entire flow of the transactions.

45. The word 'Examination in depth' and 'Walk through test' both conveys the different meanings.

False: The meanings of words examination in depth and walk through test are conveying the same meaning i.e. examination of few selected transactions from beginning stage to the ending stage.

46. "Examination in depth" implies that the auditor vouches almost all transactions in a manner that the chances of not checking any transaction are left at minimum.

False: Examination in depth implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. This examination consists of studying the recording of transactions at the various stages through which they have passed. At each stage, relevant records and authorities are examined; it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure. **(N 14 MTP I, N 15 MTP II, J 09, N 13)**

47. "Examination in depth" implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. (M 15 MTP I)

True: Examination in depth implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. This examination consists of studying the recording of transactions at the various stages through which they have passed. At each stage, relevant records and authorities are examined; it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure.

48. Evaluating responses to enquiries are an integral part of the inquiry process (M 16)

True: Evaluating responses to enquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

49. Sufficiency is the measure of the quality of audit evidence. (RTP N17)

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

50. Management of Krishna Ltd. thinking that they need not appoint an auditor for audit of their books accounts because there is no legal requirement on them.

False: Krishna Ltd. is a company so audit is compulsory for it. Audit of company is compulsory under Companies Act. The management contention is not valid.

51. Audit techniques are adopted for collection of audit evidence.

True: Audit techniques are tools adopted for collection and accumulation of audit evidence.

52. Audit techniques refer to the methods employed for carrying on the audit procedures.

True: Audit techniques refer to the methods employed for carrying on the audit procedures like posting, checking and confirmation etc.

53. Audit techniques comprises of audit procedures.

False: Audit procedures comprises of audit techniques.

54. Evidence should be sufficient and appropriate.

True: Auditor should obtain sufficient & appropriate evidence. Sufficiency refers to quantum of audit evidence. Appropriateness refers to quality of audit evidence.

55. Substantive procedure may be defined as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. (N 16 MTP I, M 15 MTP II, M 16 RTP)

False: Test of controls are the procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Whereas substantive procedure may be defined as an audit procedure designed to detect material misstatements at the assertion level.

56. M/s XYZ Ltd. is a company in which Mr. Shiva is a statutory auditor thinks that he need not match internal evidence and external evidence as far as practicable.

False: Auditor should try to match internal and external evidence so far as practicable.

57. Substantive procedures are performed to obtain audit evidence about the internal control.

False: Substantive procedures are performed to check the completeness, accuracy and validity of transactions and balances.

58. The assertion measurement means that an asset (or) liability exists at a given date.

False: Measurement refers that a transaction is recorded in the proper amount and revenue or expenses are allocated to proper period.

59. The 'Cut- off' assertion should be verified by the auditor in performing substantive procedure.

True: The 'Cut- off' assertion should be verified by the auditor in considering risk of material misstatement at the assertion level in substantive procedures.

60. In the audit of Hanuman Ltd. Mr. X being statutory auditor of a company conducted year-end scrutiny and he said that it is one of the audit techniques for collection of audit evidence.

True. Audit techniques comprises of posting, casting, confirmation and year-end scrutiny etc.

61. In the audit of Z Ltd. Mr. Swamy is a statutory auditor is conducting physical verification of stock and he is in the opinion that it is oral evidence.

False: Physical verification of stock is an example for visual evidence.

62. Inquiry consists of seeking information from knowledgeable persons with in the organization only.

False: Inquiry consists of seeking information from knowledgeable persons with in the organization and outside the organization.

63. Audit techniques also vary with nature of organization.

True: Audit techniques also vary with nature of organization. For example, whether to verify the debtors by inspection of books or by direct confirmation would be decided by the auditor.

64. Auditor need not perform any observation activity during his audit.

False: Auditor needs to perform observation method to obtain audit evidence.

65. Evaluating response to inquiries is not an integral part of the inquiry process.

False: Evaluating response to inquiries is an integral part of the inquiry process.

54. **Observation consists of seeking information of knowledgeable persons, both, financial and non - financial, within the entity or outside the entity. (N 16 MTP II)**

False: Inquiry consists of seeking information of knowledgeable persons, both, financial and non-financial, within the entity or outside the entity. Observation consists of looking at a process or procedure being performed by others.

55. **Mr. Chandra is an auditor of GREAT Ltd. is in the opinion that he should not conduct the verification without giving any prior intimation to the management.**

False: Auditor can conduct verification without giving any prior intimation to the management ie surprise check.

56. **In the audit of CARE Ltd. Mr. A is the auditor decided not to conduct surprise check because there is no obligation.**

False: Auditor should conduct surprise check at least once in his audit and frequency is depends on circumstances.

57. **Mr. P conducting the audit of SIBAR Ltd. opinion that he need not perform compliance procedure.**

False: The auditor needs to perform compliance procedures in order to know the effectiveness of transactions so as to determine the nature, timing and extent of audit procedures.

58. **Expert is an individual (or) organization possessing expertise in a field of accounting and auditing.**

False: Expert is an individual (or) organization possessing expertise in a field other than accounting and auditing.

59. **Management's expert is an expert whose work is used by the auditor.**

False: Management's expert is an expert whose work is used by the management.

60. **Mr. Giri auditor of TATA Ltd. considers confirmation obtained from the company debtors results in conclusive evidence. (N 14 RTP, M 10)**

False: External confirmation refers to audit evidence obtained as a direct written response to the auditor. Confirmations received directly from the third parties by the auditor are more reliable but same cannot be treated as conclusive evidence.

61. **Mr. Simha is an audit staff of MURTHY & CO. a firm of chartered accountants came to a conclusion that cash area is not suitable for conducting surprise check.**

False: Surprise check is suitable for areas like cash, stock, investments etc.

62. **Mr. P auditor of TRILOK Pvt. Ltd. argued that he need not perform analytical procedures as a part of conducting audit procedures.**

False: Auditor needs to perform analytical procedures as a part of substantive procedures.

63. **The management of ANKITA Ltd. is in the opinion that they need not design and implement internal controls in order to prevent, detect and correct material misstatements.**

False: Management is responsible for designing and implementing internal controls in order to prevent, detect and correct the material misstatements.

64. **Surprise check is a part of internal check. (N 14)**

False: Surprise checks are a part of the normal audit procedures and the results of such checks are important to the auditor in deciding the scope of this audit and submitting their report thereon. Hence, surprise check is not a part of internal check

7. AUDIT OF ITEMS OF FINANCIAL STATEMENTS

1. **Purchase invoice is an example of internal evidence. (M 16, N 16 - RTP)**

   False: Internal evidence is the evidence that originates within the client's organization. Since purchase invoice originates outside the client's organization as it is issued by the supplier. Therefore, it is an example of external evidence.

2. **Sales invoice is an example of external evidence. (N 15 RTP)**

   False: External evidence is the evidence the originates outside the client's organization. Since sales invoice originates within the organization being audited, therefore, it is an example of internal evidence and not external evidence.

3. **The company can utilize its securities premium for declaration of dividends.**

   False: The company cannot utilize securities premium for declaration of dividends. Securities premium can be utilized only for the purposes mentioned in Sec 52.

4. **The company can issue its shares at a discount except in the case of an issue of sweat equity shares given under sec 54 of the company's act 2013.**

   False: The company cannot issue its shares at a discount except in the case of an issue of sweat equity shares given under sec 54 of the company's act 2013.

5. **Sweat equity shares are issued by the company to public at a discount (or) for consideration other than cash for providing know-how (or) making available right in the nature of intellectual property rights (or) value additions.**

   False: Sweat equity shares are issued by the company to its employees or directors at a discount (or) for consideration other than cash for providing know-how (or) making available rights in the nature of intellectual property rights (or) value additions.

6. **The issue of sweat equity shares is to be authorized by the shareholders of the company by way of passing an ordinary resolution.**

   False: The issue of sweat equity shares is to be authorized by the shareholders of the company by way of passing a special resolution.

7. **Shareholders of the company have to pass a resolution for allotment of shares.**

   False: The boards of directors of a company have to pass a resolution for allotment of shares.

8. **The company has to deliver share certificates to the shareholders within 2 months from the date of applications received from them.**

   False: The Company has to deliver share certificates to the shareholders within 2 months from the date of allotment of shares.

9. **The company should receive minimum 25% of nominal value as its share application money.**

   False: The companies other than listed companies should receive 5% of nominal value as share application money. In case of listed companies, they should receive 25% of issue price as share application money.

10. **To make buy back by company, it should be authorized by the AOA and passing ordinary resolution in a general meeting.**

    False: To make buy back by company, it should be authorized by the AOA and passing a special resolution in a general meeting.

11. **As per sec 68, Debt equity ratio should not be less than 2:1 as a post by-back requirement.**

    False: Debt Equity ratio should not be more than 2:1 after such buy-back.

12. **As per sec 70, if company made a default, then buy back is prohibited for life time of a company.**

    False: Buy-back is not prohibited if the default is remedied and a period of 3 years has elapsed after the default ceased to exist.

13. The shareholders of a company have the power to forfeit the shares.

False: The boards of directors of a company have the powers to forfeit the shares.

14. As an auditor, we have to verify the surplus amount resulting on the re-issue of shares is credited to statement of profit and loss.

False: The surplus amount resulting on the re-issue of shares is credited to capital reserve.

15. The Company can issue bonus shares out of reserves created by the revaluation of assets.

False: The Company cannot issue bonus shares out of reserves created by the revaluation of assets.

16. The Bonus shares can be issued in lieu of payment of divided by the company.

False: The bonus shares cannot be issued in lieu of payment of dividend by the company.

17. The Company need not obtain order from tribunal to confirm the reduction of share capital.

False: The company need to obtain order from tribunal to confirm the reduction of share capital and such copy is to be filed with ROC.

18. A company can issue its sweat equity shares at discounted price. (M 16, N 16 - MTP II)

False: According to section 53 of the Companies Act, 2013, a company shall not issue shares at a discount. However, exception has been given in the case of an issue of sweat equity shares.

19. Share Premium can be used for Payment of Dividend. (N14 MTP II)

False: Section 52 of Companies Act, 2013 deals with the application of Securities Premium. The same to be paid out of past profits, general reserve or any other free reserve. Hence declaration of dividend from Securities Premium is not proper.

20. "Issued Capital" means such capital as the company issues from time to time for subscription. It is that part of authorised capital which is offered by the company for subscription and includes the shares allotted for consideration other than cash. (M 15 RTP)

True: Section 2(50) of the Companies Act, 2013 defines "issued capital" which means such capital as the company issues from time to time for subscription; It is that part of authorised capital which is offered by the company for subscription and includes the shares allotted for consideration other than cash.

21. Premium received on issue of shares prior to the date of Balance Sheet has been transferred to Statement of Profit and Loss for arriving at the figure of commission payable to the managing director. (N 16 MTP II)

False: Premium received on issue of shares is capital receipt and should not be credited to Statement of Profit and Loss. As per the provisions of Section 198 of the Companies Act, 2013, premium on issue of shares should not be considered in computation of net profit for the purpose of managerial remuneration.

22. A Special Resolution is required by Company to authorize issue of Share at discount.

False: As per sec 53 of Companies Act, 2013 Company cannot issue Shares at a discount except sweat equity shares. **(M 10)**

23. Surplus on the re-issue of Forfeited Shares standing to the credit of share Forfeited Account can be distributed as dividend. (N 07)

False: It should be transferred to Capital Reserve. Not available for Dividend Distribution as such. But certain conditions need to be satisfied to make it eligible for distribution as dividend.

24. The amount of sitting fees paid to directors shall not exceed Rs.2 lakhs per board meeting (or) any other committee meeting.

False: The amount of sitting fees paid to directors shall not exceed Rs.1 lakh per board meeting (or) any other committee meeting.

25. In respect of excisable goods manufactured but remaining to be released, the company should pay excise duty immediately.

False: In respect of excisable goods manufactured but remaining to be released, ensure that necessary provision for unpaid excise duty has been made.

26. **Auditor has to examine the cashbook to ensure payment of excise duty with reference to bill of entry to check whether the amount was calculated correctly.**

    False: Auditor has to examine the cashbook to ensure payment of custom duty with reference to bill of entry to check whether the amount was calculated correctly.

27. **Underwriting commission and brokerage paid for shares and debentures should be included under the head preliminary expenses.**

    False: Underwriting commission and brokerage paid for shares and debentures should not be included under the head preliminary expenses because they are not incurred for the purpose of incorporation of a company. These expenses are incurred after the incorporation of a company.

28. **Company should not meet the personal expenses of its directors.**

    True: Generally, company should not meet the personal expenses of its directors except provided in articles of association, service contract, minutes of general meetings, etc.

29. **Vouching is one of the compliance procedures which aims at verifying the genuineness and validity of a transaction contained in the accounting records.**

    False: Vouching is one of the substantive procedure which aims at verifying the genuineness and validity of a transaction contained in the accounting records.

30. **Vouching is not the backbone for auditing.**

    False: Vouching is the backbone for auditing. Apart from genuineness, vouching also helps the auditor to know the regularity and validity of the transaction.

31. **The Directors of a company are automatically entitled to remuneration.**

    False: The directors of a company are not automatically entitled to remuneration. It is paid either according to the terms of articles of association or in accordance with a resolution of the general meeting.

32. **Auditors have to verify that when a company sold its investments on cum- dividend basis, when it received dividends subsequently or not.**

    False: Auditors have to verify that when a company sold its investments on ex-dividend basis, when it received dividends subsequently or not.

33. **The Auditor can overlook the verification of sale proceeds of scrap (or) junk materials because there is a good accounting and costing system in the company.**

    False: The auditor cannot overlook verification of sale proceeds of scrap (or) junk materials even there is a good accounting and costing system in the company.

34. **There is no chance for refund of insurance premium by the general insurance company.**

    False: General insurance company will refund the insurance premium because of provisional payment of premium or may be a policy might have been cancelled at a later date.

35. **Generally, the company need not make an application for getting subsidy from the government.**

    False: The Company needs to make an application for getting subsidy from the government.

36. **The matter relating to government grant is dealt by AS-13.**

    False: The matter relating to government grant is dealt by AS-12.

37. **The land holding in the case of real estate dealer will be a fixed asset.**

    False: The land holding in the case of real estate dealer will be a current asset.

38. **Over valuation of closing inventory will result in to decrease the gross profit.**

    False: Over valuation of closing stock will result in to increase the gross profit.

39. Over valuation of opening stock will result into increase the gross profit.

False: Over valuation of opening stock will result into decrease the gross profit.

40. Auditor has to examine the debit note issued by the supplier acknowledging the purchase returns.

False: Auditor has to examine the credit note issued by the supplier acknowledging the purchase returns.

41. The Company can include the goods which are sent out on sale or return basis in sales

False: The Company cannot include the goods which are sent out on sale or return basis in sales unless they are accepted by the customers (or) specified period in the agreement is already expired.

42. Auditor has to examine the credit note issued by the customer for acknowledging the sales returns.

False: Auditor has to examine the debit note issued by the customer for acknowledging the sales returns.

43. The consignor should show inventory lying with the consignee at the year end at a price which they are actually sent.

False: The consignor should show inventory lying with the consignee at the year end at COST or NRV whichever is earlier.

44. 'Teeming and lading' is related areas of cash receipts and cash payments.

False: 'Teeming and lading' is related to cash receipts area only.

45. Cut - off arrangement refers to division of work among the employees of the company.

False: Cut – off arrangement refers to that transactions of one period would be separated from those in the ensuing period so that the results of the working of each period can be correctly ascertained.

46. Frauds are always unintentional for a pre-determined purpose and are generally committed either by the owner or top management personnel or senior officers of the business.

False: Frauds are always intentional for a pre-determined purpose and are generally committed either by the owner or top management personnel or senior officers of the business.

47. Auditor is responsible for the prevention of misappropriation of goods in a company.

False: Management is responsible for the prevention of misappropriation of goods in a company.

48. An unexplained decrease in the Gross Profit Ratio may result due to Fictitious Sales.

False: If Fictitious Sales are recorded GP Ratio will be increased but not decreased. Therefore an unexplained increase in gross profit ratio may result due to fictitious sales. **(M 07)**

49. Verification of Expenses involves confirmation of the assertions relating to Occurrence, Completeness, Measurement and Presentation & Disclosure.

True: As per ICAI Guidance Note on Audit of Expenses, Verification of Expenses involves confirmation of the assertions relating to Occurrence, Completeness, Measurement and Presentation & Disclosure. This is a part of substantive procedures.

50. The Auditor examines Debit Notes to Vouch Sales Returns. (RTP)

False: Debit Notes are for purchase Returns, Credit Notes are for Sales Returns, in case of internally generated documents. Therefore the auditor examines the Debit notes to vouch the purchase returns but not sales returns.

51. Analysis of GP Ratio is relevant for audit of manufacturing entities only.

False: GP Comparisons are relevant for both Manufacturing and Trading Entities since both are having their respective turnovers and gross profits.

52. Quantitative Reconciliation is applicable in the audit of Manufacturing and Trading Entities.

True: Quantitative Reconciliation is applicable in the audit of Manufacturing and Trading Entities since both are having their respective opening & closing inventories and sales etc.

53. Cut –Off Procedures are generally applied to trading transactions. (M 07)

True: cut – off procedures means the procedure adopted by the Management to ensure that transactions of one period are separated from those at the commencement of the following year. Cut –Off Procedures are generally applied to trading transactions such as sales, purchases, closing stock etc.

54. Vouching Constitutes the backbone of auditing or vouching is the essence of auditing.

True: The Auditor comes to know of the genuineness of transactions recorded in the Client's books of accounts, only through vouching.

55. Voucher once used in audit should be destroyed to avoid risk of being used in more than one entry. (RTP)

False: After the examination is over, each Voucher should be either impressed with a rubber stamp or initialed, so that it may not be presented again in support of another entry.

56. The Whole Time Director of a public company is automatically entitled for remuneration.

True: in case of a public company the whole time directors may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by other, subject to the provisions of the Companies Act, 2013. **(M 14)**

57. Auditor has to examine the title deeds of fixed assets In order to know their existence.

False: Auditor has to examine the title deeds of fixed assets in order to know their ownership. He has to conduct the physical verification to know their existence.

58. When an asset is sold, then entire profit should be transferred to statement of profit and loss.

False: When an asset is sold, then capital profit should be transferred to capital reserve and revenue profit is transferred to statement of profit and loss.

59. The company should record assets which are acquired under hire purchases system at its hire purchase price.

False: The company should record assets which are acquired under hire purchase system at its cash price.

60. Auditor need not perform any procedure regarding assets in abroad because they are not available for inspection.

False: Auditor needs to examine the title deeds of immovable properties abroad. If they are not available for inspection, a certificate should be obtained from the agent or any other party holding the document.

61. Capital work-in-progress refers to assets, in respect of which installation is completed.

False: Capital work-in-progress refers to assets under installation (or) construction.

62. As per AS-26, internally generated goodwill can be recognized as an asset.

False: As per AS-26, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

63. AS-26 has suggested 20 years as useful life of intangible assets until and unless there is clear evidence that useful life is longer than 20 years.

False: AS-26 has suggested 10 years as useful life of intangible assets until and unless there is clear evidence that useful life is longer than 10 years.

64. Auditor need to obtain confirmation from debtors only through the positive form of request.

False: Auditor can obtain confirmation from debtors through positive form of request (or) negative form of request.

65. The term 'Book Debts' suggests particularly amounts payable to suppliers.

False: The term 'Book Debts' suggests particularly amounts receivable from customers.

66. Analytical review procedures not assist the auditor in planning the nature, timing and extent of other audit procedure.

False: Analytical procedures will assist auditor in planning the nature, timing and extent of other audit procedures.

67. Auditor has no duty to check whether loans and advances given by the company are shown as deposit.

False: Auditor has duty to check whether loans and advances given by the company are shown as deposits under Sec 143(1).

68. The balances of stamps in hand should be included under cash in hand.

True: 'Cash in hand' includes balances of stamps in hand, cash in transit, cash with agents etc.

69. Defalcation of cash is possible only by way of inflating cash payments.

False: Defalcation of cash is found to be perpetrating generally in following ways- by inflating cash payments, by suppressing cash receipts and by casting wrong totals in the cash book.

70. Teeming and lading fraud can be done in respect of cash payment.

(PM, N 16 MTP, M 17 RTP, N 15)

False: Teeming and Lading is one of the techniques of suppressing cash receipts and not of inflating cash payments. Money received from one customer is misappropriated and the account is adjusted with the subsequent receipt from another customer and so on.

71. In case of real estate dealer, the land holdings are shown as "fixed assets" on the assets side of the balance sheet.

False: In case of real estate dealer, the land holdings ate shown as "current assets" on the assets side of the balance sheet.

72. Every company can obtain borrowing without any authorization.

False: Borrowing should be authorized by MOA and AOA. It should be duly authorized.

73. PLA account is generally maintained by manufacturer.

True: PLA account is generally maintained by manufacturer to pay excise duty.

74. 'Stock' and 'livestock' both are convey the same meaning

False: 'Live stock' refers to animals and 'stock' may be raw material or work in progress or finished goods.

75. The expenditure which is incurred for creating an asset or adding to its value for achieving higher productivity is treated as revenue expenditure.

False: The expenditure which is incurred for creating an asset or adding to its value for achieving higher productivity is treated as capital expenditure.

76. The words 'Depreciation' and 'Impairment' are conveying the same meaning.

False: 'Depreciation' needs to be provided as per schedule II of the Companies Act, 2013 and 'impairment' need to be provided as per AS-28. Impairment loss can be reinstated but depreciation cannot be reinstated. Those words are not interchangeable but they are refers to decrease in the value of an asset.

77. Floating charge refers to a general charge on a specific asset of an enterprise.

False: Floating charge refers to general charge on some or all the assets of an enterprise which is not attached to any specific assets and is given as a security against a debt.

78. Raw materials, working progress and finished goods are treated as floating assets.

True: Floating asset means those current assets which are manufactured or purchased during the normal course of business. So these are floating assets.

79. Depreciation and fluctuation are charged against the profit of the year.

False: Depreciation is charged against the profit of the year and no charge is made against to the fluctuation.

80. Misappropriation of assets can be accomplished by embezzling receipts only. (M 16 RTP)

False: Misappropriation of assets can be accomplished in a variety of ways including embezzling receipts, stealing physicals assets etc.

81. Balance confirmations from debtors/ creditors can only be obtained for balances standing in their accounts at the year-end only. (N 14 MTP II)

False: The above statement is not correct as it is not necessary that balances of debtors/creditors should necessarily be verified only at the end of the year only. In fact, in order to incorporate an element of surprise, the auditor may consider different confirmations dates periodically, i.e., Dec 31 as a cut-of date in one year and June 30 in another year and so on.

82. Pharmacy Company paid Rs.5 Lakhs to the legal advisor defending the patent of a product treated as Capital Expenditure. (N 14 MTP II)

False: Legal expenses of Rs. 5 lakhs incurred to defend the patent of a product of the pharmacy company is revenue expenditure pertaining to the asset since by this expenditure neither any endurable benefit can be obtained in future in addition to what is presently available nor the capacity of the asset would be increased.

Payment of legal fees is normally revenue expenditure irrespective of the amount involved unless same is incurred to bring any new asset into existence.

83. PQR Ltd. included underwriting commission and stamp duty under the head preliminary expenses. (M 15 MTP I, M 13)

False: The expenditure incidental to the creation and floating of a company includes stamp duties, registration fees, legal costs, accountant's fees, cost of printing, etc. Underwriting commission and brokerage paid for shares and debentures should not be included under the head preliminary expenses. Therefore, PQR Ltd. should include stamp duty as preliminary expense but exclude underwriting commission.

84. The terms "Fund" & Reserve" can be used interchangeably (M 08)

False: "Fund" used only when such Reserve is specifically represented by earmarked investments such as sinking fund investments. Reserve is generally re-invested in the same business entity.

85. Secret Reserve strengthens the financial position of a Company, hence they are allowed.

False: Existence of a Secret Reserve will vitiate the true and fair view of Financial Statements. So this practice should not allowed by the Auditor. **(N 08)**

86. Company can provide lower rate of depreciation than prescribed in Schedule II of Companies Act, 2013 (M 13)

True: The rates can be higher or lower than those of Schedule II rates, but such higher or lower rate should be supported by technical advice.

87. Contingent liabilities are provided for in the accounts if they crystallize between the end of the accounting year and the date of signing the audit report.

False: Contingent liabilities existing on the balance sheet date are disclosed by way of note and not provided for even if it had crystallized subsequently.

88. ABC Ltd. declared dividends without providing depreciation for the current year. (M 14)

False: As per sec 123(1), no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year arrived at after providing for depreciation or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation.

89. A Company cannot declare dividends without providing for depreciation. (M 10)

True: As per sec 123(1), no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year arrived at after providing for depreciation or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation.

90. Capital Reserve and Reserve Capital are the same. (N 16)

False: Capital Reserve "means the part of profit reserved by the company for a particular purpose. Reserve capital shows the part of the authorized capital that has not yet called up by the company except when Company is being wound up. So both are different.

91. Assets purchased under hire purchase system were reflected at their full value and the outstanding installments payable have been included under sundry creditors.

False: In case of assets acquired under hire purchase system, the capital portion of the installments paid up to date of balance sheet should be debited to the asset account and the interest included in the each installment to be charged off to revenue. However, if the full capital value of the asset has been adjusted at the outset, the total installment outstanding under the agreement will have to be reduced from the value of the asset. Therefore, the treatment followed is not correct

92. As per AS - 13, investment should be classified into current investment and marketable investments.

False: As per 'AS 13 - Accounting for investments', Investments are classifieds into current and long term investment. Marketable investments are short term and classified as current.

93. Interim Dividend is not a part of Dividend. (N 14 MTP I, N 09)

False: The term dividend also includes interim dividend also. Therefore interim dividend is also a part of dividend. It is a Dividend paid by the Board of Directors any time between two AGM's.

94. At every annual general meeting of a company, the Board of directors of the company shall lay before the company the financial statements for the financial year.

True: As per Section 129(2) of the Companies Act, 2013, at every annual general meeting of a company, it shall be the duty of the Board of Directors of the company to lay before the company the financial statements for the financial year. **(M 15, N 16 RTP)**

95. As defined under Companies Act, 2013, "Book and paper" and "Book or paper" includes books of account only. (M 15 RTP)

False: As per section 2(12) of the Companies Act, 2013, "Book and paper" and "Book or paper" include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.

96. The BOD of FAST Pvt. Ltd. decided to invest the compensation received as a result of amalgamation in securities other than trusted securities.

True: As per Sec 180, only directors of a public company should invest the amount of compensation received as result of amalgamation in trusted securities. This provision is not applicable in case of a private company.

97. The Board of Directors of a company can contribute any amount as charitable contribution by way of passing a board resolution.

False: The board of directors of a company can contribute only up to 5% of average net profits of 3 preceding financial years by way of passing a board resolution.

98. **Companies can pay dividend as per sec 123 without providing depreciation.**

    False: As per Section 123, the company cannot pay dividend without providing depreciation.

99. **Interim dividend is declared by shareholders.**

    False: Interim dividend is declared by board of directors.

100. **Capital redemption reserve should be disclosed under the head “share capital” on the liabilities side of the balance sheet as per part-1 of schedule-3 to the company’s act 2013.**

     False: Capital redemption reserve should be disclosed under the head “reserves and surplus” on the liabilities side of the balance sheet as per paert-1 of schedule-3 to the company’s act 2013.

101. **A company can buy back its shares out of the amount received by issue of debentures.**

     False: Section 68 of the Companies Act, 2013 permits companies to buy back their own shares and other specified securities only out of its free reserves; or the securities premium account; or the proceeds of the issue of any shares or other specified securities. **(N 15 MTP I, N 16)**

102. **Final dividend and interim dividend both are convey the same meaning.**

     False: Final dividend is declared by shareholders in AGM. Interim dividend is declared by directors between 2 AGM’s.

103. **NFRA (National Financial Reporting Authority) has power to issue accounting standards in India.**

     False: As per sec 133 of the companies act, 2013, the central government has the power to issue accounting standards.

104. **The BOD of a company can contribute any amount to national defense fund after obtaining prim approval from Its shareholders.**

     False: The BOD of a company can contribute any amount to national defense fund without obtaining approval from its shareholders.

105. **In case of Companies, only Central Government has the power to prescribe accounting standards.** **(N 16 MTP I, M 15 MTP II)**

     True: Section 133 of the Companies Act, 2013 provides that the Central Government may prescribe accounting standards as recommended by the Institute of Chartered Accountants of India (ICAI) in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

8. AUDIT REPORTING (INCLUDING CARO 2016)

1. **CARO is an additional reporting requirement order which has been issued by the institute of Chartered Accountants of India under section 143 (11) of the Companies Act, 2013.**

   False: CARO is an additional reporting requirement order which has been issued by the Central Government in consultation with the institute of chartered accountants of India under section 143(11) of the companies Act, 2013.

2. **CARO-2016 applies to every company excluding a foreign company.**

   False: CARO-2016 applies to every company including a foreign company except some specified companies.

3. **CARO, 2016 deal about the matter relating to loans granted to (or) loans taken from directors and interested parties.**

   False: CARO, 2016 deal only the matter relating to loans granted to directors and interested parties.

4. **As per CARO, 2016, if amount is overdue for more than 60 days in regarding loans given to director and interested parties, then auditor has to verify whether the company has taken reasonable steps for recovery of the principal and interest.**

False: As per CARO, 2016, if amount is overdue for more than 90 days in regarding loans given to director and interested parties, then auditor has to verify whether the company has taken reasonable steps for recovery of the principal and interest.

5. **As per CARO- 2016 requirement, whenever disputed due which is in arrears of outstanding as at the last day of the financial year concerned for a period of more than 6 months from the date they became payable, shall be indicated by the auditor.**

   False: As per CARO-2016 requirement, whenever undisputed due which is in arrears of outstanding as at the last day of the financial year concerned for a period of more than 6 months from the date they became payable, shall be indicated by the auditor.

6. **CARO-2016, dealing with only fraud by the company by its officers (or) employees but not fraud on the company by its officers (or) employees.**

   False: CARO-2016, dealing with whether any fraud by or on the company by its officers or employees has been noticed or reported during the year.

7. **Under CARO-2016, auditor has any qualified (or) unfavorable answers then he need to mention in his audit report without specifying the reasons for them.**

   False: Under CARO-2016, auditor has any qualified (or) unfavorable answers in his audit report then he need to mention in his audit report along with the reasons.

8. **CARO-2016 is not applicable to a private limited company, if it is a subsidiary (or) holding company of a public company.**

   False: CARO-2016 is applicable to a private limited company, if it is a subsidiary (or) holding company of a public company.

9. **Revaluation reserve should not be considered in verification of applicability of CARO-2016 to a private company.**

   False: Revaluation reserve should be considered in verification of applicability of CARO-2016 to a private company.

10. **CARO-2016 shall also apply to the auditor's report on consolidated Financial Statements.**

    False: CARO-2016 shall not apply to the auditor's report on consolidated Financial Statements.

11. **General purpose frame work refers to a financial reporting framework that requires compliance with the requirement of the framework as it is without deviation.**

    False: Compliance framework refers to a financial reporting framework that requires compliance with the requirement of the framework as it is without any deviation.

12. **The auditor shall not modify the opinion in the auditor's report. (PM, M 16 MTP I, M 15)**

    False: The auditor shall modify the opinion in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

13. **The auditor shall disclaim an 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. (N 16 MTP II, N 15 MTP I)**

    False: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

14. **Audit report date can be earlier than date of approval of financial statement by management.**

    False: The report should be dated as of the completion date of the audit which should not be earlier that the date on which the financial statements are signed or approved by the management.

15. In case of modified report, auditor should provide reasons as well.

True: When the auditor requires an opinion other than unqualified, a description of all the substantive reasons should be include in the report and quantification of the possible effect individually and in aggregate on the financial Statements should be mentioned in the report.

16. Auditor should use uniform regular font throughout his audit report.

False: The observation or comments of the auditors which have any advance effect on the functioning of the company should be in thick type or in italics so as to attract reader's attention.

17. Auditor should try to quantify the effect of qualification in his audit report.

True: The auditor should quantify wherever possible the effect of the qualification on the financial statements if the same is material. Where it is not possible to quantity the effect of the qualification, he may use management estimates or may state the reason for not quantifying the effect on the qualification.

18. The auditor shall express an unqualified opinion if the auditor is unable to obtain sufficient audit evidence regarding opening balances. (N 14)

False: The auditor shall give Disclaimer of opinion (SA 705)

19. An auditor issues unqualified opinion when he concludes that the financial statements give true and fair view. (N 16)

True: The auditor should express an unqualified opinion when he concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for preparation and presentation of the financial statements.

20. An auditor has nothing to do with prudence or profitability of a company. (M 16)

False: Companies Act, 2013 requires the company auditor to go beyond the functions of reporting and express an opinion about the propriety or prudence of certain transactions. Also, the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Therefore it would not be correct to say that an auditor has nothing to do with prudence or profitability of a company because it may impact the going concern.

21. Disclaimer of opinion is issued when an auditor confronts a different stand by the management in respect of a material issue which the auditor does not approve of. (J 09)

False: Disclaimer of opinion is issued when the auditor is not in a position to frame an opinion in view of certain reasons like non-availability of information, non-performance of procedure, etc. If the auditor is positively in disagreement with the management on a certain issue, he will issue a qualified report.

22. The auditor disagreed with the management with regard to the acceptability of the accounting policies and the inadequacy of disclosures in the financial statements and issued a disclaimer. (N 09)

False: The auditor is wrong in issuing a disclaimer. If the auditor disagrees with the management in the matters relating to the acceptability of accounting policies selected and inadequacy of the disclosures in the financial statements, he should issue a qualified report or express an adverse opinion.

23. An adverse report is one where an auditor gives an opinion subject to certain reservation.

False: An adverse report is given when the auditor is of the opinion that on the basis of his examination he does not agree with the affirmation made in the financial statements. **(M 07)**

24. Where the accounts of the company do not present a "true and fair" view, the auditor should express disclaimer of opinion. (N 07)

False: An adverse opinion is given when the reservation or the objections are so significant that the auditor feels that the accounts do not give a true and fair view. In this case the auditor should give an adverse opinion only.

25. SA 700 deals with the modifications to be made in the independent auditors report.

False: SA 705 deals with the modifications to be made in the independent auditors report. SA 700 deals with forming an opinion and reporting on financial statements.

26. The Auditor has to express an adverse opinion when he is unable to obtain sufficient audit evidence regarding financial statements.

False: The auditor shall express a qualified or disclaimer opinion when the auditor is unable to obtained sufficient appropriate audit evidence regarding the financial statements.

27. Emphasis of matter paragraph will contain important information which is not covered in the financial statements.

False: Emphasis of matter paragraph will contain important information which is already covered in the financial statements.

28. Other matter paragraph will contain important information which is already covered in the financial statements.

False: Other matter paragraph will contain important information which is not covered in the financial statements.

29. As per SA 706, emphasis of matter paragraph is to be included immediately before the opinion paragraph in the auditor's report.

False: As per SA 706, emphasis of matter paragraph is to be included immediately after the opinion paragraph in the auditor's report.

30. When the auditor concludes that misstatements are material, but not pervasive, to the financial statements, he should express disclaimer of opinion. (M 16 MTP II)

False: As per SA 705 "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

31. SA-700 deals with modification to the opinion in the Independent Auditor's Report.

False: SA 700 deal with forming an opinion and reporting of financial statement whereas SA 705 **deals** with modifications to the opinion in the Independent Auditor's Report.

32. General purpose Financial Statements include a Balance Sheet.

True. The term "General purpose Financial Statements" normally include Balance Sheet, Statement of profit and loss, Cash flow statement and Notes and Explanatory material.

9. AUDIT IN AN AUTOMATED ENVIRONMENT

1. The overall objective of audit does not change in Computer Information System (CIS) environment. (M 16 MTP II, N 14 MTP I, N 15 MTP II, N 09)

True: Overall objective of audit does not change in Computer Information System (CIS) environment. But the use of computer changes the processing and storage, retrieval and communication of financial information.

2. Potential for individuals to gain unauthorized access to data or to alter data without visible evidence is not there in CIS environment. (RTP)

False: Potential for individuals to gain unauthorized access to data or to alter data without visible evidence may be greater in CIS environment than in manual Systems.

3. Use of CAAT and Audit Software increases the probability of detecting fraud.

False: Frauds are internal and generally deep-laid, it cannot be conclusively said that use of CAAT and audit software systems increases the probability of detecting fraud.

4. There is no chance for vulnerability to programs and data in CIS environment.

False: In CIS environment, programmes and data which are stored on portable storage media such as as C.D'S, hard disks etc. They are vulnerable to theft or, intentional or accidental destruction.

5. **'CAAT' refers to a situation where it is possible to relate, on a "one-to-one" basis, the entire flow of a transaction through various stages from original input to the final output.**

   False: 'AUDIT TRIAL' refers to a situation where it is possible to relate on a "one-to-one" basis, the entire flow of a transaction through various stages from original input to the final output.

6. **The purpose of general CIS controls is to establish specific control procedures over the accounting applications to provide reasonable assurance that all transactions are authorized and recorded and are processed completely, accurately and on a timely basis.**

   False: The purpose of CIS application controls is to establish specific control procedures over the accounting applications to provide reasonable assurance that all transactions are authorized and recorded and are processed completely, accurately and on a timely basis.

7. **The purpose of CIS applications controls is to establish a framework of overall control over the CIS activities and to provide a reasonable level of assurance that the overall objectives of internal control are achieved.**

   False: The purpose of general CIS controls is to establish a framework of overall control over the CIS activities and to provide a reasonable level of assurance that the overall objectives of internal control are achieved.

8. **Doing an audit in CIS environment is simple since the trail balance always tallies.**

   False: it is true that in CIS environment the trial balance always tallies, the same cannot imply that the job of an auditor becomes simpler. There can still be some accounting errors like compensating errors, duplication errors etc.

9. **The Overall objective and scope of an audit will change in a CIS environment.**

   False: The overall objective ad scope of an audit does not change in CIS environment.

10. **The approach of audit around the computers is also known as 'White Box Approach'.**

    False: The approach of audit around the computer is also known as 'Black Box Approach'.

11. **Auditor will examine the system and the software which is used to process the data by using some specialized tools in audit around the computer.**

    False: Auditor will examine the system and the software which is used to process the data by using some specialized tools in audit through the computer.

12. **CIS systems perform functions exactly as they are programmed but they are less reliable than manual systems.**

    False: CIS systems perform functions exactly as they are programmed and more reliable than manual systems.

13. **In CIS audit, it is wise to test the programs, changes in programs and unusual transactions along with the testing of large sample of similar transactions by the auditor.**

    False: In CIS environment, it is not wise to test large sample of similar transactions but it is sufficient to test the programmes, changes in programmes and unusual transactions.

14. **Auditor should have knowledge of CIS. (SB)**

    True: Now a day, most of the client maintains their accounts in computer information system. Thus, working knowledge on computer is required for auditors to conduct audit in an effective way.

15. **Auditor need not have the knowledge of CIS environment.**

    False: Auditor needs to have the knowledge of CIS environment. Now a day, all the entities are using systems to prepare their accounts.

16. The approach of 'audit through the computer' is also known as black box approach.

False: The approach of 'audit through the computer' is also known as white box approach.

17. Audit trail is available in the manual accounting system.

True: In manual accounting system, it is possible to relate the recording of a transaction of each successive stage enabling an auditor to locate and identify all documents from beginning to end for the purpose examination of transactions.

18. The words 'Audit Trail' and 'Examination in depth' both are having same meaning.

False: Audit trial refers to a situation where it is possible to relate, on a "one-to-one" basis, the entire flow of a transaction through various stages from original input to the final output. Examination in depth refers to verification of a few selected transactions from beginning to the ending.

19. Computer information system always provides complete audit trail.

False: Some CIS may provide complete transaction trail, however some may not provide it such as online real time systems. If there is absent of trail, the risk will be high.

10. AUDIT OF DIFFERENT TYPE OF ENTITIES

1. Auditor need to verify partnership deed in case of audit of a partnership firm.

True: Auditor needs to verify partnership deed in case of partnership firm to know capital contributions, eligible business, profit sharing ratio, rights and duties of partners etc.

2. The business run by partnership firm is need not authorized by the partnership deed.

False: The business run by the partnership firm should be authorized by the partnership deed.

3. A municipality can be defined as a unit of local self-government in a rural area.

False: A municipality can be defined as a unit of local self-government in an urban area.

4. In the local bodies, all matters of regular revenue and expenditures are generally delegated to the legislative wing.

False: In the local bodies, all matters of regular revenue and expenditures are generally delegated to the executive wing.

5. In the local body, legislative powers are vested to the officers, e.g., commissioners and executive powers are delegated to the council.

False: In the local body, legislative powers are vested to the council and executive powers are delegated to the officers, e.g., commissioners.

6. Municipal accounting system has been conventionally prepared under the accrual system.

False: Municipal accounting system has been conventionally prepared under the cash system. In the recent past however, it is being changed to the accrual system of accounting.

7. Charitable institutions are generally not exempt from the payment of income tax.

False: Charitable institutions are generally exempt from the payment of income tax.

8. Admission fees received by the educational institutions are generally credited to revenue account, unless the managing committee has taken a decision to the contrary.

False: Admission fees received by the educational institutions are generally credited to a capital fund, unless the managing committee has taken a decision to the contrary.

9. Caution money collected by educational institutions from the students should be transferred to revenue account.

False: Caution money collected by educational institutions from students on admission have been shown as liability in the balance sheet and not transferred to revenue.

10. **A club is usually constituted as a trust under the Indian trust Act, 1882.**

    False: A club is usually constituted as a company limited by guarantee under the companies Act, 2013.

11. **Auditor has to reconcile the amount of sales tax collected with the total number of tickets issued for each show by the cinema hall.**

    False: Auditor has to reconcile the amount of entertainment tax collected with the total number of tickets issued for each show by the cinema hall.

12. **Pilferage is one of the greatest problems in any hospital and it is extremely important to have a proper internal control to minimize the leakage.**

    False: Pilferage is one of greatest problems in any hotel and it is extremely important to have a proper internal control to minimize the leakage.

13. **Auditor will face a situation of incomplete records in a company only in the case where the company maintained its records under single entry basis.**

    False: Auditor will face a situation of incomplete records in a company not only in the case where the company maintained its records under single entry basis but also in the cases of books destroyed in a natural calamity or books seized by government departments.

14. **Auditor has to verify KOT in respect of audit of hospitals.**

    False: Auditor has to verify KOT in respect of audit of hotels.

15. **The appointments of auditors in relation to Delhi and Mumbai municipal corporations made by respective state governments.**

    False: The appointments of auditors in relation to Delhi and Mumbai corporations made by themselves.

16. **In Audit of Partnership Firm, Auditor need not verify the remuneration paid to the Partners.**

    False: Auditor needs to verify the nature and amount of remuneration paid to Partners and to confirm the Correctness with Partnership Deed

17. **For Audit of Cinema Hall, Income from Refreshment Stall need not be verified as it is not the prime source of Income.**

    False: Income from Refreshment Stall should also be covered by the Auditor in his verification Procedures.

18. **NGOs are incorporated as Public Sector Undertakings.** **(RTP)**

    False: NGOs are generally incorporated as Societies or as Trust or any other law corresponding to these Acts. NGOs can also be incorporated as a Company under Sec 8 of the Companies Act, 2013.

11. GOVERNMENT AUDIT

1. **Government audit refers to audit of only the government expenditure.**

   False: Government audit will cover audit of government expenditure, audit of government receipts, audit of stores and inventories etc.

2. **The auditor has to ensure that each item of government expenditure is covered by a special sanction, by the competent authority.**

   False: The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorizing such expenditure.

3. **Propriety audit aims to bring out cases of improper, avoidable expenditure when expenditure not incurred in conformity with the existing rules and regulations.**

   False: Propriety audit aims to bring out cases of improper, avoidable expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

4. **It is the function of the CENTRAL GOVERNMENT to frame rules, regulations and orders, which are to be observed by its subordinate authorities.**

   False: It is the function of the executive government to frame rules, regulations and orders, which are to be observed by its subordinate authorities.

5. **Contingency fund is required to be maintained by central government but not state government.**

   False: Contingency fund is required to be maintained by the central government and every state government.

6. **Efficiency audit looks into whether the entity has acquired the financial, human and physical resources is an economical manner.**

   False: Efficiency audit looks into whether the various schemes or projects are executed and their operations conducted economically and whether they are yielding the results expected of them.

7. **Efficiency audit is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objections.**

   False: Effectiveness audit is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives.

8. **The objective behind audit of government receipts is to ensure that purchases of stores and inventories are properly sanctions, made economical and is accordance with the rules for purchase laid down by the competent authority.**

   False: The objective behind audit of government receipts is to ensure that there is no leakage of revenue which should legally come to the government.

9. **The objective behind audit of stores and inventories aims to ensure that there is no leakage of revenue which should legally come to the government.**

   False: The objective behind audit of stores and inventories is to ensure that purchases of stores and inventories are properly sanctioned, made economical and in accordance with the rules for purchase laid down by the competent authority.

10. **Central Government has duty under C&AG Act, 1971 to compile and submit accounts of union and states to the president of the country.**

    False: CAG has duty under C&AG Act, 1971 to compile and submit accounts of union to the president of the country and states to the respective governor.

11. **The audit of Government Company is conducted by CAG.**

    False: The audit of Government Company is conducted by CA in practice but appointed by C&AG.

12. **There is a two layer audit in case of a government company.**

    True: There is a two layer audit in case of a government company because after completion of audit by a CA, C&AG may conduct supplementary audit or test audit.

13. **CAG have no power to conduct the supplementary audit of the government company.**

    False: C&AG have power to conduct the supplementary audit of the government company after completion of audit by CA.

14. **Regularity audit alone is sufficient in propriety audit.**

    False: Regularity audit alone was not sufficient to protect properly the public interest in the spending of money because even though expenditure has been incurred in conformity with the existing rules and regulations but still it may be highly wasteful.

15. **C&AG of India may order to conduct test audit of the accounts of a Government company.**

    True: Comptroller and Auditor-General of India may, in case of a government company, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company. **(M 16 MTP I, M 15)**

16. Comptroller and Auditor General of India can be removed by the Prime Minister of India on the recommendation of his Council of Ministers. (N 14 MTP I, N 15 MTP II, N 09)

False: The Comptroller and Auditor General of India cannot be removed by the Prime Minister of India on the recommendation of his Council of Ministers. He can be removed on the ground of proven misbehavior or incapacity, when each House of Parliament decides to do so by majority of not less than 2/3 of the members of the house present and voting.

17. Audit of government is conducted by central government.

False: In India, the function of government audit is discharge by the independent comptroller and auditor general & not by central government.

18. CAG is appointed by judge of Supreme Court.

False: The comptroller and auditor general shall be appointed by the president of India and shall not be removed from the office except on the ground of proven mis behaviour or incapacity.

19. Term of office for CAG is 5 years or 60 years of age whichever is less.

False: Comptroller and Auditor General shall hold office for a term of six years or up to age of 65 years, whichever is earlier.

20. In government audit, propriety is major concern to be checked.

True: According to propriety audit, the auditors try to bring out the cases of improper avoidable or wasteful expenditure even through the expenditure has been incurred as per existing rules and regulations.

21. Performance audit seeks to check costs & benefits of government expenditure.

True: Performance audit aims to ascertain that government programs have achieved the desired objectives at the lowest cost and given the intended benefits.

22. The C& AG can conduct audit of Government Companies. (RTP)

False: CAs appointed by the C&AG as Statutory Auditor conducts the audit of Government Companies. The C&AG has a right to conduct Supplementary Audit.

23. A Government company and any other company which has been in existence for less than 5 financial years are prohibited from making political contribution.

False: A Government company and any other company which has been in existence for less than 3 financial years are prohibited from making political contribution.

12. INTERNAL AUDIT AND COST AUDIT

1. Statutory audit is an Independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

False: Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

2. The management of VIVEKANANDA Ltd. feels that Mr. Swamy, who is a chartered accountant, not engaged in practice is not eligible to appoint him as internal auditor.

False: A Chartered Accountant is eligible for appointing as an internal auditor whether he is engaged in practice or not.

3. Management of LIGHT Ltd. is in the opinion that they should not appoint internal auditor as the company employee because internal auditor must be an outsider.

False: Internal auditor may be an employee or outsider of the company.

4. Internal audit is applicable for all the companies without any exception.

False: Internal audit is applicable to only some companies as per sec 138.

5. The management of WONDER Ltd. argued with its auditor that he is directly responsible to them.

False: Auditor is directly responsible to the shareholders.

6. **The auditor is considering internal controls for expression of opinion there on.**

   False: Auditor is considering internal controls only to determine the nature, timing and extent of audit procedures to be performed.

7. **Internal check and internal control are 2 parts in internal audit.**

   False: Internal check and internal audit are 2 parts in internal controls.

8. **Internal check starts when internal audit ends.**

   False: Internal audit starts when internal check ends.

9. **Internal audit function can discover frauds and errors earlier than in case of internal check.**

   False: Internal check function can discover frauds and errors earlier than in case of internal audit.

10. **In general, internal audit function can be expected to have the same degree of independence of an external auditor.**

    False: In general, internal audit function cannot be expected to have the same degree of independence of an external auditor.

11. **Segregation of functions is strictly followed in case of small business.**

    False: Segregation of functions is limited in case of small businesses because of less number of employees.

12. **It is advised to statutory auditor that he should not rely on the work of the internal auditor.**

    False: As per SA-610, statutory auditor may depend on the work of the internal auditor provided work performed is satisfactory.

13. **If statutory auditor depends on the work of internal auditor then for the opinion both auditors are responsible.**

    False: As per SA-610, statutory auditor alone is responsible for his opinion even though he depends on the work of the internal auditor.

14. **There is no need of maintaining co-ordination between external auditor and internal auditor.**

    False: As per SA-610, there should be a co-ordination between external auditor and internal auditor.

15. **Deficiency in internal control refers to a control which is designed, implemented or operated in such a way that it is able to prevent or detect and correct misstatements in the financial statements on a timely basis.**

    False: Deficiency in internal control refers to a control which is designed, implemented or operated in such a way that it is unable to prevent or detect and correct misstatements in the financial statements on a timely basis.

16. **Sec. 138 of the Co-Act 2013 discussing about the cost Audit.**

    False: Sec. 138 of the Co-Act 2013 discussing about the internal audit.

17. **There is no scope for direct supervision by management in case of a small business.**

    False: Owner or manager supervisory controls existed in case of small business.

18. **The requirement of internal audit is not applicable to private companies.**

    False: As per Sec 138, internal audit is applicable to private companies provided its turnover is Rs 100 crores or more (or) outstanding loans or borrowings from banks or public financial institutions exceeding Rs 100 crores or more in the preceding financial year.

19. **The scope of work of an internal auditor should not extend beyond the scope of work of an external auditor.**

    False: The scope of work of an internal auditor may extend beyond the scope of work of an external auditor.

20. Human error is one the inherent limitation of internal control systems.

True: Human error, unusual transactions, cost of implementation etc. are some of inherent limitations of internal control system.

21. Once internal controls are designed by management, then there is no chance for deterioration.

False: Deterioration is one of the inherent limitations of internal control system of an entity. So it is unavoidable.

22. Internal audit is applicable to every listed company without satisfying any conditions regarding paid up share capital or turn over in the proceeding financial year as per SEC-138.

True: Internal audit is applicable to every listed company without satisfying any condition as per sec.138.

23. M/s RAJAN Ltd.'s management decided to appoint Mr. Ramesh who is a cost accountant as its internal auditor so that it is in line with the requirement of SEC- 138.

True: As per Sec 138, cost auditor can be appointed as an internal auditor of a company.

24. External Auditor is not the employee of the company so he has independent status but in case of Internal Auditor he may be the employee because he need not maintain independent status.

False: Internal Auditor should also maintain independence during his internal audit. He may be appointed as an employee or outsider.

25. If the statutory auditor is satisfied that the internal audit has been efficient and effective then he can completely ignore the examination of transactions.

False: If the statutory auditor is satisfied that the internal audit has been efficient and effective then he may curtail the number of transactions to be verified.

26. Mr. Pavan an auditor of BETTER Ltd. is in the opinion that he can completely ignore the testing of transactions because he discovered that the entity's internal control system is very strong.

False: Even though internal controls are strong, auditor cannot ignore verification of transactions completely, but he may curtail number of transactions to be verified.

27. External auditor should completely rely on work of internal auditor.

False: External auditor should himself check internal controls. He should test work of internal auditor on which he intends to rely. The statutory auditor may rely on internal auditor provided he exercise due skill and care and there is nothing to doubt.

28. Internal control is part of internal check system. (PM, M 16 MTP I, M15 MTP I)

False: Internal check has been defined as "checks on day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".

Internal check is a part of the overall internal control system and operates as a built - in device as far as the staff organisation and job allocation aspects of the control system are concerned.

29. Internal check is part of internal control system. (N 14 RTP, M 13)

True: Internal check has been defined as "checks on day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".

Internal check is a part of the overall internal control system and operates as a built - in device as far as the staff organization and job allocation aspects of the control system are concerned.

30. Internal control can provide absolute assurance. **(N 16 MTP I, M 15 MTP II)**

False: Internal control can provide only reasonable but not absolute assurance that its objective relating to prevention and detection of errors/frauds, safeguarding of assets etc., are achieved. This is because it suffers from some inherent limitations.

31. Auditor is primarily responsible for establishing, maintaining and reviewing the Internal Control System. **(M 14) (OR)**

Maintenance of internal control system is responsibility of Auditor. **(M 14)**

False: it is the responsibility of the management for the maintenance of internal control system rather than of the Auditor. Because, internal control is the process designed, implemented and maintained by those charged with governance, management to provide reasonable assurance about the achievement of entity's objectives.

32. As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor. **(PM, M 15, M 17 RTP)**

False: Section 138 of the Companies Act, 2013 requires every private company to appoint an internal auditor having turnover of Rs. 200 crore or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding Rs. 100 crore or more at any point of time during the preceding financial year.

33. The term "internal audit" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud". **(M 17 RTP)**

False: The term "internal check" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".

34. The scope of work of an internal auditor may extend even beyond the financial accounting.

True: The scope of work of an internal auditor may extend even beyond the financial accounting and may include cost investigation, inquiries relating to losses and wastages, production audit, performance audit etc. **(M 16)**

35. Section 138 of the Companies Act, 2013 deals with the provisions relating to cost audit.

False: Section 138 of the Companies Act, 2013 deals with the provisions relating to internal audit. And Section 148 deals with the provisions relating to cost audit. **(M 16 MTP II)**

36. Management usually implements best controls in the company in case where the cost of implementation of controls is less than its benefits.

True: If the cost of controls is more than its benefits, then management is not interested to design those controls.

37. Internal Audit and Internal Check are one and the same.

False: Internal audit is wider term than internal check. Internal audit is examination of transaction after it has happened. Whereas internal check takes place while the transaction is being happened.

24. The cost records shall be maintained on regular basis in such a manner as to facilitate calculation of sales per employee.

False: The cost records shall be maintained on regular basis in such a manner as to facilitate calculation of cost of production per unit. **(N 15 MTP I, N 15)**

25. Cost audit is not applicable to the companies which are operating from a special economic zone.

True: Cost audit is not applicable to the companies which are operating from special economic zone.

26. A chartered accountant in practice is eligible to appoint as cost auditor of a company.

False: A person appointed under Sec 139 as an auditor of the company i.e. a chartered accountant in practice shall not be appointed as its cost auditor.

27. Cost auditor will be appointed by shareholders of the company on the recommendation of board of directors.

False: Cost auditor will be appointed by board of directors of the company on the recommendation of audit committee.

28. The Companies for which cost audit is applicable are required to appoint cost auditor within 80 days form the commencement of financial year.

False: The companies for which cost audit is applicable are required to appoint cost auditor within 180 days from the commencement of financial year.

29. Casual vacancy in the office of cost auditor shall be filled by the shareholders of the company within 30 days of occurrence of such casual vacancy.

False: Casual vacancy in the office of cost auditor shall be filled by the board of directors of the company within 30 days of occurrence of such casual vacancy.

30. The cost audit shall be conducted by a cost accountant, whether engaged in practice or not.

False: The cost audit shall be conducted by a cost accountant engaged in practice only.

31. The company can remove its cost auditor from his office before the expiry of term only with the prior approval of CG.

False: The cost auditor may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the cost auditor and recording the reasons for such removal in writing.

32. The Cost Auditor has no duty to report on fraud as per SEC 143(12) of the companies ACT 2013.

False: The provisions of section 143(12) of the companies Act,2013 and the relevant rules on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.

33. Internal Auditor being appointed as an Employee of the company cannot also be its cost Auditor (N 07, RTP) (OR)

Internal auditor of the company cannot be its cost auditor also.

True: The internal Auditor appointed as an Employee cannot also be its cost Auditor.[Note: Qualifications/ Disqualifications applicable for statutory Auditor applies to cost Auditor also] If the cost auditor is also the internal auditor, he would not be able to discharge his duties properly.

34. Cost records are required to be maintained by each and every company.

False: Cost records are required to be maintained as per section 148, if section 148 is applicable to the company.

13. MISCELLANEOUS

1. Selling and distribution cost is included in the cost of inventories. (M 16 MTP I, M 13)

False: As per AS-2 on Valuation of Inventories, in determining the cost of inventories, it is appropriate to exclude selling and distribution costs and recognize them as expenses in the period in which they are incurred. Therefore, it is not appropriate to include selling and distribution cost in the cost of inventories.

2. **A company shall disclose by way of notes additional information regarding aggregate expenditure and income for an item which exceeds Rs. 1,00,000. (M 16 MTP II)**

   False: As per Schedule III to the Companies Act, 2013, a company shall disclose by way of notes additional information regarding aggregate expenditure and income for an item which exceeds 1% of the revenue from the operation or Rs. 1,00,000 whichever is higher.

3. **While preparing the Balance sheet of a company- a receivable shall be classified as a “trade receivable□ if it is in respect of the amount due on account of goods purchased or services rendered in the normal course of business. (N 16 MTP I)**

   True: As explained in General Instructions for Preparation of Balance Sheet as per Schedule III, a receivable shall be classified as a „trade receivable□ if it is in respect of the amount due on account of goods purchased or services rendered in the normal course of business

4. **Cost of abnormal amounts of wasted materials included in the cost of inventories.**

   False: As per AS-2 on Valuation of Inventories, in determining the cost of inventories, it is appropriate to exclude abnormal amounts of wasted materials, labour or other production costs and recognise them as expenses in the period in which they are incurred. Therefore, it is not appropriate to include abnormal amounts of wasted materials cost in the cost of inventories.

5. **Computer software which is the integral part of the related hardware can be treated as fixed assets. (M 15 MTPI) (M 13)**

   True: As per AS-26 on Intangible Assets, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as a fixed asset. Therefore, computer software which is the integral part of the related hardware should be treated as fixed asset.

6. **Contingent gains should be recognized in the financial statements. (M 15 MTP II)**

   False: As per AS-4 on Contingencies and Events Occurring after the Balance Sheet Date, Contingent gains are not recognized in financial statements since their recognition may result in the recognition of revenue which may never be realized. However, when the realization of a gain is virtually certain, then such gain is not a contingency and accounting for gain is appropriate.

7. **The carrying amount for current investments is the lower of cost and fair value.**

   True: As per AS-13 on Accounting for Investments, investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. **(M 15 MTP II)**

8. **While preparing the Balance sheet of a company- the earmarked balances with banks need not be stated separately. (M 15 MTP II)**

   False: As explained in General Instructions for Preparation of Balance Sheet as per Schedule III to the Companies Act, 2013, earmarked balances (for example, for unpaid dividend) with banks shall be separately stated.

9. **Royalties shall be recognised on an accrual basis in accordance with the terms of the relevant agreement. (N 15 MTP I)**

   True: AS 9 “Revenue Recognition” provides that revenue arising from royalties shall be recognised on an accrual basis in accordance with the terms of the relevant agreement.

10. **AS 10 “Property, plant and Equipment” does not apply to land. (N 15 MTP I)**

    True: AS 10 “Property, plant and Equipment (PPE)” does not apply to land unless it has a limited useful life for the enterprise.

11. **Interest accrued but not due on secured Loans is required to be shown under appropriate sub-heads under the head” secured Loans.” (M 08)**

    False: Interest Accrued but not due on Borrowings should be shown under the head “Current Liabilities”

12. Interest Accrued but not due on Investments is required to be shown under appropriate sub-heads under the head "Investments" (RTP)

False: Interest Accrued on Investments Whether due or not should be shown under the head "other current Assets"

13. If the Directors are of the opinion that any Fixed Asset does not have a realizable value at least equal to its book value, the fact should be stated in accounts. (RTP)

False: This requirement of schedule III applies to any asset other than Fixed Assets and Non-current Investments.

14. Fixed Deposits held with Bank by a Company is to be shown under the head Investments in Balance sheet as per the requirements of part I of Sch. III to the Companies Act. (J 09)

False: Fixed Deposits should be shown under "cash & cash Equivalents" if they are 'current' in nature or else, under Non-Current Investments

15. Stores and spare parts should be shown under Fixed Assets in the Balance sheet as per Schedule III of the companies Act, 2013 (RTP)

False: Stores and spares should be disclosed under Inventories and not under Fixed Assets.

16. A Company can consider an Useful Life of the Asset longer than the one prescribed by Schedule II of the Companies Act, 2013. (M 13)

True: A company can consider longer Useful Life can be permitted if justification thereof is given. And also this relief is given only for prescribed class of Companies. However, for other Companies, Longer Useful Life is not permissible.

17. When Government grants are received in the form of assets such as land, plant and equipments etc., free of cost, then, such assets should be entered in the books of accounts at nominal value. (N 14 RTP, J 09)

True: According to AS 12 "Accounting for Government Grants " when Government grants in the form of non-monetary assets such as land, plant and equipments etc. are received free of costs then such assets should be entered in the books of account at nominal value.

18. Events occurring after balance sheet date must be disclosed in the Financial statements

False: events occurring after balance sheet date can be both which requires adjustment in Financial Statement or disclosure in Financial statement would not normally require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions. **(N 13, N 14, N 15 - RTP)**

19. All intangible assets are not required to be amortized. (N 16)

False: As per AS -26, the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. The useful life of an intangible asset may be very long but it is always finite.

20. Disclosure of accounting policy, which is adopted in preparation of financial statements, is not required.

False: The profit or loss can be significantly affected by adopting different accounting policies. Thus, disclosure of accounting policies followed becomes necessary, so that readers of financial statements can properly understand.

21. As per AS -1 disclosure of fundamental accounting assumptions is needed whether these are followed or not.

False: If all three fundamental accounting assumptions are being followed in preparation & presentation of financial statements, specific disclosure is not needed. Thus, disclosure is needed only in case of non – compliance with the fundamental accounting assumption.

22. Events occurring after the balance sheet date must be disclosed in the financial statements.

False: As per AS-4 on "Contingencies and Events Occurring After the Balance Sheet Date", Events occurring after the balance sheet date which do not affect the figures stated in the financial statements would not normally require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions.

23. The company can shift its books of accounts from its registered office to any other place in India without following of any procedure.

False: The Company can shift its books of accounts from its registered office to any other place in India provided directors should pass a resolution in the board meeting and intimate to ROC within 7 days from the passing of such a resolution.

24. Branches of the company are compulsory to maintain their books of accounts at its registered office only.

False: Branches may maintain their books of accounts at such branches itself, but however they have to send periodical summarized returns to the registered office of the company.

25. The director can get financial information of the company which is maintained outside the country through his agent.

False: This request can be made only by the director himself and not by or through his power of attorney holder or agent or representative.

26. The Books of Accounts of every company together with the relevant vouchers shall be kept in order by the company for a minimum period of 8 financial years including the current financial year.

False: The books of accounts of every company together with the relevant vouchers shall be kept in order by the company for a minimum period of 8 financial years immediately preceding a financial year.

27. All Companies are required to prepare cash flow statement as a part of their financial statements.

False: One Person Company, small company and dormant company may not include the cash flow statement as a part of their financial statements.

28. The financial statements of one Person Company shall be signed by at least 2 directors of the company.

False: In the case of a one-person company, the financial statements shall be signed by only one director.

29. The financial statement including consolidated financial statement, if any need not approved by the BOD but they should be approved by shareholders.

False: The financial statements including consolidated financial statements, if any, shall be first approved by the board of directors.

30. In the director's responsibility statement, company need not give explanations for material departure from the Accounting standards.

False: Accounting standards are being followed while preparation of annual accounts along with explanation for material departure, if any should be disclosed in the director's responsibility statement.

31. The Board of Directors of every company before exercising the powers which are mentioned in sec 180, they should obtain the prior consent of shareholders by way of passing a special resolution.

False: The board of directors of a public company before exercising the powers which are mention in secn180, they should obtain the prior consent of shareholders by way of passing a special resolution. This provision is not applicable to a private company.

32. A Company may maintain its books of accounts according to either mercantile system of accounting or cash system of accounting but not mixed system.(RTP)

False: A Company should maintain its books of account according to the accrual system of accounting and as per double entry basis. [sec. 128]

33. The Company can voluntary revise its financial statements as per sec 131 of the companies act 2013 from any of the five preceding financial years.

False: The company can voluntary revise its financial statements as per sec 131 of the companies act 2013 from any one of the 3 preceding financial years.

34. The companies which are eligible under sec 182, the board can contribute to political parties for an amount exceeding 7.5% of average net profits of proceeding 3 financial years after taking the prior approval of the shareholders.

False: The board of companies other than Government companies and companies having existence for less than 3 financial years can contribute to political parties for maximum amount of 7.5% of average net profits of preceding 3 financial years. The board cannot contribute to political parties more than 7.5% even by taking prior approval of the shareholders.

35. Central Government has no power to make an application for re-opening of accounts to the court of competent jurisdiction or the tribunal.

False: The central government has power to make an application for re-opening of accounts to the court of competent jurisdiction or the tribunal

36. Operational Audit involves examination of all operations and activities of the entity.

(N14 MTP II, M15 MTP)

True: Operational Audit involves examination of all operations and activities of the entity. The objects of operational audit include the examination of the control structure and of the relation of department controls to general policies. It provides an appraisal of whether the department is operating in conformity with prescribed standards and procedures and whether standards of efficiency and economy are maintained. Therefore, the statement given is correct.

37. The Board of Directors of a company may contribute any amount to charitable funds without any prior permission of the company in general meeting. (N 15 MTP I, N 16 MTP II)

False: As per section 181 of the Companies Act, 2013, the Board of Directors of a company may contribute to bona fide charitable and other funds. However, prior permission of the company in general meeting is required in case any amount the aggregate of which, in any financial year, exceeds 5 per cent of its average net profits for the three immediately preceding financial years.

38. ABC Ltd., a government company came into existence in year 2012, donated Rs. 50,000 to a political party. (M 14)

False: As per section 182 of the companies act, 2013, no government company is allowed to contribute any amount or amounts directly or indirectly to any political party or for any political purpose to any person.

39. A company having average net profit during the three immediately preceding financial years of Rs. 100 lakh can make a political contribution of Rs. 5 lakh. (M 16 MTP II)

True: BOD can contribute political contribution to the maximum amount of 7.5% of average net profits of preceding 3 FY(S), provided it is not a Government company and completed 3 years from the date of its incorporation.

14. STANDARDS ON AUDITING

SA 200:

1. **Audit of the financial statements relieve management from their responsibilities.**

   False: Audit of financial statements does not relieve management from their responsibilities.

2. **Auditor should comply SA, even it is not relevant.**

   False: The auditor need not comply with each requirement of an SA in the circumstances where the entire SA is not relevant.

3. **Auditor may departure from SA in exceptional circumstances.**

   True: In the exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA.

4. **Auditor should not modify his opinion when a relevant SA's objective cannot be achieved.**

   False: Auditor needs to modify his opinion when a relevant SA's objective cannot be achieved.

5. **Management is not primary responsible for preparation and presentation of financial statements.**

   False: Management is primary responsible for preparation and presentation of financial statements.

6. **Financial reporting framework is not relevant in the preparation and presentation of financial statements.**

   False: The management has to adopt applicable financial reporting framework in the preparation and presentation of financial statements.

7. **The management of Sri Ganapati feels that they need not comply applicable laws and regulations since it is not their objective.**

   False: One of the responsibilities of the management is to comply all applicable laws and regulations.

SA 210:

1. **Auditor can accept or continue his audit engagement without satisfying any requirements.**

   False: As per SA-210, auditor has to accept or continue his audit engagement only when preconditions for an audit are present and there is a common understanding between the auditor and management.

2. **Management is responsible for designing and implementing necessary internal controls.**

   True: The management is responsible for designing and implementing necessary internal controls according to the nature and size of the business of the entity.

3. **Management may or may not provide additional information which is requested by the auditor for the purpose of the audit.**

   False: It is one of the pre-conditions for an audit, i.e. management should provide additional information that the auditor may request from management for the purpose of the audit.

4. **Management needs to provide unrestricted access to the auditor in respect of persons within the entity.**

   True: Management needs to provide unrestricted access to the auditor in respect of persons within the entity for the purpose of audit.

5. **Letter of engagement is needs to be sent by the auditor in recurring audits also normally.**

   False: Normally, auditor need not send letter of engagement in recurring audits except in some cases.

6. **Letter of engagement should be sent by the auditor to his client before the completion of audit.**

   False: Letter of engagement should be sent by the auditor to his client before starting the audit.

SA 220:

1. **Engagement partner is a senior partner in an audit firm.**

   False: Engagement partner is a Partner in an audit firm who is responsible for the audit engagement.

2. **Engagement quality control review should be undertaken after the audit report is issued.**

   False: As per SA 220, the engagement quality control review should be undertaken before making sign on the audit report.

3. **Engagement quality control reviewer must be a suitably qualified external person.**

   False: Engagement quality control reviewer must be a practicing CA but not the member of engagement team. So he may be internal or external to the audit firm.

4. **Engagement team should not include an expert.**

   False: Engagement team refers to all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

5. **Engagement quality control review is compulsory for all audit engagements.**

   False: It is applicable only for listed companies and other specified companies.

6. **Engagement quality control reviewer need not evaluate the engagement documentation.**

   False: Engagement quality control reviewer needs to evaluate the engagement documentation.

7. **In case of difference between engagement partner's opinion and engagement quality control reviewer's opinion in such a case engagement partner may ignore firm's policies and procedures in resolving such difference.**

   False: In case of difference between engagement partner's opinion and engagement quality control reviewer's opinion in such a case engagement partner has to follow firm's policies and procedures in resolving such difference.

8. **Quality control should be implemented for individual audits as well.**

   True: The quality control policies applicable to firm should be implemented for Individual audits to the extent applicable. The audit work should be delegated to assistants with professional competence and should be appropriately directed and supervised.

SA 230:

1. **Working papers and Work papers both are different.**

   False: As per SA 230, working papers and work papers both are the same.

2. **Working papers are papers which are prepared by management and obtained by the auditor.**

   False: Working papers are papers which are prepared or obtained by the auditor and retained by him.

3. **Audit file must be in electronic form that comprises the audit documentation for a specific engagement.**

   False: Audit file may be in electronic form or physical form as per SA 230.

4. **Experienced auditors may be internal or external to the firm appointed as auditor.**

   True: As per SA 230, experienced auditor may be internal or external to the firm appointed as auditor.

5. **After assembly of the final audit file, auditor may delete or discard audit documentation of any nature.**

   False: After assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

6. **Auditor need not prepare any audit documentation.**

False: As per SA230, auditor needs to prepare audit documentation.

7. **The content of audit documentation is uniform for every audit.**

   False: The form and content of audit documentation is varied based on size of entity, risk of material misstatement, significance of the audit evidences obtained etc.

SA 240:

1. **Fraud risk factors necessarily indicate the existence of fraud.**

   False: Fraud risk factors are the indicators of existence of fraud. Even though they does not confirm about the existence of fraud, they have often been present in the circumstances where frauds have occurred.

2. **An auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements.**

   True: Auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements. He cannot obtain absolute assurance because of presence of inherent limitations of an audit.

3. **The auditor can detect 100% frauds in his audit.**

   False: Auditor cannot detect 100% frauds and errors in his audit due to the presence of inherent limitations of an audit.

4. **The detection of fraud is the main objective of an audit.**

   False: Expression of opinion is the main objective of an audit. Detection of fraud is other (or) secondary objective of an audit.

5. **The risk of not detecting management fraud and employee fraud both are the same.**

   False: The risk of not detecting management fraud is higher than the risk of not detecting employee fraud.

6. **In spite of good efforts put by auditor in identifying the frauds, if he fails in doing so, construed as audit failure.**

   False: In spite of good efforts put by auditor in identifying the frauds, if he fails in doing so, then auditor is not responsible because of inherent limitations in the audit.

7. **The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to exercising reasonable care and skills.**

   False: The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill.

8. **The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. (M 16 MTP II, N 15 RTP)**

   True: The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it.

9. **The fact that an audit is carried out acts as a deterrent and consequently the auditor can be held responsible for the prevention of fraud and error. (N 16 MTP I, M 15 MTP II)**

   False: An audit conducted in accordance with the auditing standards generally accepted in India is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent and cannot be held responsible for the prevention of fraud and error.

10. **The risk of not detecting a material misstatement resulting from fraud is lower than the risk of not detecting one resulting from error. (M 15 MTP II)**

False: The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

11. **When an auditor identifies a Misstatement resulting from fraud, it is his responsibility to communicate it to the regulatory and enforcement authorities apart, from those charged with governance. (N 14 RTP, M 10)**

    True: As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" an auditor identifies a misstatement resulting from fraud or error it is his responsibility to communicate the matter with those charged with the governance and, in some circumstances, when so required by laws or regulations, to regulatory and enforcement authorities also.

12. **The primary responsibility for the prevention and detection of fraud rests with the auditor.**

    False: As per SA-240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. **(M 16 RTP)**

13. **As per SA-240, misstatements in the Financial Statements can arise from fraud only.**

    False: As per SA 240, misstatements in the financial statements can arise from either fraud or error

SA 250:

1. **The Non-compliance includes the personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.**

   False: The Non-compliance does not include the personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

2. **Auditor is responsible for preventing noncompliance with laws and regulations.**

   False: Management is responsible for preventing noncompliance with laws and regulations.

3. **The Auditor shall obtain sufficient appropriate audit evidence regarding compliance with all applicable laws.**

   False: The auditor shall obtain sufficient appropriate audit evidence regarding compliance of laws having direct impact on the financial statements.

4. **Auditor need not discuss non-compliance with the management and where appropriate, those charged with governance.**

   False: As per SA 250, auditor needs to discuss non-compliance with the management and where appropriate, those charged with governance.

5. **Payment of fines or penalties is one of the indicators of non-compliance of laws and regulations by management.**

   True: Payment of fines or penalties, investigations by government departments etc. are some of the indicators of non-compliance of laws and regulations by management.

6. **Non-compliance is an act of intentional omission or commission by the entity, which is contrary to the prevailing laws or regulations.**

   False: Non-compliance is an act of intentional (or) unintentional omission or commission by the entity, which is contrary to the prevailing laws or regulations.

7. **To check compliance with law is responsibility of management only.**

   True: It is Management's responsibility to ensure that entity operations are conducted as per law and regulations. Thus, Management is responsible for prevention and detection of non-compliance.

SA 260:

1. **SA 260 deals with communication with management.**

   False: SA 260 deals with communication with TCWG.

2. **The Auditor need not communicate the matter relating to planned scope and timing of the audit to TCWG.**

   False: The auditor needs to communicate the matter relating to planned scope and timing of the audit to TCWG before starting the audit.

3. **There is no chance for risk of material misstatement when there is no two way communication between the auditor and TCWG as per SA 260.**

   False: There is a chance for risk of material misstatement when there is no two way communication between the auditor and TCWG as per SA 260.

4. **Auditor needs to communicate to TCWG regarding independence in some cases.**

   True: In the cases of listed entities, auditor needs to communicate to TCWG regarding independence.

5. **Auditor has to communicate some matters to TCWG in writing or orally as per SA 260.**

   False: Auditor has to communicate some matters to TCWG in writing only as per SA 260.

6. **Auditor cannot obtain information relevant to the audit from TCWG.**

   False: Auditor can obtain information relevant to the audit from TCWG like information about specific transactions or events.

SA 265:

1. **Deficiency in internal control refers to ability of control to prevent or detect and correct misstatements in the financial statements on a timely basis.**

   False: Deficiency in internal control exists when a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis.

2. **Auditor should communicate all deficiencies in internal controls to TCWG, whether they are significant or not.**

   False: Auditor should communicate all deficiencies in internal control to TCWG, if they are significant only.

3. **Auditor is responsible to report about all deficiencies which are existed in the internal controls to the management.**

   False: Auditor is responsible to report about all deficiencies which are noticed by him during his audit in internal controls to the management.

4. **As per SA 265, auditor need not provide explanations regarding potential effects to identified deficiencies to the management or TCWG.**

   False: As per SA-265, auditor needs to provide explanation regarding potential effects to identified deficiencies to the management or TCWG.

5. **The purpose of the audit was for the auditor to express an opinion on the financial statements and internal controls.**

   False: The purpose of audit was for the auditor to express an opinion on the financial statements but not on internal controls.

6. **Evidence of ineffective aspects of the control environment is an indicator for other deficiency.**

   False: Evidence of ineffective aspects of the control environment is an indicator for significant deficiency in internal control.

SA 299:

1. **When more than one auditor is appointed to audit large entities such auditors are called as principal auditor and other auditor.**

   False: When more than one auditor is appointed to audit large entities such auditors are called as joint auditors.

2. **Each joint auditor is not entitled to rely on other joint auditors.**

   False: As per SA 299, every joint auditor is entitled to rely upon the work other join auditors.

3. **The concept of joint and several responsibilities is not applicable to the joint auditors.**

   False: The concept of joint and several responsibilities is applicable to joint auditors in some cases like work which is undivided, reporting requirements etc.

4. **In case of difference in the opinion among the joint auditors, majority rule will prevail.**

   False: In case of difference in the opinion among the joint auditors, the joint auditor who differed opinion with others may issue a separate audit report.

5. **No one joint auditor is responsible for the work which is not divided**

   False: According to SA 299 —Responsibilities of Joint Auditors, all the joint auditors are jointly and severally responsible in respect of the work which is not divided among joint auditors and is carried out by all of them. . **(N 16 MTP II, N 15 MTP I)**

6. **As per SA 299, joint auditors are required to divide work among them on the basis of period only.**

   False: As per SA 299, joint auditors are required to divide work among themselves on the basis of period or geographical area or components of the financial statements or functional areas.

7. **Joint auditor is bound by majority opinion. (N 14 MTP I, N 15 MTP II)**

   False: In case of difference in the opinion among the joint auditors, the joint auditor who differed opinion with others may issue a separate audit report

8. **If there is difference of opinion among the joint auditors with regard to any matter, majority joint auditors' opinion will prevail while reporting (N 07)**

   False: As per SA 299 "Responsibility of Joint Auditors", generally all joint auditors arrive at unanimous opinion. However any joint auditor is not bound by majority opinion. Those disagreeing with others may provide their own opinion through a separate audit report.

9. **All the joint auditors are jointly and severally responsible for the work, which is not divided and is carried on jointly by all the joint auditors. (M 08)**

   True: As per SA 299 on "Responsibility of Joint Auditors" all the joint auditors are jointly and severally responsible for the audit work and the same cannot be divided. It has to be carried on jointly by all the joint auditors.

SA 300:

1. **The Auditor is not required to document the overall audit strategy as per SA 300.**

   False: The auditor is required to document the overall audit strategy as per SA 300.

2. **Successor auditor is required to communicate with Predecessor auditor.**

   True: In case of an initial audit engagement, Successor auditor is required to communicate with Predecessor auditor as an ethical requirement.

3. **Auditor has no mandatory obligation to plan the audit of Financial Statements.**

   False: As per SA 300, auditor is responsible for planning an audit of Financial Statements.

4. **Auditor is required to document the significant changes made to the audit plan.**

   True: Auditor is required to document the significant changes made to the audit plan along with the overall audit strategy and audit plan.

5. **SA 300 is framed in the context of an initial audit engagement.**

   False: SA 300 is framed in the context of recurring audits.

6. **Establishing an understanding of the terms of the engagement is part of preliminary engagement activities as per SA 300.**

   True: Establishing an understanding of the terms of the engagement, as required by SA 210 is part of preliminary engagement activities as per SA 300.

7. **Auditor should not change his audit plan during the audit.**

   False: Auditor can change his audit plan as per SA 300 based on the circumstances but those changes must be documented.

SA 315:

1. **Risk Assessment procedures are required to be performed by the management of the company.**

   False: Risk assessment procedures are required to be performed by the auditor.

2. **The auditor shall obtain an understanding of all controls, whether they are related to the audit or not.**

   False: Auditor is required to understand the controls, only when they are relevant to audit.

3. **The auditor needs to exercise his judgement to identify which risks are significant risks.**

   True: As a part of risk assessment, auditor needs to identify which risks are significant risks.

4. **Risk assessment procedures confirm the existence of material misstatements.**

   False: Risk assessment procedures do not themselves confirm the existence of material misstatement.

5. **As per SA 315, understanding of the entity and its environment does not include the entity's internal control.**

   False: As per SA 315, understanding of the entity and its environment include the entity's internal control.

6. **Significant risk refers to an identified and assessed risk of material misstatement that, in the management's judgement, requires special audit consideration.**

   False: Significant risk refers to an identified and assessed risk of material misstatement that, in the auditor's judgment, require special audit consideration.

7. **There is regular need for knowledge of business during conduct of audit.**

   True: Usually knowledge is obtained at the start of the audit and updated during audit. There is continuous need for knowledge (knowledge is refined and added in later stage of audit)

8. **Audit doesn't require knowledge of business operations on part of auditor.**

   False: In financial statement of client, results of various operations/functions are shown. Unless auditor has knowledge about basic business operations, he can't judge their financial results in effective way.

SA 320:

1. **There is direct relationship between materiality and the degree of audit risk. (M 17 RTP)**

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

2. **There is an inverse relation between materiality & audit risk.**

True: Generally management / employees don't commit fraud in high value items. Moreover, as a general practice, auditor checks high value items in detail. Thus it is less risky that high value fraud and error may not be detected. So, high materiality levels audit risk at lower degree.

3. **In determination of Materiality, management has to use their professional judgment.**

   False: In determination of Materiality, auditor has to use his professional judgment.

4. **As per SA 330, auditor should consider materiality and its relationship with audit risk while conducting an audit.**

   False: As per SA 320, auditor should consider materiality and its relationship with audit risk while conducting an audit.

5. **Materiality is an important consideration for the management to evaluate whether the financial statements reflects a true and fair view or not.**

   False: Materiality is an important consideration for the auditor to evaluate whether the financial statements reflects a true and fair view or not.

6. **The materiality should not be changed during the audit.**

   False: The materiality can be changed by the auditor during his audit.

7. **Performance materiality is always lesser or higher than the materiality for the financial statements as a whole.**

   False: Performance materiality is always lesser than the materiality for the financial statements as a whole.

8. **The words 'Materiality' and 'Performance materiality' carry the same meaning.**

   False: Materiality is relevant for the whole of financial statements but performance materiality is relevant only for a particular class of transactions.

SA 330:

1. **Test of controls comprise tests of details and substantive analytical procedures.**

   False: Test of controls refers to audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

2. **The auditor shall obtain less persuasive audit evidence in case of higher the auditor's assessment risk.**

   False: The auditor shall obtain more persuasive audit evidence in case of higher the auditor's assessment risk.

3. **If there is no change in internal control, auditor shall test the controls at least once in every fifth audit.**

   False: If there is no change in internal controls, auditor shall test controls at least once in every third audit.

4. **If there are no identified misstatements, it reveals that controls are effective.**

   False: If there are no identified misstatements, even there may be some weaknesses in internal controls because of inherent limitations of an audit and inherent limitations of internal controls.

5. **Compliance procedures are performed to detect material misstatement at the assertion level and include tests of details of classes of transactions, account balances and disclosures.**

   False: Substantive procedures are performed to detect material misstatement at the assertion level and include test of details of classes of transactions, account balances and disclosures. Compliance procedures are designed to evaluate the operating effectiveness of control in preventing, or detecting and correcting, material misstatements at the assertion level.

6. **If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express an unmodified opinion.**

   False: If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaimer opinion.

SA 402:

1. **Service Auditor Refers to the auditor of user organization which is receiving services from service organization.**

   False: Service Auditor refers to auditor of service organization which is providing services to the user organization.

2. **Type 1 and Type 2 reports are issued by the user auditor.**

   False: Type 1 and Type 2 reports are issued by the service auditor.

3. **User auditor is the auditor of both user organization and service organization.**

   False: User auditor is the auditor of user organization only.

4. **Type 1 report consisting information regarding test of controls performed by service auditors.**

   False: Type 1 report consisting a description, prepared by management of the service organization, of the service organization's system, control objectives and related controls that have been designed and implemented as at a specified date and service auditor report with objective of conveying reasonable assurance regarding this.

5. **When user auditor depends on the work of service auditor, then both are responsible for the opinion.**

   False: When user auditor depends on the work of service auditor, then user auditor alone is responsible for his opinion.

6. **As per SA 402, user auditor need not perform any audit procedures to get the knowledge of service organization controls since he is not the auditor of service organization.**

   False: As per SA 402, user auditor needs to perform some audit procedures to get the knowledge of service organization controls even though he is not the auditor of service organization like verification of type 1 and type 2 reports issued by service auditor, if possible, visit service organization through user organization etc.

7. **SA - 402 deals with responsibility of the Auditor of the Service Organization.**

   False: SA – 402 deals with Audit considerations relating to entities using Service Organizations, and not the responsibility of Auditor of Service Organization itself.

SA 450:

1. **Misstatements can arise from fraud only.**

   False: Misstatements can arise from fraud or error.

2. **Uncorrected misstatements refer to the misstatements that the auditor has accumulated during the audit and rectified by the management.**

   False: Uncorrected misstatements refer to the misstatements that the auditor has accumulated during the audit but not rectified by the management.

3. **The auditor shall determine whether uncorrected misstatements are material on individual basis only.**

   False: The auditor shall determine whether uncorrected misstatements are material on individual basis or on aggregate basis.

4. **The auditor needs to communicate all misstatements accumulated to the TCWG.**

   False: The auditor needs to communicate to TCWG only the misstatements which are not rectified by the management.

5. **As per SA 450, misstatements refer to a difference between amount reported in the financial statements and other information.**

   False: As per SA 450, misstatements refer to a difference between amount reported in the financial statements and to be reportable in the financial statements.

6. **As per SA 450, if management refuses to correct some or all of the misstatements communicated by auditor, that he has to verify the effect on opinion.**

   False: As per SA 450, if management refuses to correct some or all of the misstatements communicated by auditor, then he has to communicate to TCWG. If yet not rectified then verify the effect on opinion.

SA 500:

1. **Management's Expert refers to an individual or organization possessing expertise in a field other than accounting or auditing whose work in that field is used by the auditor in obtaining the audit evidence.**

   False: Management's expert refers to an individual or organization possessing expertise in a field other than accounting or auditing whose work in that field is used by the management in the preparation of financial statements.

2. **Auditor should rely on information which is produced by the entity.**

   False: Based on the reliability, auditor may depend on the information which is produced by the entity or information provided by the third parties.

3. **Audit evidence includes not only the information contained in the accounting records underlying the financial statements but also other information.**

   True: Audit evidence includes not only the information contained in the accounting records underlying the financial statements but also other information because auditor may obtain information from third parties.

4. **As per SA 500, sufficiency refers to quality and appropriateness refers to quantity.**

   False: As per SA 500, sufficiency refers to quantity and appropriateness refers to quality.

5. **Always external evidence is more reliable than the internal evidence.**

   False: If internal controls are weak, external evidence is more reliable than the internal evidence and if internal controls are strong, internal evidence is more reliable than external evidence.

6. **If the evidence collected by the auditor is less qualitative, then he has to obtain more number of such evidences.**

   False: Obtaining more number of audit evidences does not compensate their poor quality.

SA 501:

1. **SA 501 deals with only inventory.**

   False: SA 501 deals with inventory, litigations and claims and segment information.

2. **Auditor should perform physical inventory counting on the balance sheet date only. (N 14)**

   False: Physical verification of inventories is the responsibility of the management of the entity. However, where the inventories are material and the auditor is placing reliance upon the physical count by the management, the auditor should attend the stock-taking and acts as an observer (SA 501)

3. **If the risk of material misstatement regarding litigation or claims has been identified, the auditor may communicate with entity's external legal counsel, if management permits.**

   False: If the risk of material misstatement regarding litigation or claims has been identified, the auditor may communicate with entity's external legal counsel and management should permit.

4. **If the auditor is unable to attend physical inventory counting, he shall modify opinion.**

False: If the auditor is unable to attend physical inventory counting, he may plan on alternate date.

5. **As per SA 501, auditor may ignore such inventory which is under the custody and control of a third party.**

   False: Auditor has to obtain external confirmation regarding the inventory which is under the custody and control of a third party.

6. **If law or regulation prohibits the entity's external legal counsel from communicating with the auditor, the auditor has no further duty.**

   False: If law or regulation prohibits the entity's external legal counsel from communicating with the auditor, the auditor shall perform alternate audit procedures.

7. **If auditor can't attend physical inventory, he need not perform additional procedures**

   False: If he can't attend physical inventory count on planned date due to unforeseen circumstance, he should take some physical counts on alternative date and perform procedure to adjust change in inventory between period end and date of physical count.

SA 505:

1. **Confirmation should be obtained by the auditor from the third parties with the involvement of the client.**

   False: Confirmation should be obtained by the auditor directly from the third parties without the involvement of the client.

2. **Auditor should obtain external confirmation from third parties only in the electronic form.**

   False: Auditor may obtain external confirmation from third parties in the electronic form or in the paper form.

3. **In case of positive confirmation request, the third party has to give reply to the auditor in case of disagreement.**

   False: In case of positive confirmation request, the third party has to give reply to the auditor in the both cases of agreement and disagreement.

4. **In case of negative confirmation request, the third party has to give reply to the auditor in case of agreement and disagreement.**

   False: In case of negative confirmation request, the third party has to give reply to the auditor only in the case of disagreement.

5. **External confirmation may be obtained by the auditor from the company or third parties.**

   False: External confirmation is to be obtained by the auditor from the third parties.

6. **If management refuses to allow the auditor to send a confirmation request, then auditor should withdraw from the audit immediately.**

   False: If management refuses to allow the auditor to send a confirmation request, then auditor should ask the management for the reasons.

7. **Reply is required in all cases in positive confirmation request.**

   True: It asks the respondent to reply to the auditor in all cases either by indicating the respondent's agreement/disagreement with the given information or by asking the respondent to fill in information.

8. **Auditor should carefully plan & control external confirmation.**

   True: The auditor should maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of confirmation requests and the responses to those requests.

SA 510:

1. **Initial Audit engagement refers that the financial statement for prior period were audited by same current year auditor.**

   False: Initial audit engagement refers to that the financial statements for prior period were audited by predecessor auditor (or) not audited.

2. **Auditor need to obtain sufficient appropriate audit evidence regarding opening balances.**

   True: Auditor needs to obtain sufficient appropriate audit evidence regarding opening balances to ensure that they are free from material misstatements.

3. **SA 510 discussed with opening balances in case of initial audit engagement but not about consistency of accounting policies.**

   False: SA 510 discussed with opening balances in case of initial audit engagement and consistency of accounting policies.

4. **If the prior period financial statements were audited by a predecessor auditor and there was a modification to the opinion, then current auditor may ignore that modification because it is irrelevant in current year.**

   False: It may be relevant or irrelevant in the current year. If it is relevant in the current year, then auditor needs to discuss with management regarding amendments to be made to the financial statements.

5. **If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express an adverse opinion.**

   False: If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer opinion.

6. **Auditor should focus on closing balances but not on opening balances, because he is required to express his opinion on closing balances.**

   False: Auditor needs to verify opening balances so that they are free from material misstatements.

7. **It is no part of subsequent auditor's duty to verify opening balances of Ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor.**

   False: According to SA 510 "Initial Audit Engagements – Opening Balances", it is the responsibility of the subsequent auditor to verify and obtain appropriate evidence in respect of opening balances brought forward from the preceding period.

8. **The Auditor shall express an unqualified opinion if the Auditor is unable to obtain sufficient audit evidence regarding the opening balances. (N 14)**

   False: As per SA 510 "Initial Audit Engagements—Opening Balances", if the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate.

9. **In initial engagement, auditor should perform procedures regarding opening balances.**

   True: He should obtain sufficient appropriate evidence that:

   a) Opening balances are correctly brought forward

   b) Opening balances do not contain misstatements affecting current period financial statements and

   c) Consistent application of appropriate accounting policy has been observed.

SA 520:

1. **Analytical procedures mean evaluations of financial information through analysis of plausible relationships among financial data only.**

   False: Analytical procedures mean evaluations of financial information through analysis of plausible relationships among financial and non-financial data.

2. **Analytical review procedures assist the auditor in planning the nature, timing and extent of other audit procedures.**

   True: Analytical review procedures assist the auditor in planning the nature, timing and extent of other audit procedures.in case of unusual fluctuations then he has to increase the extent of checking.

3. **Substantive analytical procedures are generally more applicable to large volumes of transactions that cannot be predictable over time.**

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

4. **Inter firm analysis refers to comparison of current period information with the prior period information.**

   False: Inter firm analysis refers to comparison of client information with other entities belonging to the same industry.

5. **If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information, the auditor has to modify his opinion without any other responsibility.**

   False: If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information, the auditor has to investigate in to the reasons.

6. **As per the Standard on Auditing (SA) 520 "Analytical Procedures" 'the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data only.**

   False: As per the Standard on Auditing (SA) 520 "Analytical Procedures" 'the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. **(RTP – N17)**

7. **Auditor may use analytical review procedure at planning stage.**

   True: The auditor should apply analytical procedures at planning stage for understanding the business and in in identifying areas of potential risk. It uses both Financial and Non- Financial information.

8. **Analytical procedures are unable to help the auditor in determining the nature, timing and extent of other audit procedures at the planning stage. (M 16 MTP I)**

   False: SA 520 "Analytical Procedure states that application of analytical procedures helps the auditor to find the aspects of the business of which he was unaware and it will also assist him in determining the nature, timing and extent of audit procedures.

9. **Analytical procedure refers to the procedure adopted by the management to ensure that transactions of one period are separated from those at the commencement of the following year.**

   False: Analytical procedures means Analysis of trends and ratios, Identification of abnormal deviations and Investigation of those deviations. Whereas cut – off procedures means the procedure adopted by the management to ensure that transactions of one period are separated from those at the commencement of the following year.

SA 530:

1. **Sampling unit refers to the individual items constituting a sample.**

   False: Sampling unit refers to the individual items constituting a population.

2. **Statistical sampling involves random selection of the sample items.**

   True: Statistical sampling involves random selection of the sampling units and the use of probability theory.

3. **Anomaly refers to a misstatement or deviation that is demonstrably representative of misstatements or deviation in a population.**

   False: Anomaly refers to misstatements or deviation that is demonstrably not representative of misstatements or deviations in a population.

4. **The words 'Audit risk' and 'Sampling risk' both convey the same meaning.**

   False: Audit risk will include sampling risk and non-sampling risk. Audit risk refers to auditor may give an inappropriate opinion on the financial statements and sampling risk refers to sample results may not match with population results.

5. **Tolerable misstatements refer to misstatements in monitory amount which is not acceptable by the auditor.**

   False: Tolerable misstatements refer to misstatements in monitory amount which is acceptable by the auditor.

6. **Stratification refers to the process of dividing a population into sub-populations, each of which is a group of sampling units which have different characteristics.**

   False: Stratification refers to the process of dividing a population into sub-population, each of which is a group of sampling units which have similar characteristics.

SA 540:

1. **SA 540 deals with related parties.**

   False: SA 540 deals with accounting estimates.

SA 550:

1. **Arm's length transaction is a transaction between a willing buyer and willing seller who are related and are acting independently of each other and pursuing their own best interests.**

   False: Arm's length transaction is a transaction between a willing buyer and willing seller who are unrelated are acting independently of each other and pursuing their own best interests.

SA 560:

1. **Subsequent events refer to the events which occurring between the date of the financial statements and the date of the auditor's report and facts that become known to the auditor before completion of his audit.**

   False: Subsequent events refer to the events which occurring between the date of the financial statements and the date of the auditor's report and facts known to the auditor after the date of audit report.

2. **The auditor is required to consider all subsequent events while discharging his duties.**

   True: The auditor is required to consider all subsequent events while discharging his duties as per SA 560.

3. **Adjusting events are those which are indicative of conditions that arose subsequent to the date of the balance sheet.**

   False: Adjusting events are those events in respect of which conditions that are existed on the balance sheet date.

4. **The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.**

   True: It is the general rule that auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report except in the case of subsequent events.

5. **Adjustable events are simply required to be disclosed.**

   False: Adjustable events are simply required to be adjusted.

6. **SA 560 deals with 'Going Concern'.**

   False: SA 560 deals with 'Subsequent Events'.

7. **Subsequent events means events after B/S date but up to next 12 months.**

   False: It means Significant events occurring between balance sheet date and audit report date.

SA 570:

1. **It is the responsibility of the management to verify the going concern but auditor need not perform any procedure.**

   False: The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern to know whether there are any events or conditions which casts doubts on going concern and management plans to address them.

2. **When management has not yet performed an assessment of the entity's ability to continue as a going concern, then auditor has no further duty.**

   False: When management not yet performed an assessment of the entity's ability to continue as a going concern, then the auditor request the management to make its assessment.

3. **If any financial/operational/other indicator is existed in the company then auditor can conclude that going concern is inappropriate.**

   False: If any financial/operational/other indicator is existed, then it may cast a doubt the entity's ability to continue as a going concern.

4. **Going concern assumption having the impact on the Financial Statements.**

   True: Depreciation is to be providing in the books of accounts only when there is a going concern. If there is no going concern, assets should be recorded at net realizable values and depreciation should not be provided.

5. **If going concern assumption is inappropriate then auditor must qualify his audit report.**

   False: If going concern assumption is inappropriate then auditor must give an adverse opinion.

6. **Going concern means the entity can continue its business for a period of minimum 5 years.**

   False: Going concern means the entity can continue its business for a foreseeable future i.e., 1 year.

7. **As per SA 570, the objective of the Auditor is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of consistency assumption in the preparation and presentation of the Financial Statements.**

   False: As per the objectives given in SA 570 "Going Concern", the auditor is required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of going concern assumption in the preparation and presentation of the financial statements.

8. **A company which has been unable to negotiate borrowings from its bankers claims that it will be able to continue as a 'going concern'.**

   False: In the case of the company which has not been able to negotiate its borrowings with its bankers, there will be a substantial doubt in its ability to continue as a going concern without such financial support.

   Alternative Answer –

   True: If the company which has not been able to negotiate borrowings from its bankers for reasons like delay/failure in the submission of adequate documents/information or for other reasons other than the company's financial status then the statement is true.

9. **While there are indicators casting doubt on going concern, auditors should perform extended procedure.**

   True: In case of question regarding going concern auditor should obtain sufficient and appropriate evidence by

a) Discussions with management

b) Reviewing events after balance sheet date

c) Taking legal advice

d) Analysing future plans of management

10. If the auditor believes that the entity will not continue as a going concern, he should issue disclaimer of opinion.

False: As per SA 570 "Going Concern", if the auditor concludes that the going concern assumption is not appropriate and the entity will not be able to continue its operation in foreseeable future, he should express an adverse opinion.

SA 580:

1. Written representation is a written statement by auditor provided to the management to confirm certain matters or to support other audit evidence.

False: Written representation is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.

2. The written representation shall be in the form of a representation letter addressed to the management.

False: The written representation shall be in the form of a representation letter addressed to the auditor.

3. The management shall request auditor to provide a written representation that he has fulfilled his responsibility for the audit of financial statements in accordance with standards on auditing.

False: The auditor shall request management to provide a written representation that they fulfilled their responsibility for the preparation of financial statements in accordance with applicable FRFW.

4. The date of written representations shall be as near as practicable to, but not before the date of the auditor's report on the financial statements.

False: The date of written representation shall be before to the date of auditor's report.

5. The auditor shall disqualify his opinion on the financial statements if management does not provide the written representation.

False: The auditor shall disclaim his opinion on the financial statements if management does not provide the written representation.

6. Taking management representation is a convenient, economical and equally acceptable auditing method even where the direct access by auditor to audit evidence is possible.

(N 14 MTP I, N 15 MTP II, J 09)

False: Where it is possible for auditor to check the transaction by himself through direct access, it is not fair for him to merely rely on the management representation as prime audit evidence.

7. Written representation by management as to the quality of inventory is substitute for Verification. (PM, M 15)

False: One of the objectives of the written representation is to support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representation. So it is clear that written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available.

SA 600:

1. Other auditor is responsible for reporting on the financial information of an entity when that financial information of one or components audited by another auditor.

False: Other auditor is responsible for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

2. **Principal auditor is also referred as other auditor.**

   False: Principal auditor is responsible for reporting on the financial information of an entity. Other auditor is responsible for reporting on the financial information of component which is included in the financial information audited by the principal auditor.

3. **There is no need of co-ordination between principal auditor and other auditor.**

   False: There should be a sufficient liaison between the principal auditor and the other auditor.

4. **In all circumstances, if the other auditor issues a modified auditor's report, the principal auditor should incorporate such modifications in his audit report on company as a whole.**

   False: If the other auditor issues a modified auditor's report, the principal auditor may incorporate such modifications in his audit report only if it is material at company as a whole.

5. **If the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, then the principal auditor should express an adverse opinion.**

   False: If the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, then the principal auditor should express a qualified opinion or disclaimer opinion.

6. **As per SA 600, the principal auditor should rely on the work of another auditor.**

   False: As per SA 600, the principal auditor may rely on the work of another auditor.

7. **A branch auditor is a joint auditor according to SA 299 and his relationship with the company auditor is governed by the said Standard. (N 14 RTP, J 09)**

   False: Branch auditor is not a joint auditor within the meaning of SA 299. He is another auditor within the meaning of SA 600.

SA 610:

1. **The Internal auditor is generally appointed by shareholders.**

   False: The Internal auditor is generally appointed by board of directors.

2. **Statutory auditor must not rely on the work of an internal auditor.**

   False: Statutory auditor may rely on the work of an internal auditor as per SA 610.

3. **If internal auditor is an outsider to the company, then he has more independence.**

   True: Internal auditor may be an employee of the company or outsider. If he is outsider, than he has more independence.

4. **Internal auditor in a company may have functional responsibility in the company.**

   False: Internal auditor in a company should not have the functional responsibility in the company so as to maintain his objective.

5. **If statutory auditor depends on the work of an internal auditor, then both are responsible for statutory auditor's opinion in his audit report.**

   False: If statutory auditor depends on the work of an internal auditor, then only statutory auditor is responsible for his opinion in his audit report.

6. **The internal auditor is responsible to all the stakeholders of a company.**

   False: The internal auditor is responsible to board of directors of a company.

7. **Internal auditor and Statutory auditor may be one and the same.**

   False: Statutory auditor should not act as an Internal auditor as per Sec 144.

SA 620:

1. **Auditor's expert means the senior auditor whose work is actually used by the other auditors.**

   False: Auditor's expert means the expert whose work is used by the auditor in obtaining sufficient and appropriate audit evidence relating to the financial statements.

2. **Auditor cannot depend on the work of an expert.**

   False: Auditor may use the work of an expert as per SA 620.

3. **Expert refers to an individual (or) organization possessing expertise in a field of accounting and auditing.**

   False: Expert refers to an individual (or) organization possessing expertise in a field other than accounting and auditing.

4. **If auditor depends on the work of an expert, then both are responsible for audit opinion.**

   False: If auditor depends on the work of an expert, then auditor is alone responsible for his audit opinion.

5. **Expert's work should be mentioned in the audit report by the auditor in all cases.**

   False: Expert's work should be mentioned in the audit report by the auditor in case of modified report, if modification is made by auditor in his audit report based on the work of expert.

6. **Auditor is expected to be expertise in all fields.**

   False: Auditor is expected to be expertise only in the fields of accounting and auditing.

7. **The auditor, in the interest of the users, while explaining the nature of his reservation, can describe the work of the expert with his name in the audit report without obtaining prior consent of the expert.** **(M 16 MTP I, N 09, J 09)**

   False: As per SA 620 "Using the Work of an Auditor's Expert", if the auditor, in the interest of the users includes the name of the expert in his audit report, he can do so only after obtaining the prior permission of the auditor's expert.

8. **SA 620 is applicable when an auditor seeks legal opinion from an advocate**

   True: SA 620 on using the work of an expert applies when the auditor seeks opinion/reports of an expert on any audit matter. Therefore, SA 620 is applicable when an auditor seeks legal opinion from an advocate. **(N 14 MTP I, N 07)**

9. **An Auditor's external expert is not subjected to quality control policies and procedures of an Audit firm.** **(N 15 MTP II, N 14)**

   True: As per SA 620 "Using the Work of an Auditor's Expert", an auditor's external expert is not a member of the engagement team and is not, therefore, subject to quality control policies and procedures of the audit firm.

10. **Auditor must completely rely on work of expert.**

    True: Auditor alone is responsible for his own report (opinion). However he is entitled to rely on expert if he exercised due skill and care and there is nothing to doubt.

11. **If auditor provides modified report he must mention expert name in report.**

    False: Auditor may need to refer expert work while giving modified report, if modification is based on expert work. But reference of expert name can be given in audit report only after obtaining expert's prior consent.

12. **An expert is a person, firm or association of persons possessing special skill, knowledge and experience in auditing.**

    False: Refer Q.no.3 above.

SA 700:

1. **SA 700 deals with the form and content of the auditor's report issued as a result of an audit of financial statements.**

   True: SA 700 deals with the form and content of the auditor's report.

2. **An unmodified opinion indicates that the financial statements have not been prepared by using the generally accepted accounting principles.**

   False: An unmodified opinion indicates that the financial statements have been prepared by using the generally accepted accounting policies.

3. **Auditor has to express his opinion in the introductory paragraph in the independent auditor's report.**

   False: Auditor has to express his opinion in the opinion paragraph in the independent auditor's report.

4. **Auditor is responsible to conduct the audit in accordance with AS's issued by the ICAI.**

   False: Auditor is responsible to conduct the audit in accordance with SA's issued by the ICAI.

5. **The date of auditor's report shall be before the date on which the auditor has obtained sufficient appropriate audit evidence based on which the auditor has framed an opinion on the Financial Statements.**

   False: The date of auditor's report shall be on or after the date on which the auditor has obtained sufficient appropriate audit evidence based on which the auditor has framed an opinion on the Financial Statements.

6. **Auditor should mention sec 143(1) matter always in other reporting responsibilities paragraph in the independent auditor's report.**

   False: Auditor should mention sec 143(1) matter only in the case of having comments in 'other reporting responsibilities' paragraph in the independent auditor's report.

SA 705:

1. **If Financial Statements are materially misstated, then auditor has to express qualified opinion (or) disclaimer opinion.**

   False: If Financial Statements are materially misstated, then auditor has to express qualified opinion or an adverse opinion.

2. **If auditor is unable to obtain sufficient appropriate audit evidence, then auditor has to express an adverse opinion (or) disclaimer opinion.**

   False: If auditor is unable to obtain sufficient appropriate audit evidence, then auditor has to express a qualified opinion or disclaimer opinion.

3. **If management refused to remove the limitation, then the auditor mention the same in the audit report without any other obligation.**

   False: If management refused to remove the limitation, then auditor shall communicate the matter to TCWG and determine whether it is possible to perform alternate procedures to obtain sufficient appropriate audit evidence.

4. **The auditor shall place "Basic for modification paragraph" immediately after the opinion paragraph in the auditor's report.**

   False: The auditor shall place "Basis for modification paragraph" immediately before the opinion paragraph in the auditor's report.

5. **If auditor issuing modified report, then he should quantify the effect of such modification on the financial statements in the all cases without any exception.**

   False: If auditor issuing modified report, then he should quantify the effect of such modification on the financial statements. If quantification is not possible, then mention the reasons in the audit report.

6. **The auditor has to use the words "Except for the effects of the matter(s) described in the basis for modified opinion paragraph, while issuing an adverse opinion."**

   False: The auditor has to use the words "Except for the effects of the matter(s) described in the basis for modified opinion paragraph, while issuing a qualified opinion.

SA 706:

1. **'Emphasis of matter paragraph' is consisting of matters which are important and not included in the financial statements.**

   False: 'Emphasis of matter paragraph' consists of matters which are important and already included in the financial statements.

2. **'Other matter paragraph' consists of matters which are important and already included in the financial statements.**

   False: 'Other matter paragraph' is consisting of matters which are important and not included in the financial statements.

3. **'Emphasis of matter paragraph' should be included in the auditor's report immediately before the opinion paragraph.**

   False: 'Emphasis of matter paragraph' should be included in the auditor's report immediately after the opinion paragraph.

4. **If the auditor wants to include emphasis of matter paragraph and/or other matter paragraph in the audit report, then he has to communicate such matter to TCWG.**

   True: If the auditor wants to include emphasis of matter paragraph and/or other matter paragraph in the audit report, then he has to communicate such matter to TCWG regarding proposed wording of this paragraph.

5. **The auditor has to include only one of the paragraph from emphasis of matter paragraph (or) other matter paragraph, if needed.**

   False: Auditor may include emphasis of matter paragraph and other mater paragraph if needed in the independent audit report.

6. **Emphasis of Matter Paragraph in the Auditor's Report is a substitute of Disclaimer of opinion. (N 14)**

   False: As per SA 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", the inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. Whereas the auditor shall disclaim an opinion when he is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. Therefore, an Emphasis of Matter paragraph is not a substitute for the auditor expressing a disclaimer of opinion.

SA 710:

1. **As per SA 710, Auditor need not verify accounting policies.**

   False: As per SA 710, auditor needs to verify accounting policies.

2. **In the case of corresponding figures, the auditor's opinion refers to each period for which financial statements are presented.**

   False: In the case of corresponding figures, the auditor's opinion refers to current period only.

3. **In the case of comparative financial statements, the auditor's opinion refers to current period only.**

   False: In the case of comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

4. **Auditor has no duty relating to correspondings (or) comparatives as per SA710.**

   False: SA 710 deals with auditor's responsibilities relating to correspondings and comparatives.

5. **SA710 deals with emphasis of matter paragraph and other matter paragraph.**

   False: SA 710 deals with comparatives and correspondings. SA 706 deals with emphasis of matter paragraph and other matter paragraph.

6. **SA 710 on 'comparatives' is applicable to corresponding previous year's figures and not to comparative financial statements. (J 09)**

   True: As per SA 710 "Comparatives" with reference to financial statement presentation includes the corresponding previous year figures and are intended to be read on relation to the amounts and other disclosures relating to the current period.

SA 720:

1. **Other information refers to non-financial information which is related to financial statements.**

   False: Other information refers to financial and non-financial information (Other than the financial statements and the auditor's report thereon) which is included in a document containing audited financial statements and the auditor's report there on.

2. **As per SA720, Inconsistency refers to other information which is in agreement with the information contained in the audited financial statements.**

   False: Inconsistency refers to other information that contradicts information contained in the audited financial statements.

3. **The Auditor shall make appropriate arrangements with the management and TCWG to obtain the other information after the date of auditor's report.**

   False: The auditor shall make appropriate arrangements with the management and TCWG to obtain the other information prior to the date of auditor's report.

4. **Auditor should not modify audit report due to uncorrected misstatements in other information.**

   True: Auditor should not modify his audit report due to uncorrected misstatements in other information because auditor has to express his opinion on the financial statements whether they are showing true and fair view or not.

5. **If Auditor finds inconsistency between other information and audited financial statements, then other information needs revision.**

   False: If auditor finds inconsistency between other information and audited financial statements, then other information or audited financial statements need revision subject to having misstatements

THE END