

3. While evaluating internal control deficiencies during an audit, the auditor considers several factors.

Which of the following is not an indicator of a significant deficiency in internal control?

- Identification of management fraud that was not prevented by the entity's internal control.
 - Evidence that management failed to implement remedial action on previously communicated significant deficiencies.
 - Susceptibility to loss or fraud of the related asset or liability.
 - Evidence of management's inability to oversee the preparation of financial statements.
4. XYZ Ltd. had already issued its financial statements along with the auditor's report. Subsequently, a significant event was identified that required amendment of the previously issued financial statements. Accordingly, the financial statements were amended and the auditor issued a new auditor's report on the amended financial statements. In such circumstances, what should the auditor include in the new or amended auditor's report?
- A Key Audit Matter paragraph explaining the amendment of financial statements.
 - An Emphasis of Matter or Other Matter paragraph referring to the note explaining the reason for amendment of previously issued financial statements and to the earlier auditor's report.
 - A Qualified Opinion explaining the amendment in financial statements.
 - The auditor is not required to mention anything in the auditor's report regarding the amendment since management has already disclosed the matter in the financial statements.
5. Which of the following is not a feature of a Finance Lease?
- Substantially all risks and rewards relating to the asset are transferred to the lessee.
 - Lease generally relates to long-term assets such as plant & machinery, land or office buildings.
 - Ownership of the asset remains with the lessor for the entire lease period and there is normally no option of transfer to the lessee.
 - Lessee may have an option to acquire ownership of the asset at the end of the lease period.

CA INTER SEP. 26 PRAYAS GURUKUL BATCH

SUBJECT – AUDIT TEST

Topic : Chapter 7 & 9

TIME : 1.5 Hrs.

M.M.: 50

- Q1.** XYZ Ltd. appointed ABC & Co., Chartered Accountants, as the statutory auditors for the year ended 31 March 2025. During the course of audit, the auditor identified several misstatements relating to revenue recognition and inventory valuation.

The auditor communicated these misstatements to the appropriate level of management on a timely basis and requested management to correct them. However, management refused to correct certain misstatements stating that they were immaterial.

In this context, the auditor considered the importance of timely communication of misstatements to management and its impact on the evaluation of financial statements.

Required:

- Explain the auditor's responsibility regarding communication of misstatements identified during the audit. **[1.5 mark]**
 - State the benefits of timely communication of misstatements to management. **[2.5 marks]**
 - What should the auditor do if management refuses to correct some or all of the misstatements? **[2 marks]**
- Q2.** A government department has been allocated a budget for infrastructure development. During the audit, the auditor observes the following:
- Some payments were processed without proper approval from the competent authority.
 - A large-scale project was implemented, but no assessment has been made regarding the expected benefits were achieved or not.
 - Funds were utilised from an account for which no budgetary provision was made.
 - Certain expenditures were made without following the prescribed financial regulations.
 - There were instances of unnecessary spending that did not align with financial propriety.
- Identify the different types of audits applicable to each of these observations.

[5 Marks]

Q3. XYZ Ltd. is a listed company. During the audit, the auditor considered it necessary to communicate certain matters relating to auditor's independence to those charged with governance (TCWG). Accordingly, the auditor planned to provide a written communication confirming compliance with ethical requirements and details of relationships and fees charged for audit and non-audit services.

State the auditor's responsibilities in relation to communication of independence matters to those charged with governance in the case of listed entities. **[4 Marks]**

Q4. While auditing hire-purchase transactions of a business entity, the auditor needs to verify certain important aspects relating to the hire-purchase agreement and related payments. What matters should the auditor examine while checking such hire-purchase transactions? **[4 Marks]**

Q5. No inspection under Section 79 of Multi-State Co-operative Societies Act, 2002 shall be made unless a notice has been given to the multi-state co-operative society. Explain stating clearly when and how such inspection can be made. Also state the powers available with the Central Registrar in this regard along with provisions relating to communication of the inspection report under the said section. **[6 Marks]**

Q6. You have been appointed as an auditor of ABC Hotel, a three star hotel, for Financial Year 2022-23. As an auditor what are the special points that need to be considered in verifying the Inventories in the nature of food and beverages? **[5 Marks]**

Q7. During the audit of XYZ Ltd., the auditor identified certain events and conditions such as continuous losses and liquidity problems which may cast significant doubt on the company's ability to continue as a going concern. Management has prepared the financial statements on a going concern basis and has also made certain disclosures regarding these conditions and their plans to overcome the situation.

In another situation, the auditor identified some adverse events, but based on the audit evidence obtained, he concluded that no material uncertainty exists regarding the entity's ability to continue as a going concern.

What should the auditor evaluate regarding the adequacy of disclosures in both the above situations? **[5 Marks]**

Q8. XYZ Ltd. appointed M & Co., Chartered Accountants, as the statutory auditors for the year ended 31 March 2025. During the course of audit, the auditor obtained various audit evidence regarding preparation of financial statements

and information provided by management.

However, the auditor decided to obtain written representations from management regarding its responsibilities for preparation of financial statements and completeness of information provided to the auditor.

Further, the auditor also asked management to reconfirm its acknowledgement and understanding of its responsibilities, because the finance director who had originally signed the audit engagement letter had resigned during the year.

Explain why written representations about management responsibilities are necessary and whether the auditor's action of asking management to reconfirm its responsibilities is appropriate. **[5 Marks]**

Q9. ABC Ltd. appointed PQR & Co., Chartered Accountants, as the statutory auditors for the year ended 31 March 2025. During the audit, the auditor identified several deficiencies in the internal control system of the company.

Some of the deficiencies were significant deficiencies, while others were less severe but still important for management's attention.

The auditor decided to communicate the significant deficiencies to TCWG in writing. Further, the auditor also planned to communicate certain deficiencies to management at an appropriate level of responsibility.

Required:

Explain the auditor's responsibility regarding communication of deficiencies in internal control identified during the audit to TCWG as well as Management. **[5 Marks]**

Q10. Answer the following MCQs :

[1 Mark each]

- Which of the following LLPs is required to get its accounts audited?
 - Turnover ₹35 lakh and Contribution ₹30 lakh
 - Turnover ₹50 lakh and Contribution ₹20 lakh
 - Turnover ₹60 lakh and Contribution ₹30 lakh
 - Turnover ₹38 lakh and Contribution ₹24 lakh
- During the audit of a government transport corporation, the auditor examined the financial as well as operational performance of the organisation. The audit focused on analysing whether the organisation was using its resources properly and also identified opportunities for improving economy, efficiency and effectiveness in its operations and programmes. The above situation represents which type of audit?
 - Performance Audit
 - Efficiency Audit
 - Effectiveness Audit
 - Efficiency-cum-Performance Audit