Auditing – True / False Questions

Chapter 1 - Nature of Auditing		*Answer*	*Reason*
	There is no difference between the terms "external audit" and "statutory audit".	False	"External audit" is a wider term than "statutory audit". It will cover independent audits – whether voluntary audits/statutory audits.
	Fraud is more difficult to detect than error.	True	Fraud generally involves organized schemes to conceal it such as forgery, deliberate failure to record transactions.
	An unqualified opinion in audit report is a guarantee as to the future viability of the company.	False	Auditor's opinion (even an unqualified one) is not an assurance as to the future viability of the company as given in SA 200A.
	It is auditor's responsibility to maintain adequate accounting system incorporating various internal controls.	False	As SA 200, it is management's responsibility and not auditor's responsibility.
	Statutory audit means an audit where duties, rights etc. of the auditor are laid down by law.	True	It means audit required by law. In such cases, law lays down the rights duties of auditors.
	Auditor should not disclose to his client anything that comes to his notice during audit.	False	Confidentiality in SA 200 means not to disclose information acquired in course of work to a third party without client's consent unless there is a legal/professional duty to disclose.
	There is no difference between "fraudulent financial reporting" and "window dressing".	False	"Fraudulent financial reporting" is wider term than "window dressing". Fraudulent financial reporting covers both accounts made to show better position than actual (window dressing) and accounts being made to show worse position than actual.
	Auditor's primary responsibility is to detect errors and frauds	False	Auditor's primary responsibility, as per SA 200A, is to express an opinion on financial statements.

	Financial auditor is not concerned with propriety of business transactions.	False	The financial auditor, as per SA 200A, is not generally, concerned with propriety of business conduct. However, the Companies Act, 1956 has provided for propriety audit relating to some specific transactions in case of limited companies.
Chapter 2 Concepts in Auditing			
Chapter 3 - Preparation for Audit			
	Since client pays for the audit, the audit working papers belong to the client.	False	Working papers are the property of the auditor. The client does not have a right to access the working papers of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to the client.
	As soon as audit report is signed and issued, auditor should destroy audit working papers.	False	According to Expert Advisory Committee's view, auditor should normally maintain working papers for 10 years.
	There is a inverse relationship between detection risk and combined level of inherent and control risk.	True	There is inverse relationship between detection risk and combined level of inherent and control risk. When inherent and control risk are high, the auditor accepts a low level of detection to reduce overall audit risk.
	Test checks may be applied to all transactions.	False	Some transactions like opening and closing entries, depreciation entries and non-recurring or exceptional transactions should not be subject to test check.

Chapter 4 (a) Internal Control			
	If company's cash is used personally by the cashier and is made up on demand by the managements, it can be said that the financial statements are misstated.	True	The amount detected and recorded may only be "tip of the ice-berg". It may suggest serious weaknesses in internal controls. Knowledge of what the employee did ought to have a direct bearing on the nature and details of checks to be applied in relation to matters dealt with by the employee.
Chapter 4(b) – Audit in CIS Environment			
	Potential for individuals to gain unauthorized access to data or to alter data without visible evidence is not there in CIS systems.	False	Potential for individuals to gain unauthorised access to data or to alter data without visible evidence may be greater in CIS than in manual systems.
Chapter 5 & 6 Vouching & Verification			
	Vouching is mere comparison of the entries in the books of account with evidence supporting the entries.	False	Vouching is not mere comparison of the entries with the supporting documents. It is a critical examination of the supporting documents to understand the substance or essence of the transaction and to ensure that the transactions is accounted for as per its substance.
	Change of method of depreciation is entirely at the discretion of the management of the company.	False	Method of depreciation can be charged only if such change is required by statute/ Accounting Standards or such change would result in more appropriate presentation of entity's financial statements.

	The auditor examines debit notes to vouch sales return.	False	The auditor should examine purchase return book with reference to copies of debit notes issued to suppliers and outward return notes to vouch purchase return.
	Inventory turnover ratio is calculated by the auditor to obtain evidence concerning management's assertion about valuation of inventory.	True	Calculation of inventory turnover ratio and their comparison with those of previous years' ratio will provide an evidence on correct valuation of slow-moving, defective and obsolete items included in inventories.
Chapter – 7 Company Auditor & Company Special Audit			
	The auditor of a company has a right to carry out surprise checks of transactions beyond the end of the accounting year for which he is reporting.	True	The auditor is appointed at the AGM to hold office until the next AGM. He is not appointed for a particular accounting year. Consequently, he has the right of examination of the accounts and records of the company at any time during the period covered by his appointment, in so far as it is necessary for the purposes of his report.
	In case of limited companies, the statutory auditor shall comment whether the internal audit system commensurate with the size and nature of business.	False	Clause 4(vii) of CARO, 2004 requires the auditor to comment whether the company has an internal audit system commensurate with the size and nature of business. This clause is compulsorily applicable to listed companies. However, in case of unlisted companies the clause is applicable only if its: (a) paid-up capital and reserves of the company are more than rupees fifty lakh as at the commencement of the financial year; or

			(b) average annual turnover exceeds five crores for a period of three consecutive financial year preceding the financial year under audit.
	The first auditors of a public limited company appointed by the board of directors hold office till the conclusion of its statutory meeting.	False	Section 224(5) has laid down the tenure of first auditors until the conclusion of the first AGM.
	If an auditor lacks independence, he may issue an adverse report.	False	An auditor who lacks independence must issue a disclaimer of opinion audit report.
Chapter – 8 Company Audit			
	A Government company cannot contribute amounts to a political party or to any person for political purpose.	True	Section 293A of the Companies Act, 1956 prohibits Government company from contributing amounts to a political party or to any person for a political purpose.
Chapter – 9 Govt Audit & Special Audit			
	The CAG conduct audit of Government companies.	False	The Chartered Accountant(s) appointed by the CAG as statutory auditor conducts the audit of government companies. The CAG has a right to conduct supplementary audit.
AAS (SA)			
	SA 402 deals with responsibility of the auditor of the service organisation.	False	SA 402 "Audit Considerations Relating to Entities Using Service Organizations" deals with responsibility of auditor whose client uses a service organization. In other words, it deals with responsibility of auditor of the client of the service organization.

Misc.			
	If auditor relies on the work of an expert and expresses an unqualified opinion, he should refer to the work of the expert in his report.	False	When expressing an unqualified opinion, the auditor should not refer to the work of an expert in his report.
	Loss of major markets means that going concern assumption is lost.	False	The loss of major markets is only an indication that going concern assumption may not be appropriate. It is not a conclusive evidence that going concern assumption is not be appropriate. There may be mitigating factors such as a compensating new major market.