State with reasons whether following statements are correct or not.

A. Basics of auditing

1. The main objective of audit is to obtain complete assurance about whether the financial statements as a whole are free from material misstatement.

Answer: - Incorrect
The main objective of auditing is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements.

2. Auditor has to just check only arithmetical accuracy of financial statements while auditing.

Answer: - Incorrect
The main objective of auditing of auditing is to give opinion on financial statements whether it shows true and fair view. It includes various activities. Checking of arithmetical accuracy is one of such activity.

3. In some part of audit only, auditor has to use professional skepticism.

Answer:- Incorrect.
Professional skepticism refers to 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. During whole audit process i.e starting from audit planning to reporting auditor has to maintain professional skeptisam.

4. Auditor should not disclose any information relating to entity to a third party without specific authority or unless there is a legal or professional duty to disclose.

Answer:- Correct.
Confidentiality is the cornerstone of auditing. The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without any specific authority.

5. When the auditor delegates work to assistants or uses work performed by other auditors and experts **he is not responsible for forming and expressing his opinion on the financial information.**

Answer:- Incorrect
When the auditor delegates work to assistants or uses work performed by other auditors and experts **he continues to be responsible for forming and expressing his opinion on the financial information.**

6. As auditing is basically a controlling activity, auditor need not to plan its work.

Answer:- Incorrect
Audit planning is important because auditors should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of the process. The auditor should plan the nature, timing, and extent of direction and supervision of the engagement team members and review of the work.

7. The audit report should contain a clear written confirmation on the financial information.

Answer:- Incorrect
The audit report should contain a clear written Opinion on the financial information.

8. By using professional skepticism, auditor can eliminate inherent limitation of auditing.

Answer:- Incorrect.
Inherent limitation of auditing cannot be completely eliminated. By applying professional skepticism, auditor can get reasonable assurance.

9. Auditor’s primary responsibility is to prevent and detect fraud.

Answer:- Incorrect.
The primary responsibility of fraud and error lies with the management. Auditor is not responsible for the same.

10. 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.

Answer:- Incorrect
It is the responsibility of the management to ensure that statement of profit and loss and balance sheet of the company shall comply with the accounting standards.

11. Auditor cannot give any assurance about future profitability and prospects of the company.

Answer:- Correct.
Auditor has to give opinion on truthfulness and fairness of financial statements.

12. Fundamental accounting assumptions are going concern, conservatism and consistency.

Answer:- Incorrect.
Fundamental accounting assumptions are going concern, Accrual and consistency.

13. If the fundamental accounting assumptions are followed in financial statements, specific disclosure is not required.

Answer: - Correct.
If it is not followed than specific disclosure is required.

14. The subsequent discovery (after submission of audit report) of fraud or error clearly indicates that the auditor has discharged his job negligently.

Answer:- Incorrect
Auditor has to obtain reasonable assurance and to give opinion on financial statements. The Primary responsibility of prevention and detection of fraud is with management. So subsequent discovery of fraud or error does not indicate that the auditor has discharged his job negligently.

15. Professional skepticism refers to 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.

Answer:- Correct

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

ANS. Correct:
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.

17. Auditing means investigation.

Answer: Incorrect
In general, **Auditing** is conducted to verify the extent of truthfulness and fairness of the financial records of an entity, but **Investigation** is performed to prove a certain fact. Auditing is for assuring that everything is as per prescribed rules and regulation. Whereas, investigation is for finding out the fraud.

18. Error of principle affects the trial balance but does not affect profit of the company.

Answer:- Incorrect.
It does not affect the trial balance but it affects the profit.

19. Error of complete omission will never affect trial balance but may or may not affect the profit.

Answer: Correct.

20. Errors of duplication affect the Trial Balance.

Answer:- Incorrect.
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.

21. Auditor is responsible for preparation and presentation of financial statements.

Answer: Incorrect
Management is responsible for preparation and presentation of financial statements.

22. Capital Reserve and Reserve Capital are the same.

Answer:- Incorrect.
Capital reserve represent surplus profit earned in respect of certain types of transactions e.g. Profit on sale of fixed assets etc. which is not available for distribution as dividend. Reserve Capital is that part of Capital which shall not be called up except when Company is being wound up.

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

Answer:- Incorrect.
While discharging attestation functions, it will 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.

24. All intangible assets are not required to be amortized.

Answer:- Incorrect.
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.

25. The auditor should study the Memorandum and Articles of Association to see the validity of his appointment.

Answer:- Incorrect:
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.

26. Teeming and lading is one of the techniques of inflating cash payments.

Answer:- Incorrect
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.

27. The primary objective of an audit is to detect fraud and errors in Financial Statements.

Answer: - Incorrect
Detection of fraud and errors in the financial statements is not the primary objective of audit. The primary objective of an audit is to obtain reasonable assurance about whether the financial statements are free from material misstatements thereby enabling the auditor to express an opinion on the financial statements.

28. Financial Statements should show "True and correct" view of the affairs of the entity.

Answer: - Incorrect
Financial statements are frequently described as showing a true and fair view of the financial position, performance and cash flows of an enterprise.

29. Events occurring after the balance sheet date must be disclosed in the financial statements.

Answer:- Incorrect.
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.

30. Specific disclosure is required of the fundamental accounting assumptions followed in the financial statements.

Answer:- Incorrect.
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. If fundamental accounting assumptions are followed, than no specific disclosure is required.

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

Answer :- Incorrect.
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 misrecorded either wholly or partially.

B. Audit documentation and audit evidence

32. Audit evidence should be both sufficient and appropriate.

Answer: - Correct
For supporting his audit opinion, auditor has to obtain various audit evidences. Such evidences must be both sufficient and appropriate.

33. The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.

Answer:- Correct.

Audit documentation provides: (a) Evidence of the auditor's basis for a conclusion (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

34. Compliance procedures are tests designed to obtain evidence as to the completeness, accuracy and validity of the data or information produced by the accounting system.

Answer:- Incorrect
Compliance procedures are initiated to test whether internal control have been designed and these are operating effectively throughout the period. Whereas substantive procedures are initiated to obtain evidence as to the completeness, accuracy and validity of the data or information produced by the accounting system.

35. Substantive procedures are designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.

Answer: Incorrect.
Substantive procedures are initiated to obtain evidence as to the completeness, accuracy and validity of the data or information produced by the accounting system.

36. It is the responsibility of an auditor to gather conclusive evidence instead of persuasive evidence.

Answer:- Incorrect
Due to inherent limitations of auditing, auditor cannot obtain conclusive evidence but he has to rely on persuasive evidence.

37. Audit evidence refers to any information obtained by the auditor so that he can draw conclusions & express opinion on financial statements.

Answer: Correct

38. Sufficiency refers to *quantum* of audit evidence.

Answer: Correct

39. Appropriateness is the measure of the quality of audit evidence

Answer: Correct

40. Auditor should obtain *sufficient & appropriate* evidences.

Answer: Correct

41. Audit evidence must be reliable may be relevant or not.

Answer: Incorrect.
Audit evidence must be both reliable and relevant. It must be sufficient and appropriate.

42. Internal evidence is more reliable than external evidence.

Answer: Incorrect
External evidences are more reliable than internal evidence.

43. Documentary evidences i.e. evidences in the form of documents are more reliable than oral evidences.

Answer: Correct

44. Evidence obtained from the entity is more reliable than obtained by the auditor himself.

Answer: Incorrect
Evidence obtained by auditor is more reliable than evidence obtained from the entity.

45. Compliance procedure includes test of details and analytical review.

Answer:- Incorrect.
Testing of details and analythical review are part of substensive procedures. Compliance procedures include testing of control points.

46. Substantive audit procedures are done by the auditor to get the evidences as to the completeness, accuracy and validity etc. of the information produced by accounting system.

Answer:- Correct

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

Answer:- Correct.

48. Analytical review consists of studying significant ratios and trends and investigating unusual fluctuations in them.

Answer:- Correct.

49. Third party confirmations are a kind of internal source of evidence.

Answer:- Incorrect.
Third party confirmations are a kind of External source of evidence.

50. Written representation will be provided by auditor after doing audit.

Answer:- Incorrect.
Written representation will be provided by management to auditor during audit

51. Written representation will form part of financial statements.

Answer:- Incorrect.
Written representation will not form part of financial statements but it's a part of auditor's working papers.

52. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

Answer :- Correct

A written representation is a (written) statement by management provided to the auditor to confirm certain matters or to support other audit evidence.

53. Audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

Answer:- correct
SA 230 on "Audit Documentation", audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

54. Audit working papers are the joint property of auditor and auditee.

Answer: Incorrect
Standard on Quality Control (SQC) 1 provides that, unless otherwise specifi ed by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients.

55. The method of collecting evidence is called audit technique.

Answer:- Correct

56. Verifying accounting transactions with documentary evidence, it is called confirmation.

Answer: Incorrect
When the Auditor verifies accounting transactions with documentary evidence, it is called vouching. Through vouching, the Auditor verifies authority and authenticity of records. Confirmation is a technique used by an Auditor to validate the correctness of the transactions.

57. Reconciliation is a technique used by an Auditor to know the reason of differences in balances.

Answer: - Correct

58. Physical examination requires verification and confirmation of the physical existence of tangible assets as appears in the Balance Sheet like cash in hand, land and building, plant and machinery, etc.

Answer: - Correct

59. One of the techniques used for gathering evidence is substantial review.

Answer:- Correct
For collection and accumulation of audit evidence, certain methods and means are available and these are known as audit techniques. Some of the techniques commonly adopted by the auditors are Posting checking, Casting Checking, Physical Examination and count, Confirmation, Inquiry, Yearend Scrutiny, Re-computation, Tracing in subsequent period, Bank reconciliation. Substantial review is examination of accounts having large amounts, value and importance. Substantial review can be used for gathering evidence.

60. Working papers are property of client, as it contains client's information.

Answer:- Incorrect
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

61. Evaluating responses to enquiries is an integral part of the inquiry process.

Answer. Correct.
Evaluating responses to inquiries 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. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

62. "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.

Answer:-Incorrect.

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

63. There is no difference in terms "Audit Procedure" and "Audit Technique".

Answer:- Incorrect.
There is distinction between Audit Procedure and Audit Technique. Audit Procedure may comprise a number of techniques and represents the broad frame of the manner of handling the audit work; Audit techniques stand for the methods employed for carrying out the procedure.

64. Substantive procedures do not test the balances of accounts.

Answe:- Incorrect.
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.

65. Written representation by management as to the quality of inventory is substitute for verification.

Answer:- Incorrect:
Inspecting inventory when attending physical inventory counting assists the auditor in ascertaining the existence of the inventory (though not necessarily its ownership) and in identifying its quality for example, obsolete, damaged or ageing inventory. Written representations cannot be a substitute for other evidence that the auditor could expect to be reasonably available. It supports the audit evidence and not a substitute to audit evidence.

66. Scrutiny of Bank Reconciliation statement is one of the audit techniques.

Answer:- Correct
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.

67. An Auditor is bound to provide copies of the working papers to the CEO of the company.

Answer:-
Incorrect: 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 or any third party.

C. Audit Risk

68. Audit risk is the risk that an auditor may give an inappropriate opinion on the financial statements which is materially misstated.

Answer :- Correct

69. Absolute certainty in auditing is rarely attainable.

Answer :- Correct

70. Inherent audit risk arises due to complexity of client's business.

Answer :- Correct

71. Risk of non-detection of errors or frauds called detection risk.

Answer :- Correct

72. Inherent risk is the Risk that the client's internal control system may not prevent misstatements in the financial statements.

Answer:- Incorrect
Control risk is the risk that the client's internal control system may not prevent misstatements in the financial statements. It means the probability or the chances that internal controls will fail/flop.

73. The risk of material misstatement is at financial level only.

Answer:- Incorrect
The risks of material misstatement may exist at two levels:
(i) The overall financial statement level &
(ii) The assertion level for classes of transactions, account balances, and disclosures.

74. Audit risk includes the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not.

Answer :- Incorrect
Audit risk does not include the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant.

75. Result of risk assessment procedure provides sufficient and appropriate audit evidence for opinion.

Answer:- Incorrect
The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

D. Internal Control

76. The internal control may be defined as "The process designed, implemented and maintained by auditor to provide reasonable assurance about the achievement of an entity's objectives."

Answer:- Incorrect.
The internal control may be defined as "The process designed, implemented and maintained **by those charged with governance, management and other personnel** to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and

efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. It is not designed by the auditor.

77. An understanding of internal control assists the auditor in Identifying types of potential misstatements & factors that affect the risks of material misstatement and Designing the nature, timing, and extent of further audit procedures.

Answer :- Correct

78. The examination and evaluation of the internal control system is an indispensable part of the overall audit programme.

Answer :- Correct

79. Internal control reasonably assures that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded.

Answer:- Correct

80. Management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business.

Answer:- Correct

It is the primary responsibility of the management to maintain such system.

81. Only Chartered Accountant who is in practice can only be appointed as an internal auditor.

Answer:- Incorrect

As per section 138 the internal auditor, who shall either be a chartered accountant whether engaged in practice or not or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies auditor may or may not be an employee of the company.

82. It is not mandatory for the listed company to appoint internal auditor.

Answer: Incorrect
Every listed company has to mandatorily appoint internal auditor.

83. A flow chart is a graphical presentation of each point of the company's system of internal control.

Answer:- Correct.
Flow chart is a graphic presentation of each part of the entity's system of internal control. It gives bird's eye view of system for suggestion

84. Internal control questionnaires are a good source of identifying weakness in internal control system.

Answer:-
Correct. 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 frame that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness.

85. Maintenance of internal control system is responsibility of Auditor.

Answer:- Incorrect.
Maintenance of internal control system is responsibility of the management.

86. Surprise checks are part of internal check.

Answer:- Incorrect
Surprise checks are part of normal audit procedures and the results of such checks are important to the auditor in deciding the scope of his audit and submitting his report thereon.

87. As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor.

Answer:- Incorrect.

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.

88. The scope of work of an internal auditor may extend even beyond the financial accounting.

Answer:- Correct.
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.

E. Sampling

89. The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.
Answer:- Correct.

90. Auditor should not use sampling techniques as it does not give absolute assurance.

Answer:- Incorrect
Due to inherent limitations of auditing i.e limited time, auditor cannot examine all details. So for getting reasonable assurance he has to apply sampling techniques.

91. Non-statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.

Answer:- Incorrect
Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics. A sampling approach that does not have above characteristics is considered non-statistical sampling.

92. Extent of checking depends upon effectiveness of internal control.

Answer:- Correct
If, in relation to a class of transactions, the auditor finds that the internal controls are effective, he may reduce the extent of checking. For example, the auditor may limit extent of test checking of inventory if he is satisfied that internal control in relation to it is strong.

93. In case of material items, sampling is the best technique.

Answer: Incorrect
In case of material items the auditor generally does not prefer to go for test check.

94. The method which involves dividing the population into groups of items is knows as block sampling.

Answer: Incorrect.
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.

95. Sampling Risk arises from the possibility that the auditor's conclusion, based on a sample, may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure.
Answer:- Correct

96. The risk of over reliance and the risk of incorrect acceptance affect audit effectiveness and are more likely to lead to an erroneous opinion on the financial statements then either the risk of under reliance or the risk of incorrect rejection.

Answer:- Correct
The risk of under reliance and the risk of incorrect rejection affect audit efficiency as they would ordinarily lead to additional work being performed by the auditor, or the entity, which would establish that the initial conclusions were incorrect. The risk of over reliance and the risk of incorrect acceptance affect audit

effectiveness and are more likely to lead to an erroneous opinion on the financial statements then either the risk of under reliance or the risk of incorrect rejection.

97. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

Answer:-Correct
Sample size is affected by the level of sampling risk the auditor is willing to accept from the results of the sample. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

98. Cluster sampling is less effective than random sampling.
Answer:- Correct.
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.

36. Inherent & control risk and detection risk have same meaning.

Answer:- Incorrect.
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.

F. Fraud

99. Fraud is an unintentional act by one or more individuals among management, those charged with governance, employees, or third parties.

Answer:-Correct

The Standard on Auditing (SA) 240 “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” defines the term ‘fraud’ as-
“an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage”.

100. Fraud results from misappropriation of assets only.

Answer:- Incorrect
Fraud results from fraudulent financial reporting and from misappropriation of assets.

101. It is the primary duty of the auditor to detect the fraud.

Answer:- Incorrect
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.

102. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Answer:- Correct

103. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.

Answer:- Correct

104. The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud as management can manipulate accounting records.

Answer :- Correct

G. Other Chapters

105. 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.

Answer:- Correct.
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.

106. An auditor issues unqualified opinion when he concludes that the financial statements give true and fair view.

Answer:- Correct.
An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. It indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

107. Auditor's right of lien is unconditional.

Answer:- Incorrect.
In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property. On this premise, auditor can exercise lien on books and documents placed at his possession by the client for non-payment of fees for work done on the books and documents.

108. 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.

Answe:- Incorrect.
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.

109. 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.

Answer:-
Incorrect: The provisions of Companies Act, 2013 grant rights to the auditor to access books of account and vouchers of the company. He is also entitled to require information and explanations from the company. Therefore, he has a statutory right to inspect the minute book.

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

Answer:- Incorrect.
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.

111. 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.

Answer: - Incorrect: 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.

112. Managing director of A Ltd. himself appointed the first auditor of the company.

Answer:- Incorrect
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. Therefore, the appointment of first auditor made by the managing director of A Ltd. is in violation of the provisions of the Companies Act, 2013.

113. A Chartered Accountant holding securities of S Ltd. having face value of Rs. 950 is qualified for appointment as an auditor of S Ltd.

Answer:- Incorrect
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.

114. Mr. N, a member of the Institute of Chartered Accountants of England and Wales, is qualified to be appointed as auditor of Indian Companies.
Answer:- Incorrect
A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant. 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.

115. Emphasis of Matter paragraph in the Auditor's Report is a substitute of Disclaimer of Opinion.

Answer:Incorrect:
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.

116. The Statutory-Auditor is required to verify inventory physically.

Answer:- Incorrect
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.

117. Extracts and copies of important legal documents, agreements and minutes relevant to the audit is part of current audit file.

Answer:-
Incorrect: 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.

118. The Auditor shall express an unqualified opinion if the Auditor is unable to obtain sufficient audit evidence regarding the opening balances.

Answer:-
Incorrect: 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.

119. Rajat, an auditor recovers his fees on progressive basis is said to be indebted to company.

Answer:- Incorrect.
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, Rajat cannot be said to be indebted to the company.

120. Branch auditor of a company should give photocopies of his working papers on demand by Company Auditor.

Answer:- Incorrect.
As per SA 230 on "Audit Documentation", audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel. Main auditor does not have right of access to the working papers of the branch auditor. In the case of a company, the main auditor has to consider the report of the branch auditor and has a right to seek clarification and to visit the branch but cannot ask for the copy of working papers and therefore, the branch auditor is under no compulsion to give photocopies of his working papers to the principal auditor of the Company.

121. Audit of Private Limited Companies are to be excluded while calculating ceiling on number of audits.

Answer:- Incorrect. The Companies (Amendment) Act, 2000 has amended Section 224(1B) by adding a proviso that audit of private companies are not to be counted in computation of ceiling limit. An auditor can accept audit of any number of private companies. This, however, is subject to guidelines of the Institute which provide restriction in respect of private companies as well. The Council of ICAI has specified a ceiling of 30 audit assignments per person, whether in respect of private companies or other companies.

122. An auditor has nothing to do with prudence or profitability of a company.

Answer:- Incorrect.
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.

123. The first auditors of a Government company were appointed by the Board of Directors.

Answer. Incorrect.
As per 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. Alternatively, the statement would be correct in case C&AG does not appoint the first auditor within 60 days, Board of Directors of the company shall appoint the first auditor within next 30 days.

124. The members of XYZ Ltd. preferred a complaint against the auditor stating that he has failed to send the auditor's report to them.

Answer:-Incorrect.
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.

125. Mr. Pawan, a practising Chartered Accountant, is appointed as "Tax-Consultant" of ABC Ltd., in which his father Mr. Singh is the Managing Director.

Answer:- Correct. A Chartered Accountant appointed as an auditor of a company, should ensure the independence in respect of his appointment. In this case, Mr. Pawan is a "Tax Consultant" and not a "Statutory Auditor" or "Tax Auditor" of ABC Ltd., hence he is not subject to the above requirements.

126. C & AG orders to conduct test audit of the accounts of a Government company.

Answer:- Correct.
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.

127. The auditor shall not modify the opinion in the auditor's report.

Answer:- Incorrect.
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.

128. The first auditor of a Government company was appointed by the Board in its meeting after 10 days from the date of registration.

Answer:- Incorrect: According to section 139(7) of the Companies Act, 2013, in the case of aGovernment 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.

129. Letter of weakness is issued by the Management.

Answer:- Incorrect 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.

130. Director’s relative can act as an auditor of the company.

Answer:- Incorrect.

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.

131. ABC Ltd. declared dividends without providing depreciation for the current year.

Answer:- Incorrect.
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.

132. Government Company can donate any amount to political party.

Answer:-Incorrect.
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.

133. The Board of Directors can fill the casual vacancy caused by the resignation of an auditor, who shall hold office until the conclusion of the next annual general meeting.

Answer:-
Incorrect, in case of a casual vacancy arising on account of resignation, only the company in general meeting can fill the vacancy by appointing another auditor, who shall hold office till the conclusion of the next annual general meeting.