10. CONCEPT OF AUDITING

1. The term “Audit” originated from the Latin word-
   a) Audire  
   b) Adhere  
   c) Adihere  
   d) None of the above

2. The basis for decision making by the management is-
   a) Accounting statements  
   b) Financial Statement  
   c) Bank statements  
   d) None of the above

3. The management takes so many decisions on the basis of-
   a) Accounting statement  
   b) Financial statements  
   c) Bank statements  
   d) None of the above

4. The authenticity of financial statements is very essential and such authenticity of accounts can be assured with the help of an-
   a) Internal Audit  
   b) Performance Audit  
   c) Independant Audit  
   d) None of the above

5. Examination of books of accounts with supporting vouchers and documents in order to detect and prevent error and fraud is the main function of-
   a) Accountant  
   b) Management  
   c) Company Director  
   d) Auditing

6. Express an opinion on the financial or non financial areas is the goal of-
   a) Accounting  
   b) Managing  
   c) Auditing  
   d) None of the above

7. In the case of financial audit, a set of financial statements are said to be true and fair when they are free of-
   a) Error  
   b) Fraud  
   c) Material Misstatements  
   d) None of the above

8. Audit deals with checking, verification and examination of-
   a) Accounts  
   b) Finance  
   c) Management  
   d) None of the above

9. Time, extent and nature of audit depend upon effectiveness of-
   a) Environmental Control System  
   b) Management Control System  
   c) Both(a) and (b)above  
   d) Internal Control System

10. ________ is responsible for ‘Maintenence of accounts”
    a) Auditing  
    b) Accountong  
    c) Both (a) and (b)above  
    d) Management

11. Auditor has to report that accounts have been prepared as per GAAP and presents a ____
    a) Correct view of business operations  
    b) Authentic view of business operations  
    c) Both(a) and (b)above  
    d) true and fair view of business operation
12. Auditing can be defined as an independent examination of –
   a) Financial records   b) Non financial records
   c) Both (a) and (b) above   d) None of the above

13. The objective of an audit of financial statements is to enable an auditor to ............... on financial statements
   a) Compilation of an audit   b) Express an opinion
   c) Check the transaction   d) Check frauds

14. Accounts maintenance is the function of .......
   a) Auditor   b) Accountant
   c) Auditor staff   d) Practicing Professionals

15. The main object of an audit is-
   a) Expression of opinion   b) Detection and prevention of fraud and error
   c) Both (a) and (b) above   d) Depends on the type of audit

16. Review of system and procedure is the primary function of-
   a) Accounting   b) Management
   c) Auditing   d) None of the above

17. Review of internal control system is very important for the auditor as the effectiveness of internal control system will determine the extent of checking to be done by the -
   a) Accountant   b) Management
   c) Both accountant and management   d) Auditor

18. The compliance test and substantive procedures performed by the auditor will determine the effectiveness of –
   a) Management Accounting System   b) Cost Accounting system
   c) Internal Audit system   d) Internal Control system

19. Auditor has to compare the balance sheet and Profit and loss account or other statement with the-
   a) Bank statement   b) Cash Book
   c) Both (a) and (b) above   d) Books of Accounts and supporting vouchers

20. The auditor has to give its opinion whether the financial statements depicts
   a) Correct view of the accounts   b) Acceptable view of the accounts
   c) True and fair view of the state of affairs of organization   d) None of the above

21. It is because of audit the the owner will be satisfied about the
   a) Profits of the organisation   b) Employees, customers and suppliers of the organization
   c) Business operations and working of its various departments   d) None of the above

22. No one will try to commit an error or fraud as the accounts are subject to-
   a) Scrutiny   b) Internal control
   c) Audit   d) None of the above
23. Auditing is very useful in obtaining the independent opinion of the auditor about-
   a) Financial condition  b) business condition
   c) Profits/losses  d) Business condition

24. Audit helps in protecting the interests of-
   a) Employees  b) Government
   c) Management  d) Shareholders in case of joint stock company

25. Money can be borrowed easily on the basis of audited balance sheet from-
   a) Private sources  b) Creditors
   c) Financial institutions  d) Government

26. Generally auditing exercise on is based on test checking, Inferring a result on the basis of test check always need not to be-
   a) Fair  b) Apparently correct
   c) True  d) None of the above

27. Generally an auditor needs to release the report up to-
   a) A specified timeline  b) Unspecified timeline
   c) Infinite timeline  d) End of the next accounting period

28. The evidences obtained by an auditor are persuasive rather than-
   a) Correct  b) Reliable
   c) Conclusive  d) All of the above

29. An audit cannot add exactness and certainty to financial statements when these factors ______
   a) Do not exist  b) Exists
   c) Are not known  d) None of the above

30. The audit opinion is based on the information provided by the –
   a) Employees  b) Government
   c) Management  d) All of the above

31. The investigation is related to critical checking of-
   a) Internal records  b) Particular records
   c) Accounting records  d) External records

32. Which of the following is not the objective of Internal audit-
   a) To keep proper control over business activities
   b) To evaluate accounting system
   c) To report to the owner and outsiders
   d) To evaluate the internal check system

33. Primary responsibility for the adequacy of financial statement disclosures rest with the _______
   a) Auditor
   b) Management
   c) Auditor’s Staff
   d) Central Government
34. One of the following not an advantage of audit
   a) It provides satisfaction for owner
   b) It helps in getting loans
   c) It reduces cost burden
   d) It detects errors and frauds

35. The purpose of audit and investigation is
   a) Same  b) Different
   c) Sometimes same and sometimes different  d) None of the above

36. Investigation implies systematic, critical and special examination of the records of a business
   for a-
   a) General purpose  b) Unspecified purpose
   c) Specific purpose  d) None of the above

37. Investigation is conducted by-
   a) Cost Accountant  b) Company Secretary
   c) Chartered Accountant  d) Any person

38. Audit is conducted by-
   a) Cost Accountant  b) Company Secretary
   c) Chartered Accountant  d) Any person

39. Investigation seeks-
   a) Conclusive evidence  b) Corroborative evidence
   c) Both (a) and (b) above  d) Persuasive evidence

40. Auditing seeks-
   a) Conclusive evidence  b) Corroborative evidence
   c) Both (a) and (b) above  d) Persuasive evidence

**Answers:**

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11 Types of Auditing

1. Audit can be divided into two categories-
a) Internal audit and external audit
b) Audit required under law and voluntary audit
c) Financial audit and cost audit
d) None of the above

2. Internal audit is an evaluation and analysis of the business operation conducted by the-
a) Accounting staff    b) Management
c) Internal audit staff    d) External audit staff

3. In big organization an internal audit is carried out by the team of professionals-
a) in the organization   b) outside the organization
c) As outsourcing function    d) as retailers

4. The purpose of internal Audit is to keep proper control-
a) over accounting activities    b) over audit activities
c) over management activities    d) over business activities

5. The purpose of internal audit is to evaluate the-
a) Accounting system    b) Internal audit system
c) Management accounting system  d) Statutory audit system

6. The purpose of internal audit is to review the-
a) Accounting aspects    b) Auditing aspects
c) working of employees    d) Working of business

7. The purpose of internal audit is to protect the
a) Accounting staff    b) Audit staff
c) Management    d) Assets

8. The purpose of internal audit is to evaluate the-
a) Internal control system    b) Internal audit system
c) Internal check system    d) All of the above

9. The purpose of Internal audit is to detect the error in the-
a) Bank records    b) Cash records
c) Accounting records    d) Employees records

10. The purpose of Internal audit is to detect frauds in the-
a) bank accounts    b) Cash accounts
c) Cost accounts    d) Books of account

11. The purpose of internal audit is to determine liabilities of –
a) Accountant    b) Internal auditor
c) External auditor    d) Employees

12. The internal audit can pin point the person responsible for-
a) Errors    b) Frauds
c) Both errors and frauds  d) Carelessness

13. The purpose of internal audit is to help an-
a) Internal audit  b) External audit
 c) Management audit  d) Independent audit

14. The external auditor can rely on Internal auditor and there is no need of –
a) Statutory audit  b) Cost audit
 c) Management audit  d) Cent percent checking

15. The purpose of internal audit is to check the-
a) Internal appraisal  b) Government appraisal
 c) External appraisal  d) Performance appraisal

16. The purpose of Internal audit is to provide suggestions for improvement of-
a) Accounting activities  b) Audit activities
 c) Employees activities  d) Business activities

17. The internal auditor cannot compel the management to-
a) Implement suggestions  b) Discontinue certain activities
 c) Replace employees  d) None of the above

18. The internal audit staff can provide new ideas about-
a) Accounting matters  b) Auditing matters
 c) Legal matters  d) Various business matters

19. The purpose of internal audit is to determine the proper use of-
a) Accounting staff  b) Audit staff
 c) Legal staff  d) Resources

20. The purpose of internal audit is to examine the-
a) Auditing policies  b) Recruitment policies
 c) Accounting policies  d) Production and sale policies

21. The benefit of internal audit is that proper accounting system is-
a) Already being used  b) Not being used
 c) Introduced  d) Not required

22. The benefit of internal audit is that there is better management of-
a) Accounting concern  b) Auditing concern
 c) Legal concern  d) Business concern

23. The goals of business can be achieved if there is proper –
A) Internal control  b) Internal check
 c) Internal audit  d) All of the above

24. Management could rely on internal audit for-
a) Good results  b) Better results
 c) Best results  d) All of the above
25. The management can review progress through-
   a) Internal check   b) Internal control
   c) Internal audit   d) External audit

26. The internal audit is helpful to have effective control over-
   a) Accounting activities   b) Auditing activities
   c) Business activities   d) All of the above

27. The assets protection is possible through –
   a) Internal control   b) Internal check
   c) Internal audit   d) All of the above

28. The internal audit is helpful to apply-
   a) Division of labour   b) Integration of labour
   c) Refinement of labour   d) Concentration of labour

29. The auditor can suggest the way and means to improve the-
   a) Accounting performance   b) Auditing performance
   c) Management performance   d) Business performance

30. The internal audit is used to protect accounting records from-
   a) Errors   b) frauds
   c) Both errors and frauds   d) None of the above

31. The internal auditor can evaluate the result of-
   a) Accountant   b) Employees
   c) Management   d) All persons

32. The auditor can go through the internal audit report at the time of-
   a) Starting audit work   b) Finishing audit work
   c) Starting accounting work   d) Finishing accounting work

33. External auditor is responsible for-
   a) Internal audit   b) External audit
   c) Both internal as well as external audit   d) Management audit

34. Internal auditor is helpful to improve the performance of the-
   a) Internal audit department   b) Statutory audit department
   c) Accounting department   d) Organisation

35. Internal audit improves performance of-
   a) Accounts department   b) Audit department
   c) Both account and audit department   d) Business and employees

36. Internal audit is used to check the proper use of-
   a) Accounts   b) Finance
   c) Employees   d) Resources

37. Internal audit is a tool to use the resources in the best interest of the-
   a) Accounting staff   b) Audit staff
38. Internal audit is of help to investigate in to the-
   a) Accounting matters  
   b) Business matters  
   c) Financial matters  
   d) Employees matters

39. The limitation of internal audit is-
   a) Shortage of time  
   b) Shortage of finance  
   c) Shortage of time and finance  
   d) Shortage of staff

40. The shortage of staff is a hurdle to get benefit of-
   a) Internal audit  
   b) External audit  
   c) Performance audit  
   d) Efficiency audit

41. The limitation of internal audit is that it starts when-
   a) Errors are detected  
   b) Errors are suspected  
   c) Errors remains undetected  
   d) Accounting ends

42. If audit staff is competent there is less chance of errors being-
   a) Detected  
   b) Suspected  
   c) Located  
   d) Undetected

43. In case of poor audit staff there is no guarantee that audited accounts are-
   a) Full of errors  
   b) Free from errors  
   c) Free from frauds  
   d) Full of frauds

44. The limitation of internal audit is that management may not feel their responsibility in completing the-
   a) Accounts formalities  
   b) Legal formalities  
   c) Audit formalities  
   d) Compliance formalities

45. The owners (shareholders) need assurance that the financial statements prepared by the management are-
   a) As per norms  
   b) Fair  
   c) Reliable  
   d) Reasonable

46. Other users of financial statements, e.g., trade creditors, banks, financial institutions, tax authorities, other government authorities, labour unions, etc., also place greater reliance-
   a) Computerised accounts  
   b) Internally audited accounts  
   c) Externally audited accounts  
   d) None of the above

47. Section 224 of the Companies Act 1956 contains provisions regarding the appointment of the –
   a) Accountant  
   b) Internal auditor  
   c) External auditor  
   d) All of the above

48. Secretarial Audit is a _______ and it is a part of total compliance management in an organisation-
   a) Company audit  
   b) Management audit  
   c) Legal audit  
   d) Compliance audit
49. The secretarial audit is an effective tool for corporate compliance management. It helps to
detect non-compliance and to take-
a) Appropriate action   b) Legal action
c) Corrective measures   d) All of the above

50. Secretarial audit is essentially a mechanism to monitor compliance with the requirements of-
a) Company laws   b) Mercantile laws
c) Stated laws   d) Corporate laws

51. A company secretary In Practice has been assigned the role of------- under section 2(2)(c)(v)
of the Company Secretaries Act, 1980-
a) Internal auditor   b) Company auditor
c) Statutory auditor   d) Secretarial auditor

52. It is recommended that the ------- be carried out periodically (quarterly/half yearly) and adverse
findings if any, be communicated to the Board for corrective action-
a) Internal audit   b) Statutory audit
c) Financial audit   d) Secretarial audit

53. As of now---- is not mandatory on the companies-
a) Secretarial audit   b) Statutory audit
c) Cost and management audit   d) Internal audit

54. Secretarial audit is optionally undertaken by the company for maintaining-
a) Proper accounting   b) Proper records, documents & supervision
c) Good compliance management system   d) Good corporate Governance practice

55. Ministry of Corporate Affairs has issued mandatory------- on Companies engaged in Bulk
drugs, fertilization, sugar , telecommunications, industrial alcohol and electricity & petroleum-
a) Secretarial audit records   b) Financial audit records
c) Statutory audit records   d) Cost audit records

56. Cost audit is mandatory if in immediate previous year aggregate value of------- exceeds the
specified limits-
a) Total turnover   b) Paid up capital
c) Net worth   d) Total assets

57. The cost auditor has to judge, whether the planned expenditure is designed to give-
a) Good results   b) Appropriate results
c) Targeted results   d) Optimum results

58. The cost auditor has to judge, whether the size and channels of expenditure were designed to
produce the-
a) Good results   b) Better results
c) Best results   d) Optimum and targeted results

59. The cost auditor has to judge, whether the return from expenditure on capital as well as current
operations could be improved by-
a) New methods and techniques   b) Scientific plans and actions
c) Innovative skills  

60. Cost audit is useful for the purpose of -------- and proper utilization of scarce resources-

a) Increasing profit  
b) Reducing cost  
c) Cost control and cost reduction  
d) Optimum utilization

61. The objective of tax audit is to assist the ------ in making the correct income tax assessment of the assessee concerned

a) Government  
b) Commissioner of income tax  
c) CBDT  
d) Income tax authorities

62. The tax auditor has to specifically report on certain transactions which have an effect on the ------ of the assessee concerned and are thus important to the tax authorities.

a) Income  
b) Profits  
c) Income tax liability  
d) All of the above

63. There are certain features of co-operative which are similar to those of-

a) Sole proprietorships  
b) Partnership  
c) Companies  
d) All of the above

64. As in the case of companies, in co-operative societies also, there is a -------- of ownership from management.

a) Integration  
b) Separation  
c) Coordination  
d) None of the above

65. -------- of trusts assures the creators of trust and /or those for whose benefit the trust is created (i.e. beneficiaries) the financial statements of the trust are reliable.

a) Independent accounting  
b) Independent financial audit  
c) Independent appraisal  
d) Independent internal audit

66. In many cases, it is specifically provided in the relevant law and/or in the trust deed that the -------- shall get the financial statements of the trust audited.

a) Owners  
b) Management  
c) Members  
d) Trustees

67. In India the Income tax Act,1961 provides for non-Inclusion of certain incomes of-------- in their taxable income.

a) Private trusts  
b) Charitable trusts  
c) Public trusts  
d) Educational and religious trusts

68. Many public trusts get their accounts audited pursuant to the requirement of the --------

a) Companies Act  
b) Indian Trusts Act  
c) Cooperative societies Act  
d) Income Tax Act,1961

69. -------- is an examination of the operations, records and books of account of the insurance company.

a) Internal audit  
b) External audit  
c) Insurance audit  
d) Tax audit
70. Auditor performs an audit to ensure that the customer has paid the appropriate premium for----- provided to him.
   a) Benefit  
   b) Assurance  
   c) Risk cover  
   d) All of the above

71. At present, partnership firms in India are ------- to get their financial statements audited.
   a) Legally required  
   b) Not legally required  
   c) Compulsorily  
   d) None of the above

72. Still, many firms get their financial statements audited as audited accounts helps in proper-
   a) Maintainance of accounts  
   b) Maintainance of assets and properties  
   c) Valuation of goodwill, distribution of share of the deceased Partner to their legal heirs etc.  
   d) All of the above.

73. Sole proprietary concerns are------- to get their financial statements audited by independent 
   financial auditors.
   a) Legally required  
   b) Not legally required  
   c) Ethically required  
   d) Not ethically required.

74. It is the duty of ------- to audit the receipts and expenditure of the union Government and State 
   Government
   a) External (statutory auditor)  
   b) Secretarial auditor  
   c) Government  
   d) Comptroller and Auditor General of India (C&AG)

75. Audit of government companies can be conducted by-
   a) A Chartered Accountants in whole time practice  
   b) A Cost Auditor in whole time practice  
   c) A Company Secretary in whole time practice  
   d) Comptroller and Auditor General of India

76. Generally, management audit /operational audit is –
   a) Mandatory  
   b) Compulsory  
   c) Not mandatory  
   d) Not mandatory but it recommendatory certainly

77. After the function audit, proper systems are put in place and gaps as identified are filled by 
   way of –
   a) Legal actions  
   b) Corrective actions  
   c) Corroborative actions  
   d) Compensatory actions

78. A performance audit can be a review of a program to assure that it is-
   a) Complete  
   b) Satisfactory  
   c) Foolproof  
   d) Satisfying its objectives

79. ------may take into account the anticipated benefits of a program relative to the actual 
   performance-
   a) Targeted performance  
   b) The performance audit  
   c) Planned performance  
   d) Achievable and standard performance

80. The performance audit may be initiated by the organisation or by-
   a) Government  
   b) Employees and management
c) Shareholders  
d) External interested parties

81. Balance sheet audit does not include-
a) Vouching of income, expense, accounts related to assets and liabilities 
b) Examination of adjusting and closing entries 
c) Verification of assets and liabilities 
d) Routine checks.

82. Cost audit is related to
a) Cost accounting records  
b) Compliance 
c) Financial statements  
d) Balance and Profit & Loss account

83. Secretarial audit is also termed as
a) Financial audit  
b) Compliance audit 
c) Operational audit  
d) Tax audit

84. Cost audit is compulsory for-
a) Specified entities  
b) Specified industries 
c) All companies  
d) All manufacturing companies

85. A Company Secretary in Practice has been authorized under Section 2(2)(c)(v) of the Company Secretaries Act 1980, to conduct:
a) VAT Audit  
b) Secretarial Audit 
c) Cost Audit  
d) Bank Audit

86. Which types of audit is conducted by the internal audit staff:
a) Cost Audit  
b) Secretarial Audit 
c) Internal audit  
d) Tax audit

87. Balance sheet audit is also known as:
a) Continues Audit  
b) Annual audit 
c) Internal audit  
d) Financial audit

88. Secretarial audit is conducted by:
a) Chartered Accountant in Practice  
b) Lawyer 
c) Internal auditor  
d) Company Secretary in Practice

89. Which type of audit is conducted by the Internal audit staff:
a) Cost Audit  
b) Secretarial Audit 
c) Internal Audit  
d) Tax Audit

90. In comparison to the independent auditors, an internal auditor is more likely to be concerned with:
a) Cost accounting system  
b) Internal control system 
c) Legal compliance  
d) Accounting system

**Answers:**

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12 Tools of Auditing

1.-------lays out the strategies to be followed to conduct an audit.
   a) An action plan     b) An audit plan
   c) An audit programme d) All of the above

2. The objective of the auditor is to plan the audit so that it will be performed in-
   a) planned way and manner b) timely manner
   c) Both (a) and (b) above d) an effective manner

3. While framing an audit plan auditor should ascertain his------ cast by various legislations on
   him.
   a) Limitations     b) Duties and obligations
   c) Rights and powers d) Terms of appointment and responsibilities

4. Auditor should determine the ------and the timing of the report.
   a) Nature     b) Actual
   c) Nature and actual d) Form

5. --------followed by the enterprise affect the audit plan.
   a) Accounting policies     b) Audit policies
   c) Accounting and audit policies  d) Management policies

6. While preparing an audit plan due consideration may be given to the areas where there is any
   change in-
   a) Legal policies b) Audit policies
   c) Accounting policies  d) Management policies

7. It is important for the auditor to identify the areas which involves-----, so that the audit can be
   planned in such a way that overall audit risk will be less.
   a) Lesser audit risk     b) Great audit risk
   c) Inherent audit risk     d) Zero percent audit risk

8. While laying down an audit plan the auditor shall assess the effectiveness of-
   a) Accounting system     b) System of internal controls
   c) Both (a) and (b) above d) External controls on the operations of the entity

9. The nature and extend of audit evidence will vary-
   a) in different auditing situations b) in different accounting situations
   c) Indifferent managing situations d) from one organisation to another organisation

10. An audit programme is a set of -------- which are to be followed for proper execution of audit.
    a) Orders     b) Directions
    c) Instructions  d) Rules

11. The prepared audit program may be-------- if needed in accordance with the prevailing
    circumstances.
    a) Reviewed     b) Revised
    c) Rechecked d) Reconsidered
12. An audit program largely depends on the-
   a) Size of the business activities  
   b) Size of the documents and record  
   c) Size of the auditing staff  
   d) Size of the organization and other relevant factors.

13. Minimum essential work to be done is --------and rest is according to circumstances.
   a) Standard programme  
   b) General programme  
   c) Essential programme  
   d) Relevant programme

14. There is no-------- applicable for all situations.
   a) Relevant audit programme  
   b) Actual audit programme  
   c) Written audit programme  
   d) Standard audit programme

15. Audit programme is documented in the --------, which are the official record that contains the
    planning and execution of the audit agreement.
   a) Audit plan  
   b) Action plan  
   c) Audit and action plan  
   d) Audit working papers

16. Audit programmes helps in ensuring that all important areas are appropriately covered during.
   a) Accounting  
   b) Recording  
   c) Auditing  
   d) Accounting and auditing

17. Audit programme helps in distributing the work among the assistants in accordance with the level of their.
   a) Qualifications  
   b) Past knowledge  
   c) Expertise  
   d) Competence and experience

18. Audit programme provides instructions to the audit staff and reduces scope for-
   a) Understanding  
   b) Misunderstanding  
   c) Negligence  
   d) Liabilities

19. Audit programme helps in fixing the ------- for the work done among the audit staff as work done may be traced back to the individual staff members.
   a) Remuneration  
   b) Liabilities  
   c) Negligencies  
   d) Responsibility

20. Audit programme serves as evidence against charge of-
   a) Liabilities  
   b) Qualifications  
   c) Responsibilities  
   d) Negligence

21. On completion of an audit------------- serves the purpose of audit record which may be useful for future reference.
   a) Audit programme  
   b) Audit working papers  
   c) Audit plan  
   d) Audit notes

22. Each business has separate problems. So a single/same audit programme can not be laid down for-
   a) Each type of CA firms  
   b) Each type of work  
   c) Each type of method  
   d) Each type of business
23. Audit programme kills the _______ of capable persons. Assistant can not suggest any improvement in the plan.
a) Qualities  b) Qualification  
c) Efficiency  d) Initiative

24. The audit programme is _______ that it ignores many other aspects like internal control.
a) Automational  b) Mechanical  
c) Professional  d) Emotional

25. With the passage of time new problems arises during the audit may be _______ in the audit Programme.
a) Looked  b) Overlooked  
c) Underlooked  d) Ignored

26. Audit programme should be flexible must be always opens to changes and-
a) Revisions  b) Insertions  
c) Qualifications  d) Improvements

27. The audit staff should be encouraged to draw attention of the _______ to any defects in the programme.
a) Company  b) Management  
c) Accountant  d) Auditor

28. ________ is an outline of how the audit is to be done, who is to do what work and within what time.
a) Audit strategy  b) Audit plan  
c) Audit programme  d) Audit methods

29. ________ refers to the method and means adopted by the auditor for collection and evaluating of audit evidence in different audit situation:
   a) Audit evidence  b) Audit tools  
   c) Audit planning  d) Audit technique

30. Audit programme is prepared by-
a) The auditor  b) The client  
c) The audit assistant  d) The auditor and his audit assistants.

31. Accounts maintainance is the function of;
a) Auditor  b) Accountant  
c) Auditor staff  d) Practicing professionals.

32. Time, extent and _______ of audit depends upon effectiveness of internal control:
a) Nature  b) Periodicity  
c) Relevance  d) Format

33. What are analytical procedures:
a) Substantive tests designed to assess control risk  
b) Substantive tests designed to evaluate the validity of management’s representation letter  
c) Substantive tests designed to study relationships between financial and non-financial information
34. The auditor has to obtain--------- to substantiate his opinion on the financial statements.
   a) Internal evidence    b) External evidence
   c) Internal and external evidence    d) Sufficient and appropriate evidence

35. The audit evidence provides grounds for believing that a particular thing is--------by providing support for a fact or a point in question.
   a) Correct    b) Incorrect
   c) True or not    c) Acceptable

36. The evidences collected by the auditor must support the contents of the-
   a) Audit work    b) Audit plan
   c) Audit programme    d) Auditor’s report.

37. The audit evidence--------, the auditor to form an opinion on the financial information.
   a) Provides    b) Entitles
   c) Enables    d) Supports

38. Sufficient evidence can be obtained by test checking instead of ------ checking.
   a) Routine    b) Expensive
   c) Substantial    d) 100% 

39. Evidence obtained by auditor are persuasive rather than -------- in nature therefore evidence cannot be 100% reliable.
   a) Reliable    b) Circumstantial
   c) Conclusive    d) Attractive

40. The reliability of audit evidence is depend upon-
   a) Timing    b) Source
   c) Nature    d) Source and nature

41. Whether the evidence obtained within the organization, it is called-
   a) Internal    b) Reliable
   c) Believable    d) External

42. When the evidence is obtained from outside the organization, it is called-
   a) Internal    b) External
   c) Reliable    d) Corroborative

43. The obtained audit evidence must be--------- to the matter being checked
   a) Correct    b) Reliable
   c) Irrelevant    d) Relevant

44. Documentary evidence is usually better than-------- evidence.
   a) Circumstantial    b) Visual
   c) Verbal    d) Testimonial

45. Audit evidence is more reliable when the auditor obtains -------- from different sources or of a different nature.
a) Internal evidence   b) External evidence

31. The quality of information generated by the audited organization is directly related to the strength of the organization’s:
   a) Internal check   b) Internal control
   c) Internal audit   d) All of the above

47. Evidence --------- through the auditor’s direct observation, inspection and computation is usually better than evidence obtained indirectly:
   a) Generated   b) Created
   c) Fabricated   d) Manipulated.

48. Which of the following is not a technique of obtaining evidence:
   a) Inspection   b) Observation
   c) Enquiry   d) Investigation.

49. Which of the following is not a technique of obtaining evidence:
   a) Confirmation   b) Computation
   c) Analytical review procedures   d) Guess work

50. Appropriateness of evidence depends on the following:
   a) Information must be reliable   b) Information must be affordable
   c) Information must be relevant   d) Information must be valid

51. The auditor has to obtain sufficient appropriate evidence to:
   a) Form his opinion   b) Mention his opinion
   c) Substantiate his opinion   d) Confirm his opinion

52. Which of the following is not corroborative evidence?
   a) Minutes of meetings;   b) Confirmations from debtors;
   c) Information gathered by auditor through observation;
   d) Worksheet supporting consolidated financial statements.

53. ------- are the documents prepared or obtained by the auditors and retained by him in connection with the audit.
   a) Audit notes   b) Audit working papers
   c) Audit evidence   d) All of the above

54. Working papers are the connecting link between the:
   a) Auditor and his staff   b) Audit assistant and management
   c) Auditor and audited accounts   d) Client’s records and the audited accounts

55. Audit working papers provide--------- historical record.
   a) Permanent   b) Temporary   c) Transitory
   d) Sometimes permanent and sometimes temporary as per the situation

56. Audit working papers are also serving as a great guide to the staff to whom the work of audit has been assigned:
   a) Before the previous year audit   b) After the previous year audit
c) Before the next year audit  
d) After the next year audit

57. The working papers are the property of the -------- and the client cannot ask the auditor for their custody
a) Assistants who actually worked  
b) Client

c) Auditor  
d) Government

58. It is the duty of the auditor to maintain -------- of the client information
a) Accuracy  
b) Follow up

c) Secrecy  
d) Confidentiality

59. Working papers helps in proper-------- of audit.

a) Planning  
b) Performance

c) Planning and performance  
d) Execution

60. Seniors can supervise the audit work performed by the juniors by examining their-

a) Records and documents  
b) Performance

c) Behaviour at work place  
d) Working papers

61. Working papers provide as evidence of the audit work performed to-

a) Support the auditor  
b) Support the audit assistant’s work

c) Save the auditor against adverse consequences  
d) Support the auditor’s opinion.

62. The Auditors Working Papers are divided into two parts;

a) Permanent audit file and current audit file  
b) Permanent audit file and temporary audit file

c) Temporary audit file and current audit file  
d) Current audit file and transitory audit file

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13-AUDITOR AND RELATED PROVISIONS

1. A person who conducts an audit is an-
   a) Chartered Accountant  b) Cost Accountant
   c) Company Secretary  d) Auditor

2. An auditor is a professional that accumulates and evaluates evidence to report whether the company complies with the-
   a) Accounting policies  b) Accounting standards
   c) Government policies  d) Established set of procedures or standards

3. An auditor may function as-
   a) An employee  b) Independent professional
   c) An employee or an independent professional  d) An external professional

4. When the auditor works for the organization, he or she is usually referred to as an-
   a) Chief accountant  b) Employee
   c) External auditor  d) Internal auditor

5. The internal auditor often conducts ----- that may encompass several on a rotating basis
   a) Internal audit  b) Periodic audits
   c) Work beneficial to external auditor  d) Continuous audit

6. Often, the internal auditor will set up a schedule to ensure that audits are conducted on----- of the company at least once per calendar:
   a) each aspect  b) each area
   c) each wing  d) each critical portion

7. So many Acts require organizations to get their accounts audited by-
   a) A qualified chartered Accountant  b) An internal auditor
   c) An independent external agency  d) An independent internal agency

8. The independent external agency is known as -------- of the organization.
   a) Internal auditor  b) External auditor
   c) Management auditor  d) All of the above

9. The external auditor has to check the accounts of the organization, and their compliances to various-
   a) Rules and regulations  b) Needs and purposes
   c) Requirements  d) Auditing standards

10. Section 224 of the Companies Act 1956 contains provisions regarding the-
    a) Remuneration of the external auditor
    b) Remuneration of the internal auditor
    c) Appointment of the auditor
    d) Appointment of the internal auditor

11. As per section 224 the auditor of any company can be appointed by the shareholders however in some cases the auditor can be appointed by the
    a) Government of the state in which the company is registered
b) Directors  
c) Central Government  
d) Directors or the central government  

12. Section 224(5) provides that the first auditor or auditors are to be appointed by the-  
a) Shareholders  
b) Board of directors  
c) Managing Directors  
d) Central government  

13. First directors are appointed with ---------- of the date of the registration of the Company.  
a) One month  
b) Two months  
c) Three months  
d) Six months  

14. The first auditor so appointed shall hold office till the conclusion of-  
a) First accounting year  
b) Next accounting year  
c) First Annual General Meeting (AGM)  
d) First statutory meeting  

15. Company is not required to send any intimation of appointment to first auditor to The-  
a) Auditors  
b) Board of directors  
c) Central government  
d) Registrar of companies  

16. In case the Board of Directors fails to appoint the first auditors within one month of its incorporation the -------- may appoint the first auditors.  
a) Chairman of the company  
b) Managing directors  
c) Company in general meeting  
d) Central government  

17. On appointment of subsequent auditors, the company must give intimation within 7 days of such appointment to-  
a) The board of directors  
b) The registrar of companies  
c) The auditor so appointed  
d) The central government  

18. Sub-section (6) of section 224 provides that the casual vacancy in the office of auditor may be filled by the-  
a) Board of directors  
b) Shareholders  
c) Central Government  
d) C&AG  

19. Where the vacancy is caused by resignation of auditor, such vacancy shall only be filled by the-  
a) C&AG  
b) Central Government  
c) Company in general meeting  
d) Board of directors  

20. The auditor appointed in the casual vacancy holds office till the conclusion of the Next-  
a) Annual general meeting  
b) Board meeting  
c) Extraordinary general meeting  
d) Financial year.  

21. Casual vacancy means vacancy created by the ceasing to act after being validly
appointed and acceptance of appointment.
   a) Chief accountant of the company   b) Board of directors
   c) The auditor   d) The authority who appointed him

22. Examples of casual vacancy are vacancy arising due to-
   a) Resignation of the auditor   b) Death of the auditor
   c) Disqualification of the auditor   d) All of the above

23. If no auditors are appointed or re-appointed at the annual general meeting,
   The ---- ------ may appoint a person to fill the vacancy [Section 224(3) ]
   a) Board of directors   b) Company in general meeting
   c) Central Government   d) Comptroller and Auditor General of India (C&AG)

24. Failure to give notice regarding filling of casual vacancy to the Central
   government is an offence punishable with fine who of the following are the persons
   on whom such fine can be imposed –
   a) Directors   b) Company
   c) Every officer of the company   d) Company or every officer of the company

25. Who may appoint an auditor in a casual vacancy arising due to resignation of auditor-
   a) Board of directors   b) Company in general meeting
   c) Central government   d) Any of the above

26. In case the directors fail to appoint first auditor(s), the shareholders shall appoint
   Them at---------- bypassing a resolution-
   a) A general meeting   b) First annual general meeting
   c) Statutory meeting   d) Annual general meeting

27. In a casual vacancy in the office of auditors arises by his resignation it should only
   Be filled by the company in a ---------.
   a) Boards’s meeting   b) Extraordinary general meeting
   c) General meeting   d) Annual general meeting

28. The auditor of a Government Company is appointe by the--------
   a) Comptroller and Auditor General of India
   b) The shareholder in a general meeting
   c) The shareholder at an annual general meeting
   d) The board of directors

29. Who appoints internal auditor
   a) Management   b) Shareholders
   c) Government   d) Stock exchange

30. Every auditor appointed under section224(1), must intimate to the registrar within
    ---------- days of the receipt of intimation of appointment from the company
   a) 15   b) 21   c) 30   d) 18

31. The authority to remove the first auditor before the expiry of the term is with-
    a) The shareholder in a general meeting
    b) The shareholders in the first annual general meeting
c) The board of directors
d) The central Government

32. Who out of the following cannot be appointed as a statutory auditor of the company-
   a) Erstwhile director
   b) Inetrnal auditor
   c) Relation of A director
   d) only (2) and (3)

33. Section 226 contains provision as regards-
   a) First appointment of auditors
   b) Subsequent appointment of auditors
   c) Qualification s and disqualifications of auditors
   d) All of the above

34. Provisions of section 226 prescribed by section 26 regarding qualification and
   Disqualification of auditor-
   a) Pvt. Ltd. companies
   b) Public Ltd. companies
   c) Section 25 companies (companies not for profit)
   d) Government companies
   e) All of the above

35. Who of the following can be appointed auditors of a limited company-
   a) A chartered accountant in practice
   b) A cost accountant in practice
   c) A company secretary in practice
   d) All of the above

36. Where firm of chartered accountants is appointed as auditors, who of the following may act
    the name of the said firm-
   a) Any partner of the firm
   b) Any director of the firm
   c) Any employee of the firm, who is also a chartered accountant
   d) Any of the above.

37. Disqualification of an auditor is defined under section 226(3) of the Companies Act, 1956 in a-
   a) Positively
   b) Negatively
   c) Exhaustively
   d) Inclusively

38. A statutory auditor--------- also as internal auditor of the company.
   a) can act
   b) cannot act
   c) though can act but ethically should not act
   d) None of the above

39. A person acquires disqualification for appointment as a statutory auditor of the when he is
    indebted to the company for more than-
   a) Rs. 1000
   b) Rs. 5000
   c) Above Rs. 1000
   d) Any sum

40. In the context of qualification or disqualification for appointment as statutory auditor, an
    employee or officer of the company includes-
   a) Director
   b) Manager
   c) Secretary
   d) All of the above

41. A person shall not be qualified to be appointed as an auditor of the company if he is in the
    employment of-
   a) An officer of the company
   b) An employee of the company
   c) Both (a) and (b)
   d) None of the above
42. If a partner of a firm of chartered accountants (who is appointed as statutory auditors) is disqualified then the firm --------- disqualified
   a) will automatically be   b) will not be
   c) may or may not be     d) will normally be.

43. In case of insolvency or unsound mind, a person will automatically be disqualified for appointment as an auditor, because-
   a) He is not a person of repute   b) He cannot take decision properly
   c) He is not wealthy           d) He ceases to be a member of ICAI

44. Who can be appointed as an auditor of the company;
   a) Body corporate   b) A person who has indebted for more than Rs.1000
   c) An officer of the company  d) A partner of a firm.

45. Of the Companies Act, 1956 contains provisions regarding the appointment of the company:
   a) Section 223   b) Section 221
   c) Section 224   d) Section 226

46. The quality of auditor to be free from influence is being defined by which term-
   a) Self-control   b) Objective
   c) Independence   d) Unbiased

47. The auditor of a company shall have right of access, at all times, to the books, accounts and vouchers of the company, whether kept at the-
   a) Registered office of the company   b) Head office of the company
   c) Corporate office of the company   d) Anywhere

48. The auditor shall be entitled to require from the officers of the company such----- as he thinks necessary for the performance of his duties as auditor.
   a) Documents and records   b) Information
   c) Explanations           d) Information and explanation

49. In case the information is not supplied to the auditor, he can report the same to the-
   a) Board of directors   b) Managing director
   c) Members             d) Chief executive officer (CEO) of the company

50. Only the person appointed as auditor of the company or where a firm is so appointed, only a partner in the firm practicing in India, may sign the-
   a) Certificate   b) Working papers
   c) Documents    d) Auditor’s report

51. The auditors have the right to attend-
   a) Board meeting   b) Annual general meeting
   c) Extraordinary general meeting   d) Any general meeting

52. Where the accounts of any branch office are audited by a person other than the company’s auditor, the company’s auditor-
   a) Shall not be entitled to visit the branch office
   b) Shall be entitled to visit the branch office
c) is not required to visit the branch office
d) is compulsorily required to visit the branch office

53. Where the accounts of any branch office are audited by a person other than the company’s auditor, the company’s auditor:
a) shall have a right of access
b) shall not have a right of access
c) shall be required to access
d) shall not be required to access

54. The auditor shall have the right to receive ------ fro auditing the accounts of the company.
a) Remuneration  
b) Comission  
c) Reward  
d) Award

55. The duties of an auditor are:
a) Many and general  
b) Many and specific  
c) General and specific  
d) Many and varied

56. The auditor must examine the original books of account, kept by the company to discover any - therein.
a) Inefficiencies  
b) Irregularities  
c) Inaccuracies or omissions  
d) Errors and frauds.

57. The auditors’ duty is to examine the company’s balance sheet and profit and loss account, and report on the original books of account and the annual accounts to the:
a) Board of directors  
b) Managing director  
c) Members  
d) Authority who has appointed him/her

58. Section 227(1A) requires an auditor to inquire:
Whether loans and advances made by the company have been shown as:
a) Loans  
b) Advances  
c) Deposits  
d) All the above

59. Section 227(1A) requires an auditor to inquire:
Whether personal expenses have been charged to:
a) Capital accounts  
b) Revenue accounts  
c) Goodwill accounts  
d) Assets accounts

60. Section 227(1A) requires an auditor to inquire; Whether------ hs actually been received in respect of any shares shown in the books to have been allotted for cash
a) Payment  
b) Cash  
c) Asset  
d) Consideration

61. Section 227(1A) requires an auditor to inquire;
Whether the position as stated in the books is correct, regular and is:
a) Healthy  
b) Sound  
c) Misleading  
d) Not misleading

62. Auditor will report on the matter and points as specified in section 227(1A) only if has a------ -- to make otherwise he will not make any comment.
a) General comment  
b) Particular comment
c) Special comment  
d) Legal comment

63. Auditor has to obtain ------- audit evidence;
a) Adequate  
b) Correct  
c) Relevant  
d) Sufficient and appropriate

64. Who will be responsible for errors i report if external audit relies on the work of internal auditor:
a) External auditor  
b) Internal auditor  
c) Management  
d) Shareholders

65. The retiring auditor does not have a right to;
a) To make written representation  
b) Get his representation circulated  
c) Be heard at the meeting  
d) Speak as a member of the company

66. When an independent auditor relies on the work of an internal auditor , he or she should;
a) Examine the scope of internal auditors work  
b) Examine the system of supervising, review and documentation of internal auditor’s work  
c) Adequacy of related audit programme  
d) All of the above

67. In comparison to the independent auditor, an internal auditor is more likely to be concerned with;
a) Cost accounting system  
b) Internal control system  
c) Legal compliance  
d) Accounting system

68. Whether the management can restrict the scope of work of external auditor;
a) Yes  
b) No  
c) In some cases  
d) If shareholders permit

69. It is the duty of the auditor to-- -------- to the members of the company on the Accounts examined by him.
a) Give suggestions  
b) Comment  
c) Refer certain points  
d) Make a report,

70. The reports besides other things necessary in any particular case, must expressly state;
Whether the balance sheet gives a true and fair view of the ---------- as at the end of the financial year.
a) Assets and liabilities  
b) Financial position  
c) Company’s standing  
d) Company’s affairs

71. The report, besides other things necessary in any particular case, must expressly state;
Whether in his opinion, the profit and loss account and balance sheet comply with the ---------- referred to i Sub-section(3C) of section 211.
a) Auditing standards  
b) Auditing guidelines
c) Accounting principles and policies  
d) Accounting standards

73. The report, besides other things necessary in any particular case, must expressly state; the observation or comments of the auditors which have any adverse effect on the functioning of the company.
   a) In thick type  
   b) In italics  
   c) In thick type or in italics  
   d) In bold type

74. The report, besides other things necessary in any particular case, must expressly state; Whether any director is from having appointed as director under clause (g) of 274(1)
   a) Qualified  
   b) Disqualified  
   c) Qualified or disqualified  
   d) None of the above

75. Section 227(4) states that where any of the above matters is answered , the Auditor’s report must state the reason for the same
   a) Positively  
   b) In the negative  
   c) With a qualification  
   d) In the negative or with a qualification

76. Under Sub-section (4A) of section 227 the is empowered to issue order requiring the auditor to include in his report a statement on such matters as may be specified
   a) Central Government  
   b) State Government  
   c) Comptroller and Auditor General of India (C&AG)  
   d) Registrar of Companies.

77. Central Government had issued an order called-
   a) Manufacturing & other companies (report) order (MAOCARO)  
   b) General (Auditor Report) order 2003 (GARO)  
   c) Company’s Report order 2003  
   d) Companies (Auditor Report) order 2003 (CARO)

78. Auditor’s report is the expert’s opinion expressed by the auditor as to the fairness of-
   a) Financial position  
   b) General position  
   c) Financial statements  
   d) Balance sheet and profit and loss account

79. is the medium through which an auditor expresses his opinion on the financial statements-
   a) Auditors observation  
   b) Auditors comments  
   c) Auditors views  
   d) Auditors report

80. Auditors report is an important part of since it summarize the results of the examination work conducted by the auditor-
   a) Accounting process  
   b) Audit process  
   c) Accounting and audit process  
   d) None of the above

81. The report shows the scope of the work done and the responsibility assumed by the auditor regarding the of the financial statements.
   a) Truthfulness  
   b) Fairness  
   c) Correctness or otherwise  
   d) Fairness or otherwise

82. The auditor draws appropriate conclusions by , which he conveys through the audit report.
a) Examining books of account  
b) Examining documents  
c) Examining statements  
d) Examining the various statements and accounts

83. Auditor report is addressed to the members of the company and is considered at the ________ of the company.
   a) Board Meeting (BM)  
b) Annual General Meeting (AGM)  
c) Extraordinary General Meeting (EGM)  
d) All of the above

84. Audit reports should be so drafted that they remain simple and intelligible to-
   a) Readers  
b) Directors  
c) Employees  
d) A common man

85. The auditor report should be explicit so as to provide greater information and protection to the interest of ________ and others.
   a) Board of Directors  
b) Employees  
c) Shareholders  
d) Debtors and Creditors

86. An auditors report must have appropriate title, such as-
   a) Auditor’s opinions  
b) Auditor’s observations  
c) Auditor’s comments  
d) Auditor’s Report

87. The management can issue any report about the-
   a) Accounts  
b) Finance  
c) Business performance  
d) All of the above

88. The addressee in Auditor’s report may be-
   a) Managing Director  
b) Board of director  
c) Shareholders  
d) Both (b) and (c)

89. The financial statement include-
   a) Trading profit and loss accounts, balance sheet  
b) Statement of changes in financial position  
c) Cash flow statements  
d) All of the above

90. The audit report should indicate the _______ or practice followed in conducting the audit.
   a) Accounting standards  
b) Auditing standard  
c) Auditing guidelines  
d) Accounting policies

91. The audit report should be signed in the name of the –
   a) Audit firm  
b) Personal name  
c) Either (a) or (b)  
d) None of the above

92. The auditor’s report shall be ________ the date on which the auditor has obtained sufficient appropriate audit evidence and date on which accounts are approved by the management.
   a) dated  
b) dated not earlier than  
c) dated but not later than  
d) None of the above

93. The auditor’s opinion may be of the following types-
   a) Unqualified opinion  
b) Adverse opinion  
c) Qualified opinion, and  
d) Disclaimer of opinion
e) Any of the above

94. Where auditor does not have any reservation, objection regarding the information under audit, then he issues an-
   a) Adverse opinion  
   b) Qualified opinion  
   c) Unqualified opinion  
   d) Disclaimer of opinion.

95. Unqualified opinion as also known as-
   a) Adverse opinion  
   b) Disclaimer of opinion.  
   c) Clean report  
   d) None of the above

96. Where auditor expresses--------, he should also slate in his report the reason for the same, so that the readers can assess their significance and effect.
   a) An adverse opinion  
   b) Unqualified opinion  
   c) Disclaimer of opinion.  
   d) All of the above

97. In a situation where neither the unqualified, nor adverse opinion is appropriate the auditor gives the-
   a) Clean report  
   b) Qualified opinion  
   c) Disclaimer of opinion.  
   d) None of the above

98. Where auditor expresses a qualified opinion, he should also state in his report the-
   a) Matters on which he is satisfied  
   b) Matters on which he is not satisfied  
   c) Reasons for the qualified opinion  
   d) Consequences of the dissatisfied areas/points

99. The words-------- are written to show qualification.
   a) Provided that  
   b) Qualifications  
   c) Notwithstanding  
   d) Subject to

100. If the qualification are quantifiable (measurable) then the auditor has to----- it.
    a) Quality  
    b) Calculate  
    c) Compute  
    d) Quantity

101. Due to lack of audit evidence, auditor issues a:
    a) Qualified opinion  
    b) Unqualified opinion  
    c) Averse opinion  
    d) Disclaimer of opinion

102. When auditor does not have any reservation, objection regarding the information under audit then he issues an-
    a) Qualified opinion  
    b) Averse opinion  
    c) Unqualified opinion  
    d) Negative opinion

103. Auditor has to give its opinion whether the financial statement depicts:
    a) True and correct view  
    b) Fair and correct view  
    c) True and fair view  
    d) True and Exact view

104. Auditor has to report to:
    a) Management  
    b) Owners
c) Government  d) Appointing authority

105. The date on auditor’s report should not be:
a) the date of AGM
b) later than the date on which the accounts are approved in board’s meet.
c) earlier than the date on which the accounts are approved by the management
d) Both (a) and (b)

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