

PRIME ACADEMY
40thSESSION PROGRESS TEST - AUDITING AND ASSURANCE

No of pages: 4

Total Marks: 75

Time Allowed: 2 Hrs

PART - A

1. The auditor shall obtain written representation from management , those charged with governance have acknowledged and understand that responsibility of preparing financial statements is given in :
 - a. Sa 550 ...Related parties
 - b. SA 540..Related disclosures
 - c. SA240.. Auditors responsibility
 - d. Auditing Account estimates

2. The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated is termed as :
 - a. Benchmarking
 - b. Performance Materiality
 - c. Audit evidence
 - d. Audit Risk

3. A detailed plan of applying the audit procedure in the given circumstances with appropriate techniques to accomplish the audit objectives is termed as :
 - a. Audit Planning
 - b. Audit Engagement
 - c. Audit Control
 - d. Audit Programme

4. The responsibility of joint auditors is to :
 - a. Divide areas of work but not responsibility.
 - b. Are different from individual auditors
 - c. Divide the audit of identifiable units or areas
 - d. Irrelevant areas to be divided

5. In conducting an audit of financial statements , the overall objectives of the auditor are :
 - a. To report on the management
 - b. To communicate about procedures
 - c. To obtain reasonable assurance
 - d. To check arithmetical accuracy

6. Effective communication may involve with :
 - a. More of unwritten reports
 - b. Audit working papers
 - c. Less Structured communication
 - d. Unstructured presentations

7. Auditor judgments about the size of misstatements that will be considered material is thru”:
 - a. The extent of risk assessment procedures
 - b. The time of external procedures
 - c. The risk of relying written representation
 - d. The identification of statement misrepresentation

8. Chartered Accountants cannot act as :
 - a. Both as internal and audit officer
 - b. Both as Liquidator and auditor of the company
 - c. Investigator
 - d. Audit Trail officer

9. Published papers or books written by auditor's expert is one of the source is known as :
 - a. Competence , capabilities and objectivity
 - b. Field of expertise
 - c. Knowledge of written representation
 - d. Audit procedures

10. A statement by management provided to the auditor to confirm or to support audit evidence is termed as :
 - a. Audit Confirmation
 - b. Written representation
 - c. Request representation
 - d. True and fair representation

11. A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other , is termed as :
 - a. Related party
 - b. Controlling ownership
 - c. Audit Documentation
 - d. Arm's length transaction

12. The objective of the auditor , when using external confirmation procedures is to :
 - a. Increase the quantity of data
 - b. Design and perform such procedures
 - c. Non-responsive to evidence
 - d. Confirm with positive request

13. Inquiry combined with inspection or performance may provide more :
 - a. Assurance
 - b. Analytical procedures
 - c. Audit risk
 - d. Audit sampling

14. If a company is not making a proper disclosure explaining the loss incurred and the subsequent position the auditor should give :
 - a. Unqualified report
 - b. Qualified report
 - c. Disclaimer report
 - d. Report under CARO 2003

15. The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated:
 - a. Financial risk
 - b. Materiality risk
 - c. Audit risk
 - d. Performance risk

16. A request that the confirming party respond directly to the auditor is termed as :
- Non-response confirmation
 - Exception
 - External Confirmation
 - Positive confirmation request.
17. The auditor should adopt reasonable procedures for safe custody and confidentiality of his working papers is given under :
- SA230
 - SA530
 - Audit evidence
 - Audit Note book
18. Audit evidence is more reliable when it is obtained from :
- Independent source
 - Directly by reference
 - Internal frequencies
 - Common paper
19. Reasonable assurance is obtained when the auditor has obtained sufficient evidence to reduce audit risk is given under revised :
- SA 505
 - SA 530
 - SA 200
 - SA 520
20. As per AS 18, Related party transaction means a transfer of resources or obligations , between related parties regardless of :
- Whether or not a price is charged
 - Whether or not transfer price is executed
 - Whether price rise is effected or not
 - Whether a fair price is charged in transfer
21. When designing and performing audit procedures the auditor shall:
- Inconsistency over reliability of information
 - Relevance and reliability of information
 - Incompetency and incapability of information
 - Sufficient inappropriate audit evidence
22. Substantive analytical procedures are generally more applicable to large volumes of transaction that :
- Reasonable time
 - Predictable over time
 - Procedural time
 - Substantive reasonable time
23. The financial statement item to be in accordance with :
- Measurement and standards
 - Applicable financial reporting framework
 - Procedural duties
 - Misstatements to be recorded

24. Information will be more reliable when it is obtained from:
- Nonconventional source
 - Analytical evidence source
 - Independent source from outside
 - Supplementary source
25. A written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion is termed as :
- Report
 - CARO 2003
 - Certificate
 - Representation
- (25 x 1 = 25 Marks)**

PART - B **(50 Marks)**
Answer any 5 Questions

- You have been appointed as the sole auditor of a company where you were one of the joint auditors for the immediately preceding year and the said joint auditor is not re- appointed? State the various steps you would take for ascertaining the compliance of the requirements of the company's act, before accepting the audit? **(10 Marks)**
 - What is an "Accounting estimate"? Discuss the factors that may influence the degree of estimation and uncertainty associated with an accounting estimate. **(10 Marks)**
 - Explain the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements. **(10 Marks)**
 - Explain the auditor's responsibility relating to opening balances when conducting an initial audit engagement. **(10 Marks)**
 - Explain the steps involved in evaluating the adequacy of the Auditor's Expert work **(10 Marks)**
 - Explain the limitations of 'internal control'. **(10 Marks)**
- (OR)**
- A. Audit evidence and Cut off procedure **(5 Marks)**
B. Written Representations about Specific Assertions **(5 Marks)**

PRIME ACADEMY
40th SESSION PROGRESS TEST – AUDITING & ASSURANCE
SUGGESTED ANSWERS
PART-A

1.	A	13.	A
2.	D	14.	B
3.	D	15.	C
4.	C	16.	D
5.	C	17.	A
6.	C	18.	A
7.	A	19.	C
8.	B	20.	A
9.	A	21.	B
10.	B	22.	B
11.	D	23.	B
12.	B	24.	C
		25.	C

PART - B

1. You have been appointed as the sole auditor of a company where you were one of the joint auditors for the immediately preceding year and the said joint auditor is not re-appointed. State the various steps you would take for ascertaining the compliance of the requirements of the Companies Act, before accepting the audit?

Appointment of sole auditor in place of appointment as one of the joint auditors:

This is nothing but non re-appointment of one of the retiring joint auditors and hence it is necessary to see whether the provisions of Section 224 of the Companies Act, 1956, relating to non-reappointment of the retiring auditor have been complied with or not.

The following steps are required to be taken:

- a) Ensure that special notice as per section 225(1) of the Act was duly received by the company from a member at least 14 days before the date of the AGM. This notice should contain an express intention of the member for proposing the resolution for appointing a sole auditor in place of both the joint auditors who retire at the meeting but are eligible for re-appointment.
- b) Examining that the company has followed the procedure of sending the said notice to all members at least 7 days before the date of AGM as per section 190(2) of the Act.
- c) Ensuring the said notice was also sent to the retiring auditors as per section 190(2)
- d) Confirming whether the representations, if any, received from the retiring auditor (if received in time) was sent to the members of the company as per section 225(3) of the Act.
- e) Checking whether representation received from the (said) retiring Joint auditor was considered at the AGM and the proposed resolution as per special notice was properly passed at the meeting
- f) Obtaining a certified copy of the relevant minutes of AGM and also a written communication of my appointment as a sole auditor from the company within 7 days of my appointment.
- g) Verifying that there is no contravention of provisions of Section 224(2) of the Act.
- h) Ensuring that if Section 224A of the Act is applicable to the company then the resolution passed of the appointment of the auditor is a special resolution.

2. What is an “Accounting estimate”? Discuss the factors that may influence the degree of estimation and uncertainty associated with an accounting estimate.

An auditor has to be reasonably satisfied as to whether the information contained in the underlying accounting records and other source data is reliable for the preparation of financial statements. Since the entire process of auditing is based on the assessment of judgements made by the management of the entity as well as evaluation of internal controls, the audit suffers certain inherent risks.

Factors which can cause such risk in conducting an audit are discussed below:

- a. **Exercising judgement on the part of the auditor:** The auditor’s work involves exercise of judgement, for example, in deciding the extent of audit procedures and in assessing the reasonableness of the judgements and estimates made by management in preparing the financial statements.
- b. **Nature of audit evidence:** The auditor normally relies upon persuasive evidence rather than conclusive evidence. Even in circumstances where conclusive evidence is available, the cost of obtaining such evidence may far exceed the benefits.
- c. **Inherent limitations of internal controls:** Internal control can provide only reasonable, but not absolute, assurance on account of several inherent limitations such as potential for human error, possibility of circumstances of control through collusion, etc.

On account of above, it is quite nature that an audit suffers from control risk on account of inherent limitations of internal control risk and detection risk on account of test nature of audit and judgement and estimates involved in formulating accounting policies.

3. **Auditor’s responsibility to communicate with those charged with governance in relation to an audit of financial statements**

SA 260

1. Recognising the importance of effective two-way communication during an audit of financial statements .
2. Communicate clearly with those charged with governance .
3. Obtain from those charged with governance information relevant to the audit
4. Promote effective two way communication between the auditor
5. Overseeing the financial reporting process.
6. Executive responsibility for the conduct of the entity’s operations.
7. The auditor shall determine the appropriate person within the entity’s governance structure with whom to communicate.
8. Auditor shall also communicate with the governing body.
9. Auditor’s responsibilities in relation to the financial statement audit
10. Planned scope and timing of the audit
11. Significant findings from the audit
12. In case of listed entities , auditor shall communicate with those charged with governance

4. **Auditor’s responsibility relating to opening balances when conducting an initial audit engagement.**

1. Initial audit engagement letter with nature of audit.
2. Financial statements for the prior period were not audited
3. Financial statements for the prior period were audited by a predecessor auditor
4. Auditor shall read the most recent financial statements
5. Auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements
6. Auditor shall perform such additional audit procedures as are appropriate
7. Consistency of Accounting Policies
8. Relevant information in the predecessor audit report
9. Audit reporting
10. Application and other explanatory material

5. Steps involved in evaluating the adequacy of the Auditor's Expert work

SA 620 Provides the steps involved in evaluating the adequacy of Auditor's Expert Work :

1. Effective date
2. Objectives
3. Definitions
4. Requirements
5. Determining the need for an auditor's expert
6. Nature , timing and extent of audit procedures
7. Competence , capabilities and objectivity
8. Obtaining an understanding of the field of expertise
9. Agreement with the auditor's expert
10. Evaluating the adequacy of the auditor's expert's work
11. Reference to the auditor's expert in the auditor's report

6. Limitations of 'internal control'”

- Internal control can provide only reasonable but not absolute assurance that its objective relating to prevention and detection of errors/frauds, safeguarding of assets etc., are achieved. This is because it suffers from some inherent limitations, such as:-
 - (i) Management's consideration that cost of an internal control does not exceeds the expected benefits.
 - (ii) Most controls do not tend to be directed at unusual transactions.
 - (iii) The potential of human error due to carelessness, misjudgement and misunderstanding of instructions.
 - (iv) The possibility that control may be circumvented through collusion with employees or outsiders.
 - (v) The possibility that a person responsible for exercising control may abuse that authority.
 - (vi) Compliance with procedures may deteriorate because the procedures becoming inadequate due to change in condition.
 - (vii) Manipulation by management with respect to transactions or estimates and judgments required in the preparation of financial statements.
 - (viii) Inherent limitations of Audit.

7. A. Audit Evidence:

- As per SA 500 "Audit Evidence," information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
- Methods of Obtaining Audit Evidence:
 - i. Inspection:
 - ii. Observation:
 - iii. External Confirmation:
 - iv. Recalculation:
 - v. Reperformance:
 - vi. Analytical Procedures:
 - vii. Inquiry:

7. B. **Written Representations about Specific Assertions**

- a. Written Representations as audit evidence
- b. To obtain written representations from management

- c. To support other audit evidence
- d. To respond appropriately to written representations provided by management
- e. Management from whom written representation requested
- f. Preparation of the financial statements
- g. Information provided and completeness of transactions

- h. Description of management's responsibilities in the written representations
- i. Other written representations
- j. Date and period covered
- k. Form of written representations
- l. Doubt as to the reliability of written representations

- m. Past history
- n. Reasons for choosing a particular course of action
- o. Ability to pursue a specific course of action
- p. Lack of any other information

PRIME ACADEMY
40th SESSION PROGRESS TEST
INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

No. of Pages: 1

Total Marks: 75
Time Allowed: 2 Hours

PART - A

I. Define the following terms:

- (a) ASCII code
- (b) File transfer protocol (FTP)
- (c) Repeaters
- (d) Expert system
- (e) Multiplexer
- (f) Virtual memory
- (g) Six sigma

(7 x 1= 7 Marks)

II. State with reasons which of the following statements are correct / incorrect:

- (a) PESTLE analysis is used to monitoring the micro environmental factors.
 - (b) Growth share matrix is popularly used for resource allocation.
 - (c) For a small entrepreneur vision and mission are irrelevant.
 - (d) Vertical diversification integrates firms forward or backward in the product chain.
 - (e) Production strategy implements, supports and drives higher strategies.
 - (f) SBU concepts facilitate multi-business operations.
 - (g) Strategies may require changes in organizational structure.
 - (h) Benchmarking is a remedy for all problems faced by organizations.
 - (i) The thrust of operational control is on individual tasks or transactions.
- (9 x 2 = 18 Marks)**

PART - B

Answer any 5 Questions

1. Distinguish between the following:
 - (i) Internet and WWW
 - (ii) Transmission Control Protocol and Internet Protocol
 2. (a) What are the three critical pillars of Business Process Automation (BPA)
(b) Write a short note on Artificial intelligence.
 3. Define Cloud Computing. What are the different types of clouds in a Cloud Computing Environment?
 4. Distinguish between the following:
 - (a) Transformational and transactional leadership
 - (b) SWOT and TOWS Matrix
 5. How a company can deal with strategic uncertainty?
 6. Define TQM? Explain the various principles that guide success of TQM.
- (5 x 10 = 50 Marks)**

PRIME ACADEMY
40th SESSION PROGRESS TEST
INFORMATION TECHNOLOGY & STRATEGIC MANAGEMENT
SUGGESTED ANSWERS

PART - A

- I.
1. ASCII Code: ASCII (American Standard Code for Information Interchange) is a seven-bit code with which up to 128 characters can be coded and is used extensively in small computers, peripherals, instruments and communications devices. This includes both unprintable control codes (0-31) used to control various devices in computer and printable control codes (32-127) that represent lower case and upper case letters, digits, punctuation marks, and other symbols.
 2. File Transfer Protocol (FTP): The File Transfer Protocol (FTP) is used widely on the Internet for transferring files to and from a remote host. FTP is commonly used for uploading pages to a Web site and for providing online file archives. An FTP URL has the basic form: <ftp://user:pass@host/directory/file>.
 3. Repeaters: Repeaters are devices that solve the snag of signal degradation which results as data is transmitted along the various cables. The repeaters boost or amplify the signal before passing it through to the next section of cable.
 4. Expert System: An Expert System (ES) is a computerized information system that allows non-experts to make decisions comparable to those of an expert. Expert Systems are used for complex or ill-structured tasks that require experience and specialized knowledge in narrow, specific subject areas.
 5. Multiplexer: A multiplexer is a communications processor that allows a single communications channel to carry simultaneous data transmissions from many terminals. Typically, a multiplexer merges the transmissions of several terminals at one end of a communications channel, while a similar unit separates the individual transmissions at the receiving end.
 6. Virtual Memory: Virtual Memory is not a separate device but an imaginary memory area supported by some Operating Systems (for example, Windows) in conjunction with the hardware. If a computer lacks the Random Access Memory (RAM) needed to run a program or operation, Windows uses virtual memory to compensate. Virtual memory combines computer's RAM with temporary space on the hard disk.
 7. Six Sigma: Six Sigma is a set of strategies, techniques, and tools for process improvement. It seeks to improve the quality of process outputs by identifying and removing the causes of defects and minimizing variability in manufacturing and business processes.
- II.
- (a) Incorrect: The term PESTLE Analysis is used to describe a framework for analysis of macro environmental factors. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking.
 - (b) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily, it categorizes organizations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

- (c) Incorrect: Entrepreneur, big or small has to function within several influences external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.
- (d) Correct: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. It moves forward or backward in the chain and enters specific products with the intention of making them part of new businesses for the firm.
- (e) Correct: For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.
- (f) Correct: Organizing business along SBU lines and creating strategic business units has become a common practice for multi-product/service and global organizations. It is a convenient and intelligent grouping of activities along distinct businesses and has replaced the conventional groupings. SBU facilitates strategic planning, gaining product-related/market-related specialization, gaining cost-economies and more rational organizational structure.
- (g) Correct: Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.
- (h) Incorrect: Benchmarking is an approach of setting goals and measuring productivity based on best industry practices and is a process of continuous improvement in search for competitive advantage. However, it is not panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational circumstances.
- (i) Correct: The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

PART - B

1. (i) Internet and WWW

	Internet	WWW
Nature	Hardware	Software
Comprises of	Network of Computers, copper wires, fiber - optic cables & wireless networks	Files, folders & documents stored in various computers
Governed By	Internet Protocol	Hyper Text Transfer Protocol
Dependency	This is the base platform and is independent of WWW	It depends on the Internet to work

- (ii) Transmission Control Protocol (TCP): The TCP provides reliable transmission of data in an Internet Protocol environment. TCP corresponds to the Transport layer (Layer 4) of the OSI reference model that provides stream data transfer, reliability, efficient flow control, full-duplex operation, and multiplexing.
- Internet Protocol (IP): The Internet Protocol (IP) is a Network-layer (Layer 3) protocol that contains addressing information and some control information that enables packets to be routed.

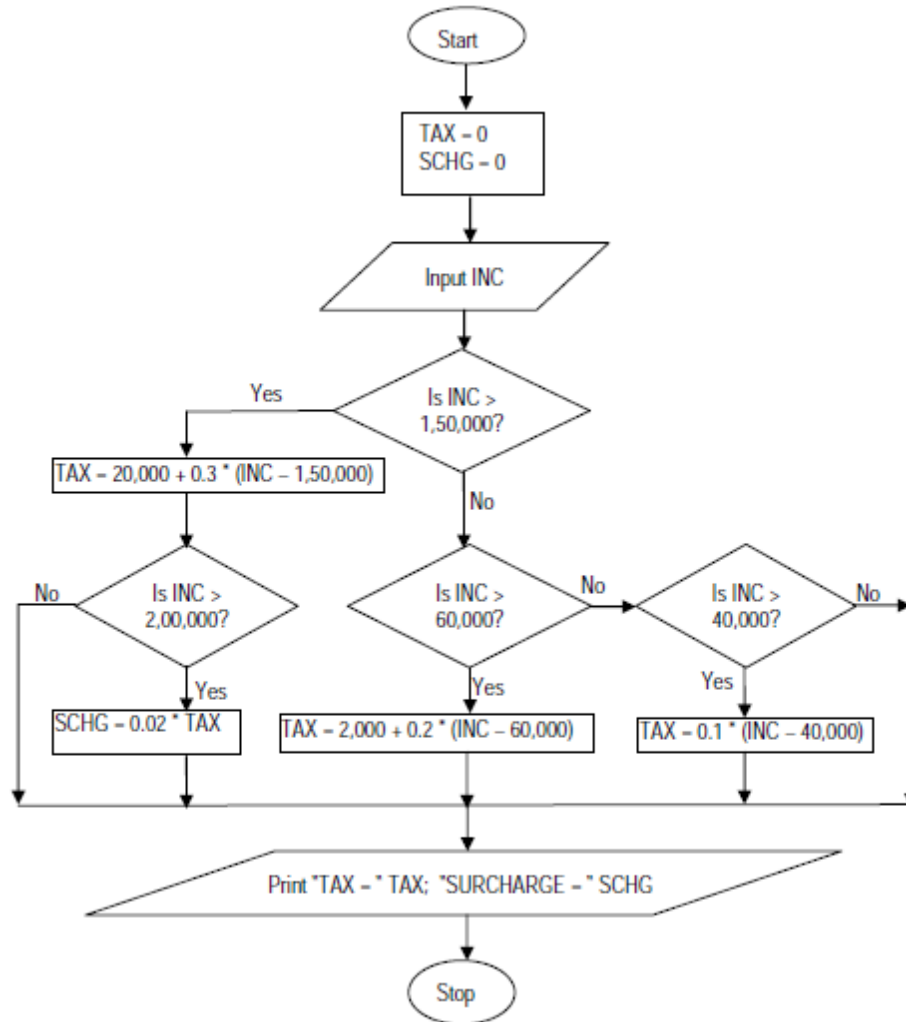
2. Let us define the variables:

SCHG: Surcharge on the income of a person;

TAX: Income Tax of a person;

INC: Income of a person

The required flow chart is as follows:



3. development platforms, servers, storage, and software, over the Internet, often referred to as the "Cloud." Cloud Computing Environment The Cloud Computing environment can consist of multiple types of clouds based on their deployment and usage as shown in the Figure and explained as follows:
- Public Cloud: The public cloud is made available to the general public or a large industry group. They are administrated by third parties or vendors over the Internet, and services are offered on pay-per-use basis. The key benefits are as follows:
 - It is widely used in the development, deployment and management of enterprise applications, at affordable costs;
 - It allows organizations to deliver highly scalable and reliable applications rapidly and at more affordable costs.
 - Private Cloud: Also referred as Internal Cloud, this cloud computing environment resides within the boundaries of an organization and is used exclusively for the organization's benefits. They are built primarily by IT departments within enterprises who seek to optimize utilization of infrastructure resources within the enterprise by provisioning the infrastructure with applications using the

concepts of grid and virtualization. The benefit of a Private Cloud is that it enables an enterprise to manage the infrastructure and have more control, but this comes at the cost of IT department creating a secure and scalable cloud.

- Community Cloud: This is the sharing of computing infrastructure in between organizations of the same community. For example, all Government organizations within India may share computing infrastructure on the cloud to manage data. The risk is that data may be stored with the data of competitors.
- Hybrid Cloud: It is maintained by both internal and external providers. It is a composition of two or more clouds (Private, Community or Public). They have to maintain their unique identity, but are bound together by standardized data and application portability. With a hybrid cloud, organizations might run non-core applications in a public cloud, while maintaining core applications and sensitive data in-house in a private cloud.

4.

- (a) Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.

Whereas, transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

- (b) TOWS Analysis is a variant of the classic business tool, SWOT Analysis. TOWS and SWOT are acronyms for different arrangements of the words Strengths, Weaknesses, Opportunities and Threats. By analyzing the external environment (threats and opportunities), and internal environment (weaknesses and strengths), we can use these techniques to think about the strategy of a company. Following are the some basic differences between TOWS and SWOT matrix:

- TOWS emphasizes on external environment whereas SWOT emphasizes on internal environment.
- TOWS matrix is about the combinations of SO, ST, WO, WT whereas SWOT matrix is about S, W, O, T.
- TOWS analysis is an action tool whereas SWOT analysis is a planning tool.
- TOWS is particularly useful in evaluating the potential impact of sudden events or developments while SWOT is usually employed in evaluating a company's business plan.

5. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis. Sometimes the strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

6. TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organization and the supply chain is responsible for preventing rather than detecting defects.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy. It works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

Principles guiding TQM

Implementing TQM requires organization wide support. There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

- ☐ A sustained management commitment to quality
- ☐ focusing on the customer
- ☐ preventing rather than detecting defects
- ☐ Universal quality responsibility
- ☐ Quality measurement
- ☐ Continuous improvement and learning
- ☐ Root cause corrective action
- ☐ Employee involvement and empowerment