

## WT 1 (Ch. 1 – Nature, Objective and Scope of Audit)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

## Part – A (Multiple Choice Questions)

- Q.1 Consider following statements in relation to “Reasonable Assurance Engagement”: 2
- Statement I - It involves obtaining sufficient appropriate evidence to draw reasonable conclusions.
- Statement II – Examination of Prospective Financial Information is an example of Reasonable assurance engagement.
- (a) Statement I is correct. Statement II is incorrect.
- (b) Both Statements I and II are correct.
- (c) Both Statements I and II are incorrect.
- (d) Statement I is incorrect. Statement II is correct.
- Q.2 Owing to the inherent limitations of an audit, there is unavoidable risk that some \_\_\_\_\_ of 2  
the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the \_\_\_\_\_.
- (a) Material Misstatements; Standards on Auditing
- (b) Frauds and Errors; Engagement Standards
- (c) Material Misstatements; Standards on Assurance Engagements
- (d) Frauds and Errors; Legal and Regulatory Requirements
- Q.3 Audited financial statements are not a guarantee against probable wrong doings in financial 1  
matters of companies. What kind of assurance does audit of financial statements provide?
- (a) It provides reasonable assurance meaning a moderate level of assurance.
- (b) It provides reasonable assurance meaning a low level of assurance.
- (c) It provides reasonable assurance meaning a high level of assurance.
- (d) It provides reasonable assurance meaning an absolute level of assurance.
- Q.4 Which of the following is not a likely benefit of auditing? 1
- (a) Since auditing is connected to future events, audited information can be easily relied upon by users.

- (b) Errors or frauds may be discovered during audit.
- (c) Government authorities can make use of audited accounts for different purposes.
- (d) Auditing can help in bringing out deficiencies in maintenance of financial records.

**Part B (Descriptive Questions)**

**Q. No. 1 is Compulsory. Attempt Any two from the rest.**

- Q.1 State with reasons (in short) whether the following statements are correct or incorrect: 4
- (a) An audit is an official investigation into alleged wrongdoing.
  - (b) Historical Financial information relates to financial information based on assumptions about occurrence of future events and possible actions by an entity.
- Q.2 (a) An assurance engagement involves a three-party relationship. Discuss meaning of three parties in such an engagement. 3
- (b) CA Anand is the engagement partner for the audit assignment of NHT Ltd. engaged in manufacture of Iron and Steel bars. The company has its plants in the state of Sikkim. While verifying the wages record of the company, CA Anand found that maximum of the labour employed in the plants of the company was child labour. He questioned the management of the company about the same to which the management replied that looking into the compliance of such law is outside his scope of financial audit. Advice regarding elements to be included in Scope of Audit. 3
- Q.3 (a) CA N is the auditor of SR Ltd. The auditor expressed his opinion on the financial statements without ascertaining as to whether the financial statements as a whole were free from material misstatements or not. In your opinion, whether CA N has complied with objectives of audit considering the applicability of relevant SA? 3
- (b) Council of ICAI has issued various Engagement Standards under its authority. The purpose of issue of these standards is to establish high quality standards and guidance in the areas of financial statement audits and in other types of assurance services. Explain briefly, various types of Assurance Standards issued. 3

- Q.4 (a) CA. P Babu is conducting audit of financial statements of Quick Buy Private Limited. He was not able to obtain external confirmations from certain debtors due to practical difficulties and peculiar circumstances. However, such a procedure is mandated under one of Standards on Auditing. Unable to obtain external confirmations from these debtors, he relied upon sale details to these parties, e-invoices, e-way bills and also traced payments from these parties in bank accounts of the company. He was reasonably satisfied with audit evidence obtained. Is there any other reporting duty cast upon him relating to not following a mandated procedure in one of Standards on Auditing? 3
- (b) There are practical and legal limitations on the auditor's ability to obtain audit evidence. Explain with examples. 3



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