

# REGIONAL TRAINING INSTITUTE, MUMBAI (I A & A D)

## Multiple Choice Questions - Financial Attest Audit Manual

1 Financial (attest) audit is primarily concerned with expression of audit opinion on a set of financial statements.

- A FALSE
- B TRUE

Ans B

2 Financial (attest) audit includes:

- i Examination and evaluation of financial records
- ii Audit of financial systems and transactions
- iii Audit of internal control and internal audit functions
- iv Evaluation of Compliance with applicable statutes and regulations

- A (i) only
- B (i) & (ii) only
- C (i) to (iii) only
- D All of the above

Ans D

3 Financial (attest) audit includes an evaluation of Compliance with applicable statutes and regulations

- A TRUE
- B FALSE

Ans A

4 Transaction audit essentially seeks to address the following issues of risks to:

- i Regularity
- ii Performance
- iii Propriety
- iv Financial Control

- A All of the above
- B (i), (ii) & (iii) only
- C (i), (iii) & (iv) only
- D (i), (ii) & (iv) only

Ans C

5 Transaction audit is linked to a specific assurance on an individual set of financial Statements in a particular year

- A TRUE
- B FALSE

Ans B

C Transaction Audit results in reports to

- A Management
- B Legislature
- C Parliament
- D Any of the these

Ans D

6 Risks of financial irregularity are always material for the purpose of qualifying audit opinion on the financial statements

- A TRUE
- B FALSE

Ans B

- 7 The following types of financial statements are audited in respect of Union, State and UT Governments
- i Finance Accounts
  - ii Appropriation Accounts
  - iii Balance Sheet
  - iv Statements of Expenditure

- A (i) & (ii) only
- B (i) to (iii) only
- C (i) & (iii) only
- D All of the above

Ans A

- 8 Financial Audit of Government Companies is conducted by
- A Chartered Accountants appointed by the companies
  - B Chartered Accountants appointed by Ministry of Company Affairs
  - C Chartered Accountants appointed by C&AG
  - D C&AG

Ans C

- 9 The audit of financial statements of Government Companies conducted by the C&AG is called

- A Financial Audit
- B Supplementary Audit
- C Attest Audit
- D Compliance Audit

Ans B

- 10 Financial Audit of Autonomous Bodies receiving financial assistance is governed by \_\_\_\_\_ of CAG's DPC Act 1971

- A 13 & 14
- B 14 & 15
- C 13 & 15
- D 16

Ans B

- 11 The International Standards of Auditing (ISAs) have been developed by

- A The International Federation of Accountants
- B The International Auditing Practices Committee
- C The International Auditing & Accounting Standards Board
- D The INTOSAI

Ans A

- 12 The Auditing Standards of the C&AG of India comprise of

- i General Standards
- ii Field Audit Standards
- iii Field Standards
- iv Reporting Standards

- A (i) to (iii) only
- B (i) & (ii) only
- C (i), (iii) & (iv) only
- D All of the above

Ans C

13 Which of these standards regulate the conduct of the auditor

- A General Standards
- B Field Audit Standards
- C Field Standards
- D Reporting Standards

Ans A

14 Which of these standards regulate the audit activity of the auditor

- A General Standards
- B Field Audit Standards
- C Field Standards
- D Reporting Standards

Ans C

15 The Primary objective of a financial audit is to

- A Examine the accounts and records
- B Scrutinize financial statements
- C Point out overstatements and understatements of account balances
- D Express an opinion on the financial statements

Ans D

16 The general audit objectives are also called

- A Opinions
- B Assertions
- C Criteria
- D None of these

Ans B

17 Which of these is the correct set of general financial audit objectives for income & expenditure account

- A Completeness, Occurrence, Measurement, Disclosure, Regularity
- B Completeness, Occurrence, Measurement, Disclosure, Existence
- C Completeness, Occurrence, Existence, Disclosure, Regularity
- D Completeness, Ownership, Measurement, Disclosure, Regularity

Ans A

18 Which of these is the correct set of general financial audit objectives for balance sheet

- A Completeness, Existence, Valuation, Ownership, Disclosure
- B Completeness, Existence, Measurement, Ownership, Disclosure
- C Completeness, Occurrence, Valuation, Ownership, Disclosure
- D Completeness, Regularity, Valuation, Ownership, Disclosure

Ans A

19 The legal right to sue and recover an account receivable is the test of

- A Existence
- B Ownership
- C Completeness
- D None of these

Ans B

20 This financial audit objective directly tests for potential overstatement of assets and liabilities

- A Existence
- B Ownership
- C Completeness
- D None of these

Ans A

21 Insurance relating to the year 2013-14 was paid in 2012-13 in advance. The same was however booked as expenditure in 2012-13. This does not meet the objective of

- A Existence
- B Ownership
- C Completeness
- D Occurrence

Ans D

22 If some item of revenue expenditure is misclassified as capital expenditure, it can be said that this objective is not met

- A Existence
- B Disclosure
- C Completeness
- D Occurrence

Ans B

23 If the monthly accounts of some Treasuries or Public Works Divisions are excluded from the Accounts of a State Government, it affects this objective

- A Existence
- B Disclosure
- C Completeness
- D Occurrence

Ans C

24 A financial audit is intended to give

- A Qualified Assurance
- B Absolute Assurance
- C Positive Assurance
- D None of these

Ans D (Correct Answer: Reasonable assurance)

25 Materiality is classified by

- A Context
- B Nature
- C Value
- D All of these

Ans D

26 The point where the total value of errors in an account becomes unacceptable to audit is called

- A Unacceptable level
- B Materiality level
- C Qualifiable Level
- D None of these

Ans B

27 The materiality thresholds depend on the \_\_\_\_ of accounts and their \_\_\_\_.

- A Basis, Sensitivity
- B Sensitivity, relativity
- C Basis, accountability
- D Basis, Value

Ans A

- 28 For accounts prepared on cash basis, in respect of gross receipts/expenditure, materiality percentage would be
- A For very sensitive accounts - 1 %, sensitive accounts - 1% to 2% and non sensitive accounts - 5%
  - B For very sensitive accounts - 1/2 %, sensitive accounts - 1/2% to 2% and non sensitive accounts - 2%
  - C For very sensitive accounts - 2 %, sensitive accounts - 5% and non sensitive accounts - 8%
  - D none of these

Ans B

- 29 Planning materiality may be taken at a lower figure than reporting materiality.

- A TRUE
- B FALSE

Ans A

- 30 Which of the following statements is true about Precision

- A It is a range of error in an account between MLE & materiality
- B It is a range of error in an account between MLE & AMLE
- C It is a range of error in an account between Materiality & AMLE
- D None of these

Ans A

- 31 AMLE in the context of likely errors is used in this stage of audit

- A Reporting
- B Evaluation of results
- C Planning
- D Field Audit

Ans C

- 32 The formula for calculating precision is

- A (Materiality - Range of error possible) x AMLE
- B (Materiality - AMLE) x Range of error possible
- C (AMLE - Range of error possible) x Materiality
- D None of these

Ans B

- 33 There is a direct relationship between materiality level and the level of audit risk

- A TRUE
- B FALSE

Ans B

- 34 The three components of Audit Risk as per the risk model are

- A Inherent Risk, Control Risk, Mitigation Risk
- B Inherent Risk, Control Risk, Litigation Risk
- C Inherent Risk, Control Risk, Detection Risk
- D None of these

Ans C

- 35 If the desired overall assurance from audit is 95%, the inherent risk is 40% and the control risk is 50%, what would be the desired assurance from substantive tests

- A 90%
- B 95%
- C 99%
- D 75%

Ans D Hint:  $AR = IR \times CR \times DR$  i.e  $(1-0.95) = 0.4 \times 0.5 \times DR$ . Hence  $DR = 0.25$  and desired assurance =  $1 - 0.25$  i.e 0.75 or 75%

36 what are the audit procedures commonly used to obtain audit assurance?

- A Analytical Procedures
- B Systems Based Audit
- C Direct Substantive Testing
- D All of the above

Ans D

37 Which of the following is not a part of analytical procedures?

- A System Analysis
- B Economic Analysis
- C Regression Analysis
- D Predictive Analysis

Ans B

38 When you are finding out the inventory-turnover ratio, you are doing

- A Comparison across components
- B Comparison involving a single component
- C Regression analysis
- D Economic analysis

Ans A

39 This is a technique that creates an equation to reveal how one variable is related to one or more other variables.

- A Comparison across components
- B Predictive Analysis
- C Regression analysis
- D Economic analysis

Ans C

40 Which of the audit procedures is a form of inductive reasoning where the reasonableness of the aggregate results is inferred from the evidence of reliability of the individual details that are tested?

- A Analytical Procedures
- B Systems Based Audit
- C Direct Substantive Testing
- D All of the above

Ans C

41 Which kind of audit sampling is generally used for testing controls?

- A Attribute Sampling
- B Random Sampling
- C Monetary Unit Sampling
- D Stratified Sampling

Ans A

42 Which method of sampling is expected to produce representative samples?

- A Block Selection
- B Judgmental Sampling
- C Random Sampling
- D Convenient Sampling

Ans C

43 Which method of sampling is not expected to produce representative samples?

- A Block Selection
- B Random Sampling
- C Systematic Sampling
- D Monetary Unit Sampling

Ans A

- 44 A pre-condition for any statistical sampling is the availability of a \_\_\_\_\_
- A Sampling unit
  - B sampling frame
  - C Sampling structure
  - D All of the above
- Ans B
- 45 Population is divided into groups, each being fairly homogenous with respect to value and risk in this kind of sampling
- A Block Selection
  - B Random Sampling
  - C Stratified Sampling
  - D Monetary Unit Sampling
- Ans C
- 46 Sampling interval is calculated in this kind of sampling
- A Simple Random Sampling
  - B Systematic Sampling
  - C Stratified Sampling
  - D All of the above
- Ans B
- 47 This method of sampling is also called probability proportionate to size (PPS) sampling
- A Block Selection
  - B Random Sampling
  - C Stratified Sampling
  - D Monetary Unit Sampling
- Ans D
- 48 Extrapolation of sampling results to the population is possible in the case of Judgmental Sampling.
- A TRUE
  - B FALSE
- Ans B
- 49 Risk assessment is primarily a part of which of these stages in the audit process?
- A Planning
  - B Execution
  - C Reporting
  - D Follow up
- Ans A
- 50 Reflecting all the transactions relating to the period of the accounts without regard to the actual date of payment or receipt is also called
- A Accrual system accounting
  - B Mercantile system of accounting
  - C Both
  - D None of these
- Ans C
- 51 Which of the following statements are true?
- A The Union and State Governments follow cash based accounting while Corporations and autonomous bodies mainly follow accrual based accounting
  - B The Union and State Governments follow accrual based accounting while Corporations and autonomous bodies mainly follow cash based accounting
  - C The Union and State Governments and Corporations and autonomous bodies follow accrual based accounting
  - D The Union and State Governments and Corporations and autonomous bodies follow cash based accounting
- Ans A

- 52 In the context of Government Accounts in India, the key feeder systems include:
- A Treasuries and Sub-Treasuries
  - B Pay and Accounts Offices
  - C Forest Divisions
  - D All of the above
- Ans D
- 53 In the context of Government Accounts in India, the key feeder systems aslo include State Bank of India or any other public sector bank transacting Government Business on behalf of Reserve Bank of India
- A TRUE
  - B FALSE
- Ans A
- 54 Which of the following statements is false?
- A Planning materiality may be set at a lower level than reporting materiality
  - B It is easier to plan for errors material by nature
  - C At the planning stage, the audit team is concerned primarily with materiality by value
  - D Materiality by context is easy to assess at the planning stage
- Ans D
- 55 Misclassification of revenue expenditure resulting in a saving in a grant when in fact there has been an excess is an example of.
- A Materiality by value
  - B Materiality by context
  - C Materiality by nature
- Ans B
- 56 The risks identified from top down review of entities and which may affect a number of different account areas are called
- A Entity Risks
  - B Accounting Risks
  - C Inherent Risks
  - D Account Area Risks
- Ans A
- 57 The process for identifying material risk factors has \_\_\_\_ key stages
- A Four
  - B Five
  - C Six
  - D Seven
- Ans C
- 58 The three levels of substantive procedures that can be performed in decreasing order of assurance required are:
- A Standard, Focused, Minimum
  - B Focused, Standard, Minimum
  - C Maximum, Standard, Minimum
  - D Minimum, Standard, Focused
- Ans B
- 59 The extent of audit procedures and the the level of assurance required are
- A Directly related
  - B Indirectly related
- Ans A



60 The document that presents an analysis of the main audit areas and a summary of the key planning decisions is called

- A Audit memorandum
- B Audit execution memorandum
- C Audit Note
- D Audit Planning memorandum

Ans D

61 Instructions to audit team members on the performance of chosen audit procedures are contained in the

- A Plan Document
- B Audit Planning memorandum
- C Detailed Audit Programme
- D None of these

Ans C

62 These are performed if the audit team identifies a risk that could lead to potential material misstatement and where no reliance can be placed on mitigating controls to address the risk

- A Focused Substantive Procedures
- B Standard Substantive Procedures
- C Minimum Substantive Procedures

Ans A

63 These are performed if the audit team has not identified risks that could lead to material misstatement and no reliance is planned to be placed on controls.

- A Focused Substantive Procedures
- B Standard Substantive Procedures
- C Minimum Substantive Procedures

Ans B

64 These are Performed if the audit team plans to take assurance from mitigating controls or from other controls .

- A Focused Substantive Procedures
- B Standard Substantive Procedures
- C Minimum Substantive Procedures

Ans C

65 Analytical Procedures are unlikely to be used when these are performed.

- A Focused Substantive Procedures
- B Standard Substantive Procedures
- C Minimum Substantive Procedures

Ans A

66 Which of the following statements is false?

- A Documentary evidence is more reliable than oral evidence.
- B Evidence, of which the auditor has direct personal knowledge, is the most reliable evidence.
- C Independent evidence obtained from external sources is more reliable than internal evidence.
- D Visual evidence is highly reliable for confirming the ownership of the assets and their value.

Ans D

67 Which of the following statements is True?

- A Oral evidence must be considered as the least reliable.
- B Photocopies are as reliable as the originals.
- C Evidence, which is accepted by the auditee entity, is not always reliable.
- D The auditor may gain increased assurance even when audit evidence obtained from different sources is not consistent.

Ans A

- 68 Which of the following is False?  
A A systematic error is one which will only occur in defined circumstances  
B A systematic error affects only a proportion of the population  
C A random error is one which could have also occurred in any of the transactions that were not selected for testing.  
D None of these

Ans D

- 69 Which of the following is True?  
A A systematic error should be extrapolated over the entire population  
B A random error is to be extrapolated over a defined subset of population  
C Both A & B  
D None of these

Ans D

- 70 The audit working papers contain  
A the details of the audit procedures undertaken  
B conclusions drawn and the implications for the audit opinion  
C the record of the reasoning on all significant matters where the members of the audit teams have exercised judgment  
D all of the above

Ans D

- 71 The acid test for good documentation is  
A when it is appreciated by the higher authorities  
B when it results in good quality audit observations  
C when it results in giving a clean chit to the entity observed  
D that an experienced auditor with no previous connection with the audit should be able, without difficulty, to ascertain the evidence gathered and understand and support the conclusions reached.

Ans D

- 72 Which of these broad characteristics of audit working papers applies particularly to photocopies  
A Clarity and conciseness  
B Legibility and neatness  
C Completeness  
D Accuracy

Ans B

- 73 Working papers should be restricted to matters, which are important, pertinent and useful for the purpose. Which is the characteristic that we are talking about?

- A Clarity and conciseness  
B Legibility and neatness  
C Relevance  
D Accuracy

Ans C

- 74 If the financial statements properly present receipts and payments or give a true and fair view and have been prepared in accordance with relevant accounting requirements, the auditor

- A does not give any opinion  
B gives a qualified opinion  
C gives an unqualified opinion

Ans C

- 75 A material but not fundamental uncertainty would lead to

- A disclaimer  
B qualified opinion  
C unqualified opinion  
D adverse opinion

Ans B

- 76 A fundamental disagreement would lead to  
A disclaimer  
B qualified opinion  
C unqualified opinion  
D adverse opinion  
Ans B
- 77 The primary responsibility for safeguarding the audited entity's funds and assets and to prevent frauds or errors lies with its  
A employees  
B internal auditor  
C management  
D statutory auditor  
Ans C
- 78 Policies, systems and procedures established by Comptroller and Auditor General to maintain a high standard of audit activity are also called  
A Quality control  
B Reasonable Assurance  
C Quality Check  
D Quality Assurance  
Ans D
- 79 Teammate software is  
A a data extraction tool  
B a data analytic tool  
C an audit documentation tool  
D none of these  
Ans C
- 80 COBIT is  
A a data extraction tool  
B an IT Audit framework  
C an audit documentation tool  
D none of these  
Ans B
- 81 COBIT is developed by  
A SAI, India  
B INTOSAI  
C ICAI  
D IT Governance Institute and ISACA  
Ans D