



IDEA INSTITUTE OF MANAGEMENT & TECHNOLOGY

3rd Floor, Kamar Trust Building, Aroma High School, Usmanpura, Ashram Road, Ahmedabad - 380013.
☎ : 2755 2040, 2755 2600, 9727 411 411 • www.ideaindia.org • info@ideaindia.org

Internal audit & control

7:00pm to 9:00pm

Semester – III (FIN)

June 12, 2010

SECTION A (ONE MARKS)

(1) Which of the following events occurring after the issuance of an auditor's report most likely would cause the auditor to make further inquiries about the previously issued financial statements?

- (a) A lawsuit is resolved that is explained in a separate paragraph of the prior-year's auditor's report.
- (b) New information is discovered concerning undisclosed related party transactions of the prior year.
- (c) A technological development occurs that affects the entity's ability to continue as a going concern.
- (d) The entity sells a subsidiary that accounts for 35% of the entity's consolidated sales.

Answer : B

(2) These are errors where a business transaction is not at all recorded in the books of account.

- (a) errors of omission
- (b) errors of commission
- (c) Compensating errors
- (d) errors of principles

Answer : A

(3) Which of the following statement is correct in context of posting?

- (a) comparing of transaction in ledger with cash book or journal
- (b) balances or subsidiary ledgers to general ledger
- (c) both a and b
- (d) None of the above

Answer : C

(4) Internal controls are not designed to safeguard assets from

- (a) natural disasters.
- (b) employee theft.
- (c) robbery.
- (d) unauthorized use.

Answer : A

(5) Which of the following is correct statement?

- (a) internal controls is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives
- (b) Internal control is the plan of the organization, all the methods and procedures adopted by the management of an entity, to assist in achieving management's objective of ensuring, as far as predictable, the orderly and efficient conduct of its business
- (c) both a and b
- (d) none of the above

Answer : C

An accountant had begun to audit the financial statements of a nonpublic entity. Which of the following circumstances most likely would be considered a reasonable basis for agreeing to the entity's request to change the engagement to a compilation?

- (a) The entity's management does not provide the accountant with a signed representation letter.
- (b) The accountant is prohibited from corresponding with the entity's legal counsel.
- (c) The entity's principal creditors no longer require the entity to furnish audited financial statements.
- (d) The accountant is prevented from examining the minutes of the board of directors' meetings.

Answer : C

(7) A successor auditor should make specific and reasonable inquiries of the predecessor auditor regarding the predecessor's:

- (a) Understanding of the reasons for the change in auditors.
- (b) Methodology used in applying sampling techniques.
- (c) Opinion on subsequent events that have occurred since the balance sheet date.
- (d) Perception of the competency and reliance on the client's internal audit function.

Answer : A

(8) This is also known as control procedures.

- (a) control environment
- (b) risk assessment
- (c) control activities
- (d) information and communication

Answer : C

(9) An auditor's communication with the audit committee is required to include the:

- (a) Basis for the auditor's preliminary judgment about materiality.
- (b) Justification for the auditor's selection of sampling methods.
- (c) Discussion of disagreements with management about matters that significantly impact the entity's financial statements.
- (d) Assessment of the quality of the entity's earnings as compared to the previous year.

Answer : C

(10) Auditing standards require the auditor to gain an understanding of

- (a) the client's procedural manuals
- (b) the client's organization charts
- (c) the client's internal controls
- (d) all the above

Answer : C

(11) What is internal audit?

- (a) Internal audit is a review of the operations and records done randomly by specially assigned staff
- (b) Internal audit is an audit of books of accounts done on a continuous basis by external auditors

(c) Internal audit is a review of the operations and records done on a continuous basis by specially assigned staff

(d) Internal audit is an audit of the operations and records done at the end of the financial year by external auditors

Answer : C

(12) What is Kumar Mangalam Birla's suggestion?

(a) To promote & raise the standard of corporate governance in India
(b) The need for a corporate governance code on failure of corporate to be transparent

(c) The need for code on corporate governance due to corporate funds
(d) The lead for code on corporate governance to enhance shareholders' value.

Answer : A

(13) Why is a project report not a verifiable information? Because

(a) It is self-explanatory
(b) Information is provided in the form of tables, COs, flow charts etc
(c) It need not be supported by any books of accounts, vouchers, bills etc
(d) It is largely based on the assumption

Answer : C

(14) The pronouncement of auditing standards are in the form of:

(a) Standards
(b) Guidance notes / expert opinions
(c) Code on corporate governance
(d) Code of conduct

Answer : C

(15) The contents of an engagement letter contain:

(a) The objective of the audit of financial statement
(b) Management's responsibility for the financial statement
(c) The scope of the audit, including reference to the applicable legislation, regulations and the pronouncements of ICAI.
(d) Knowledge of the business

Answer : D

(16) The extent of substantive procedure depends on:

(a) Results of the procedures conducted to evaluate the control
(b) Response to enquiries
(c) The nature and amount of transactions or balances involved
(d) All of the above

Answer : D

(17) What is the general character of the three generally accepted auditing standards classified as general standards?

(a) Criteria for content of the F/S and the auditor's report.
(b) Criteria of audit planning and supervision and evidence gathering.
(c) The need to maintain an independence in mental attitude in all matters relating to the assignments.
(d) Criteria for competence, independence and professional care of individuals performing the audit.

Answer : D

- (18) Independent auditing can best be described as
- (a) A branch of accounting.
 - (b) A discipline that attests to the results of accounting and other functional operations and data.
 - (c) A professional activity that measures and communicates financial and business data.
 - (d) A regulatory function that prevents the issuance of improper financial information.

Answer : D

- (19) One element of the personnel management quality control standard is professional development. The primary reason why a CPA firm establishes policies and procedures for professional development of staff accountants is to
- (a) Comply with the continuing educational requirements imposed by various states for all staff accountants in CPA firms.
 - (b) Establish, in fact as well as in appearance, that staff accountants are increasing their knowledge of accounting and auditing matters.
 - (c) Provide a forum for staff accountants to exchange their experiences and views concerning firm policies and procedures.
 - (d) Provide reasonable assurance that staff personnel will have the knowledge required to enable them to fulfill responsibilities.

Answer : A

- (20) What is 'control environment'?
- (a) Environment which is totally controlled by management
 - (b) Environment encompassing overall attitude, awareness and actions of directors and management regarding internal control system
 - (c) Environment where all decisions are controlled
 - (d) Environment where management imposes rules and regulations mercilessly"

Answer : B

() SECTION B

- (21) When considering internal control an auditor must be aware of the concept of reasonable assurance. Which of the following are part of the concept?
- (a) Employment of competent personnel provides complete assurance that the objectives of internal control will be achieved
 - (b) Establishment and maintenance of an internal control structure is a responsibility of management not the auditor
 - (c) The cost of internal control should not exceed the benefits expected to be derived from them
 - (d) Segregation of incompatible duties provides some assurance that the internal control structure is effective

Answer : D

- (22) If a client will not permit inquiry of outside legal counsel, the auditor's report ordinarily will contain a (an):
- (a) Adverse opinion.
 - (b) Disclaimer of opinion.
 - (c) Unqualified opinion with a separate explanatory paragraph.
 - (d) Qualified opinion.

Answer : B

Which of the following audit procedures most likely would assist an auditor in identifying conditions and events that may indicate substantial doubt about an entity's ability to continue as a going concern?

- (a) Reading the minutes of meetings of the stockholders and the board of directors.
- (b) Comparing the market value of property to amounts owed on the property.
- (c) Reviewing lease agreements to determine whether leased assets should be capitalized
- (d) Inspecting title documents to verify whether any assets are pledged as collateral.

Answer : B

(24) Which of the following statements is correct concerning an auditor's responsibility to report fraud?

- (a) The auditor is required to communicate to the client's audit committee all minor fraudulent acts perpetrated by low-level employees, even if the amounts involved are inconsequential.
- (b) The disclosure of material management fraud to principal stockholders is required when both senior management and the board of directors fail to acknowledge the fraudulent activities.
- (c) Fraudulent activities involving senior management of which the auditor becomes aware should be reported directly to the SEC
- (d) The disclosure of fraudulent activities to parties other than the client's senior management and its audit committee is not ordinarily part of the auditor's responsibility.

Answer : D

(25) _____ is most widely used method of evaluation of internal control.

- (a) narrative record
- (b) checklists
- (c) ICQ
- (d) flow charts

Answer : C

(26) In an environment that is highly automated, an auditor determines that it is not possible to reduce detection risk solely by substantive tests of transactions. Under these circumstances, the auditor most likely would:

- (a) Perform tests of controls to support a lower level of assessed control risk.
- (b) Increase the sample size to reduce sampling risk and detection risk.
- (c) Adjust the materiality level and consider the effect on inherent risk.
- (d) Apply analytical procedures and consider the effect on control risk.

Answer : A

(27) When the customer's cheques are dishonred, what departments should take note of this?

- (a) Cash department and sales department
- (b) Sales department and Production department
- (c) Sales, Finance and Accounts departments
- (d) Accounts department and Marketing department

Answer : C

(28) How important is financial audit to companies?

- (a) To meet the needs of diverse stakeholders

- (b) Goal conflict that may raise due to short term goals
(c) Prevention of fraud & errors
(d) Effective corporate governance

Answer : D

- (29) Reliability means _____,
(a) Relevance, quantum , genuineness
(b) Genuineness , truthfulness , dependability
(c) Genuineness , quantum , relevance
(d) Genuineness , truthfulness , quantum

Answer : B

- (30) ___are ultimately reflected in financial statements like balance sheet.
(a) accounting errors
(b) procedural errors
(c) both a and b
(d) none of the above

Answer : A

- (31) _____ consists of seeking appropriate information from knowledgeable persons inside or outside the entity.
(a) computation
(b) confirmation
(c) inquiry
(d) observation

Answer : C

() SECTION C

- (32) What are the demerits of flow charts?
(a) difficult to understand the procedures in operation for all areas of a business
(b) it does not replace the importance of observation
(c) difficult to frame
(d) preparing is a complex job

Answer : D

- (33) Having one person responsible for the related activities of ordering merchandise, receiving goods, and paying for them
(a) increases the potential for errors and fraud
(b) decreases the potential for errors and fraud
(c) is an example of good internal control.
(d) is a good example of safeguarding the company's assets.

Answer : A

- (34) Fraud may be more difficult for an auditor to discover than errors because:
(a) Fraud requires intent to deceive whereas errors do not
(b) Fraud is usually accompanied by acts designed to conceal the fraud
(c) It is not the auditor's responsibility to detect fraud
(d) Errors are less likely to cause the financial statements to be biased

Answer : B

- (35) These help in top management's control over various activities of a business.
(a) General, basic or management or administrative controls



IDEA INSTITUTE OF MANAGEMENT & TECHNOLOGY

3rd Floor, Kamar Trust Building, Aroma High School, Usmanpura, Ashram Road, Ahmedabad - 380013.

☎ : 2755 2040, 2755 2600, 9727 411 411 • www.ideaindia.org • info@ideaindia.org

- (b) Application or operative or accounting controls
- (c) organization structure
- (d) Management review

Answer : C

(36) Before accepting an audit engagement, a successor auditor should make specific inquiries of the predecessor auditor regarding the predecessor's

- (a) Awareness of the consistency in the application of GAAP between periods.
- (b) Evaluation of all matters of continuing accounting significance.
- (c) Opinion of any subsequent events occurring since the predecessor's audit report was issued.
- (d) Understanding as to the reasons for the change of auditors.

Answer : C

(37) Match the following 1. Director's responsibility(a) 6 months
statement 2. The time limit for holding AGM is(b) 21 days before the data of AGM 3.
Share holders are to be sent a notice at least(c) COSO4. Internal audit framework was
developed by(d) Deals with matter related to answers to question raised by the
auditors e. 9 months

- (a) 1a, 2c, 3e, 4d
- (b) 1d, 2a, 3b, 4c
- (c) 1d, 2a, 3c, 4b

Answer : B

(38) Which of the following factors most likely would lead a CPA to conclude that a potential audit engagement should not be accepted?

- (a) There are significant related party transactions that management claims occurred in the ordinary course of business.
- (b) Internal control activities requiring the segregation of duties are subject to management override.
- (c) Management continues to employ an inefficient system of information technology to record financial transactions.
- (d) It is unlikely that sufficient competent evidence is available to support an opinion on the financial statements.

Answer : D