

# THE SOCIETY OF ACCOUNTING EDUCATION

## CERTIFIED FINANCIAL & MANAGEMENT ACCOUNTANT MEMBERSHIP PROGRAM

**Model Paper for Course: Risk Management and Audit**

**Course Code: SL-04**

**Level: Strategic Level**

1. During audit of the financial statements, the auditors are concerned with the verification and determination of which one of the following items?
  - a) Statements, accuracy, and feasibility
  - b) **Date, accuracy, and reliability**
  - c) Policies, value, and reliability
  - d) Cycle, policies, and reliability
  
2. Which one of the following authorities shall fix the remuneration of the auditors, if auditors are appointed by the SECP? (Companies Ordinance, 1984)?
  - a) **Directors**
  - b) Shareholders
  - c) Company registrar
  - d) SECP
  
3. The phrase (Scope of an Audit) refers to which one of the followings?
  - a) Engagement letters
  - b) **Audit procedures**
  - c) Audit evidence
  - d) Reasonable assurance
  
4. Following statements are true about the legal requirements of books accounts for the companies EXCEPT: (Companies Ordinance, 1984)
  - a) Books of accounts should be preserved for 10 years
  - b) Books of accounts are to be kept at the registered office of the company
  - c) Directors can review the books of account during the business hours
  - d) **If a company fails to maintain books of accounts according, it may leads to demolish the entity**
  
5. The factors that affect reasonable assurance include all of the following EXCEPT:
  - a) Use of testing (Sampling)

- b) Interest limitations of accounting and internal control
  - c) Remuneration of the auditor
  - d) **Persuasive nature of audit evidence**
6. A well designed Internal Control Questionnaire (ICQ) should incorporate the following EXCEPT:
- a) Be a sufficient source of data for the evaluation of internal controls
  - b) Identify the internal control system's strengths and weaknesses
  - c) Be organized by individual functional organizations
  - d) **Should include simple yes or no responses but no narrative responses**
7. Which one of the following is FALSE about Internal Control Evaluation Checklists (ICEC)?
- a) ICEC is developed to overcome the shortcomings of Internal Control Questionnaire
  - b) The rules of constructing ICEC is different than construction of Internal Control Questionnaire
  - c) It is designed to determine, whether desirable internal controls are present
  - d) **It is normally employed where system's information has already been recorded**
8. An auditor's flow chart of an entity's information system is a diagrammatic representation. It depicts what kind of information?
- a) Program for tests of control
  - b) Understanding of the system
  - c) Understanding of the types of irregularity that are probable given by the present system
  - d) **Documentation of the study and evaluation of the system**
9. Which one of the following is NOT a factor included in the control environment of an entity?
- a) Integrity and ethical values
  - b) Risk assessment
  - c) Commitment to competence
  - d) **Organization structure**
10. The audit which is a review of any part of an entity's operating procedures and methods is known as
- a) Financial statement audits
  - b) **Operational audits**
  - c) Technical Audits
  - d) Compliance audits
11. While considering internal control system of an entity, the auditor is basically concerned that the system provides reasonable assurance about which one of the following?

- a) That the management cannot override the system
- b) **Operational efficiency has been achieved according to management plans**
- c) Errors have been prevented or detected
- d) Controls have not been circumvented by collusion

12. Which one of the following is the source document for staff salaries?

- a) **Approved payrolls**
- b) Vouchers
- c) Accounting statements
- d) Cash memos

13. Analytical procedures used in planning an audit should focus on identifying which one of the followings?

- a) Areas that may represent specific risks relevant to the audit
- b) Material weaknesses in the internal control structure
- c) **The predictability of financial data form individual transactions**
- d) The various assertions that are embodied in the financial report

14. Which one of the following meetings is considered as a 'meeting of directors or management'?

- a) General meeting
- b) Extra ordinary general meeting
- c) **Board meeting**
- d) Management meeting

15. For better assessing the audit risk, auditor inquires different groups in the organizations EXCEPT:

- a) Board of governance and top level management
- b) Legal counsel
- c) Middle level management
- d) **Stakeholders**

16. Internal sources of audit evidence for an entity includes the following EXCEPT:

- a) **Associated companies of the entity**
- b) Accounting systems, records and documents
- c) Non-financial data and records
- d) Management representation and discussion

17. Which of the following is the least concern to an auditor regarding the client's internal control system?

- a) **Efficiency and effectiveness of operations**

- b) Controls related to the reliability of financial reporting
- c) Controls over classes of transactions
- d) Auditors are equally concern with each of the given issues

18. During test of control procedure its design can easily tested with the help of:

- a) ICQs and walk through tests
- b) ICQs and judgment sample
- c) ICQs and random sample
- d) ICQS and ICEC**

19. Which of the following is TRUE?

- a) The audit profession is unregulated
- b) The audit profession is regulated by its own professional body**
- c) Outside bodies sometimes become involved in the regulation of audit profession
- d) The audit profession is regulated only by the government

20. The small audit firms provide the following services EXCEPT:

- a) Liquidation and receivership work, fraud auditing
- b) Financial management and system consultancy
- c) Financial system planning and preparation**
- d) Tax management and statutory form filling

21. Which of the following is not included in the category of cash?

- a) Deposit with banks
- b) Checks
- c) Postdated checks**
- d) Money orders

22. For measuring the quality of audit evidence auditors used the tool of appropriateness; in case if auditor wants to measure quantity of audit evidence which tools from the following should be adopted?

- a) Relevance
- b) Reliability
- c) Sufficiency**
- d) Effectiveness

23. When the cash sales should be recorded by the companies in order to achieve control objectives?

- a) Record the cash sales when purchase order is received from the customer
- b) Record the cash sales at the point they are made**

- c) Record the cash sales after some period
- d) Record the cash sales weekly

24. Auditors conduct auditing in accordance with :

- a) International Financial Reporting Standards
- b) Local pronouncements/Legislations
- c) Financial Accounting Standards Board
- d) **All of the given option**

25. Which of the following primary assertions is satisfied when an auditor ensures that there are no unrecorded assets, liabilities, transactions or events or undisclosed items in the client's financial records?

- a) Valuation
- b) **Completeness**
- c) Existence
- d) Rights and obligation

26. Standard format of Auditor's Report as per the Companies Ordinance 1984 is described in which one of the following Legal Forms?

- a) Form31A
- b) Form32A
- c) Form30A
- d) **Form35A**

27. IFRS stands for which one of the following?

- a) **International Financial Reporting Standards**
- b) International Financial Recording Systems
- c) International Financial Recording Statements
- d) International Financial Reporting Systems

28. Which of the following is NOT one of the five major components of internal control?

- a) Risk assessment
- b) Control activities
- c) Information and communication system
- d) **Human resource background checks**

29. All of the following should be observed and inspected by the auditors during the risk assessment process of an entity EXCEPT:

- a) Observations of Activities and operations
- b) Inspection of Documents and records
- c) Reading Management reports

d) **Visit to other companies in the industry**

30. Which one of the following audit techniques ordinarily provides an auditor with the least assurance about the operating effectiveness of an internal control activity?

- a) Inquiry of client personnel
- b) Inspection of documents and reports**
- c) Observation of client personnel
- d) Preparation of system flowcharts

31. Which one of the following opinions advocates that the auditor should form an opinion only after obtaining sufficient audit evidence instead of blindly accepting any information given by the management?

- a) Auditor's liability
- b) Professional ethics**
- c) Professional Skepticism
- d) Auditor's opinion

32. Which one of the following is NOT required as part of the audit process?

- a) Substantive procedures
- b) Tests of control
- c) Assessment of materiality
- d) Procedures to obtain an understanding of the internal control structure**

33. SECP stands for which one of the following?

- a) Securities and Exchange Collaboration of Pakistan
- b) Securities and Exchange Consortium of Pakistan
- c) Securities and Exchange Commission of Pakistan**
- d) Securities and Exchange Constitution of Pakistan

34. One type of analytical procedure is the 'Trend Analysis'. Which one of the following is the best example of trend analysis?

- a) Comparison of company financial ratios to that of its competitors
- b) Comparison of accounting records to budgeted amounts
- c) Comparison of inventory levels over the past 3 years**
- d) Comparison of interest expenses to outstanding loan balances

35. While conducting operational audit, which one of the following auditing procedures does the auditor primarily rely upon?

- a) Inquiry and observation
- b) Analytical procedures**

- c) Physical inspection
  - d) Tracing and vouching
36. Which one of the following helps to achieve reasonable assurance about the fairness of financial statements during an audit process?
- a) **Audit report**
  - b) Audit evidence
  - c) Audit engagement
  - d) Audit program
37. Which one of the following is an objective of the internal audit?
- a) To report on financial statements
  - b) To check accounting system and internal control are operating efficiently
  - c) **To determine the accuracy of financial statement values and disclosures**
  - d) To establish a control system in the company
38. Which one of the following statements is NOT correct in respect of the internal auditor?
- a) The scope of audit performed by internal auditors is primarily in respect of financial report audits
  - b) An internal auditor does not require a license to practice
  - c) **Internal auditors are usually employed by companies and government units**
  - d) Primary responsibility of the internal auditor is to the board of directors
39. After how many days the Securities and Exchange Commission may appoint the auditors, if the Directors of a company could not appoint the auditors to fill casual vacancy? (Companies Ordinance, 1984)
- a) **30 days**
  - b) 60 days
  - c) 80 days
  - d) 120 days
40. Suppose that during audit of a company, an auditor accepted the schedule of bad debts furnished by the client, though it was apparent that debts were not recoverable. The auditor shall be held liable for which one of the following liabilities?
- a) **Liability for negligence**
  - b) Liability for misfeasance
  - c) Criminal liability
  - d) Personal liability
41. The books of accounts of a company should be kept at which one of the following offices?(Companies Ordinance, 1984)

- a) Registered office of the company
  - b) Accounts office of the company
  - c) **Record office of the company**
  - d) Registrar office
42. Which of the following is one of the most fundamental and effective internal controls?
- a) Increased use of computers for recording accounting transactions
  - b) Increased reliance on internal auditors to monitor accounting systems
  - c) **Segregation of incompatible duties across several people**
  - d) Having internal auditors report only to the Board of Directors
43. Which of the following is NOT a major component of an internal control system?
- a) Risk assessment Staffing
  - b) Control procedures/activities
  - c) **Information and communication system**
44. An audit firm audited a Leather Manufacturing company and presented its report addressed to the management. They found significant material misstatements in the company's internal controls system. They strongly recommended that there should be sufficient controls in existence to ensure management can effectively control the business operations. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?
- a) Authorization
  - b) Management and Monitoring
  - c) **Arithmetic and Accounting**
  - d) Segregation of duties
45. Which one of the following may NOT be a type of control of the purchase cycle of an entity?
- a) Receipt of goods
  - b) Invoicing and returns
  - c) **Invoicing and credit notes**
  - d) Purchase ledger and suppliers
46. While testing the purchase system of an entity, which one of the following control tests may be applied to the Credit Notes by the auditors?
- a) Evidence of matching credit notes to goods returned notes
  - b) Evidence of approval of credit notes
  - c) **Evidence of a sequence check**
  - d) Proof of issuance date



47. During the audit work of testing the purchase system of an entity, which one of the following control tests may be applied to the Payables Ledger by the auditors?
- a) Evidence of authorization of adjustments to payables ledger
  - b) **Evidence of review of reconciliation of purchase ledger listing**
  - c) Evidence of authorization of adjustments to payable ledger control account
  - d) Evidence of authorization of adjustments to purchase ledger
48. Which one of the following possible misstatements related to payroll does not involve the audit objective of Validity?
- a) Payments to fictitious employees
  - b) Payments to terminated employees
  - c) Payments to valid employees who have not worked
  - d) **Payments to valid employees at a rate in excess of the authorized amount**
49. In order to ensure effective control, how often a full inventory count should be held when perpetual inventory records are not kept adequately?
- a) On a daily basis
  - b) **At least once a year**
  - c) At least monthly
  - d) At least weekly
50. An oil exploring company employs 1500 personal in its international market. All of its personnel are paid on monthly basis. The company should compensate them in which form of payment?
- a) Salary
  - b) **Cheque**
  - c) Wages
  - d) None of the given option
51. For the purpose of keeping effective control in the cash system, who should have no access to the cash or the preparation of the paying-in slip?
- a) **Sales ledger personnel**
  - b) Teller/cashier
  - c) Cash officers
  - d) Operations manager
52. When should the petty cash book entries be made?
- a) At the day end
  - b) Next day
  - c) Promptly

**d) Monthly**

**53.** How often the physical inspection of non current assets should be carried out?

- a) Rarely
- b) Periodically
- c) **Never**
- d) Daily

**54.** In which one of the following ways auditors can choice the verification techniques in a given set of circumstances?

- a) It depends upon the available audit evidence to the auditor
- b) It depends upon the nature of business operations of the entity
- c) **It depends upon the audit procedures planned by the auditor**
- d) It depends upon the judgmental skills of the auditor

**55.** Which one of the following may NOT ensure that the movement in share capital of a company is properly authorized and correctly shown and described in accordance with the Companies Ordinance, 1984?

- a) Check that directors were authorized to allot shares
- b) **Agree authorized capital with memorandum of association**
- c) Consider special rules for allotments of public company shares
- d) Test payments with supporting evidence and trace entries in register

**56.** Which one of the following testing objectives refers to the management assertion Occurrence in obtaining audit evidence?

- a) Assets shown include all rights under the control of the enterprise
- b) **Transactions and events that have been recorded have occurred and pertain to the entity**
- c) The amounts at which assets and liabilities are stated is correct
- d) Assets and liabilities included on the balance sheet actually exist

**57.** Which one of the following certain expense items may be verified in order to keep control of stock-in-trade and stores & spares?

- a) Interest on short term loan
- b) Accumulated depreciation on assets
- c) Director s fees
- d) **Wages and salaries**

**58.** Which one of the following is NOT an advantage of using statistical sampling?

- a) It aids in the design of an efficient sample

- b) It allows the auditor to measure the sufficiency of the evidential matter obtained
- c) It allows the auditor to greatly reduce substantive testing
- d) It provides means for mathematically measuring the degree of sampling risk**

**59.** Which one of the following is an underlying feature of random-based selection of items?

- a) Each stratum of the accounting population be given equal representation in the sample
- b) All items in the accounting population be randomly ordered.
- c) Every item in the population should have an opportunity to be selected
- d) Every item must be systematically selected using replacement**

**60.** Which one of the following matters is generally included in an auditor's engagement letter?

- a) Management's responsibility for the entity's compliance with laws and regulations**
- b) The factors to be considered in setting preliminary judgments about materiality
- c) Management's vicarious liability for illegal acts committed by its employees
- d) The auditor's responsibility to search for significant internal control deficiencies

**61.** What should be the next step of an auditor after establishing the overall audit strategy of an entity?

- a) To develop an audit plan**
- b) To define the scope of audit
- c) To determine the focus of engagement team efforts
- d) To determine the objectives of audit

**62.** The establishment of the overall audit strategy involves the following EXCEPT:

- a) To determine the characteristics of the engagement
- b) To ascertain the reporting objectives of the engagement
- c) To consider the important factors i.e. materiality levels, higher risks of material misstatement etc.
- d) To guide the development of detailed business activities to occur in future**

**63.** Which one of the following mainly affects the auditors opinion?

- a) Agreement on accounting policies
- b) Limitation on the scope of the auditors work
- c) Dispute among the members of the company
- d) Future prospects of the company s growth**

**64.** Which one of the following matters does NOT affect Auditor s Opinion?

- a) When there is a limitation on the scope of the auditor s work

- b) When there is a disagreement with management regarding the accounting policies selected
  - c) **When there is a disagreement with management regarding the method of applying accounting policies**
  - d) When an auditor modify the auditor s report by adding a paragraph to highlight a material matter
65. Tracing selected shipments to the sales journal to be sure that each one is included is a test of which of the following?
- a) **Accuracy**
  - b) Classification
  - c) Completeness
  - d) Existence
66. Which one of the following best describes the term Input VAT?
- a) Input VAT is charged on a firm when it makes its purchases
  - b) **Input VAT is charged on a firm when it makes its investments**
  - c) Input VAT is charged on a firm when it produces highly quality products
  - d) Input VAT is charged on a firm when it exports the products
67. The duties of the wages staff should preferably be rotated during the year when the salary payment is made by which of the following systems?
- a) By cheque
  - b) In cash
  - c) By demand draft
  - d) **Direct transfer to employees bank account**
68. Which of the following are the three audit objectives that are most important for cash, and that receive the greatest attention during the audit?
- a) **Existence, accuracy, and completeness**
  - b) Existence, cutoff, and presentation
  - c) Accuracy, cutoff, and presentation & disclosure
  - d) Completeness, realizable value, and cutoff
69. Which one of the following is most likely to indicate fraud?
- a) Several overpayments are made for goods received from a supplier
  - b) The year end cash balance does not include cash in transit to the company at year-end
  - c) **A check received after year end was inadvertently recorded as if received before year-end**

- d) A documented loan is sanctioned to an officer of the company
70. When an auditor increases the assessed level of control risk because certain control activities were determined to be ineffective, which of the following would most likely be increased by the auditor?
- a) Extent of tests of controls
  - b) **Level of detection risk**
  - c) Extent of tests of details
  - d) Level of inherent risk
71. An engagement letter is written by:
- a) **The Auditor**
  - b) The management; or
  - c) Management Consultant
72. To verify the existence of trade debts, and auditor may be able to obtain sufficient appropriate audit evidence if:
- a) **He sends positive confirmation letters to debtors**
  - b) He sends negative confirmation letters to debtors
  - c) He circularize confirmation letters to fifty percent of the debtors
  - d) He performs procedure listed (a) to (b).
73. Auditing relates:
- a) Critical review of the accuracy of the financial statements; or
  - b) Detailed verification of assets and Liabilities; or
  - c) **Expression of opinion on the financial statements**
74. A management representation letter indicates:
- a) Details of assets and Liabilities
  - b) Assurance on soundness of the entity
  - c) **Accuracy and completeness of the Financial statements**
75. Test of controls/compliance procedures include:
- a) **Review of monthly bank reconciliation statement; or**
  - b) Obtaining confirmation from debtors
  - c) Comparison of financial statements
  - d) No opinion but instead withdraw from the engagement
76. In verifying contingent liabilities which one of the following is least relevant:

- a) Letter from lawyer
- b) Comparison with last year**
- c) Inquiry of management
- d) Bank confirmation

77. How is total audit risk measured

- a) I.R+D.R+C.R**
- b) (I.R)(D.R)(C.R)
- c) {(I.R)(D.R)}+C.R
- d) (I.R)<sup>2</sup>{(C.R)(D.R)}

78. The auditor generally expresses his opinion in terms of

- a) Present fairly
- b) True and fair**
- c) True and correct
- d) Present correctly

79. When a paragraph emphasizing uncertainty or going concern problem is added in the auditor's report that means that the auditor's opinion is:

- a) Qualified
- b) Unqualified
- c) Adverse
- d) None of the above**

80. Principles of integrity, objectivity, independence and confidentiality are infringed if:

- a) The personal lack independence of mental attitude
- b) The personal make prohibited investments
- c) The prohibited transactions occur or prohibited relationship exist
- d) Matters stated at (b) and (c) above are present
- e) Matters stated at (a) and (c) above are present**

81. Cut-off procedure represents

- a) Cancellation of source documents
- b) Noting of last document number**
- c) Reference to closure of books of accounts

82. The auditor's report which is presented in the AGM of a company is addressed to

- a) Members**
- b) Directors
- c) Both a and b

d) All of the above

**83.** Which of the following is not an example of control environment

- a) Segregation of duties
- b) Budgetary controls
- c) Internal auditing
- d) **Reconciling Bank accounts**

**84.** Non-adjusting events include all of the following except:

- a) Mergers and acquisition
- b) Issue of shares
- c) Strikes and labor disputes
- d) **Insolvency of customers**

**85.** When an external auditor decides to use the work of internal auditing, he should;

- a) See that internal auditing is organizationally independent
- b) Ensure that internal auditing work is relevant to the external auditor's scope of work
- c) See whether the work was properly planned
- d) **Evaluate and test its work**

**86.** Analytical procedures are applied to identify;

- a) Unusual fluctuations
- b) Area giving rise to control risk
- c) Areas where internal control require strengthening
- d) **Various sources of audit evidence**

**87.** An increase in gross profit rate may mean:

- a) **Over recording of sales**
- b) Over recording of purchases
- c) Under valuation of ending inventory
- d) Over valuation of opening inventory

**88.** An internal auditor is consider independent if he is:

- a) A chartered accountant
- b) A chartered accountant in practice
- c) **Reporting directly to the committee of the board of directors**
- d) A member of institute of Internal auditors USA

**89.** To minimize the opportunity of fraud, unclaimed salary cheque should be;

- a) **Deposited in a special bank account**
- b) Kept in a payroll department
- c) Left with the employee supervisor
- d) Held for the employee in the personnel department

90. Which is the most reliable source of audit evidence

- a) **Visual**
- b) Documentary
- c) Oral

91. Statutory financial auditor is appointed by

- a) **Shareholders**
- b) Directors
- c) SECP
- d) A, b and C
- e) B and c

92. The term testing implies

- a) A guarantee
- b) A certificate
- c) Accuracy
- d) **Sampling**

93. In verifying contingent liabilities which one of the following is least relevant;

- a) Letter from lawyer
- b) **Comparison with last year**
- c) Inquiry of management
- d) Bank confirmation

94. Advantage of using statistical audit sampling technique is that such techniques;

- a) Measure audit risk mathematically
- b) **Eliminate the need for judgment decisions**
- c) Have been established in court cases to be superior to judgmental sampling
- d) All of the above

95. Internal auditor should be

- a) Flexible and rigid both
- b) Biased or not necessarily objective
- c) **Helpful, constructive and willing to solve problems of the departments rather than always keen to pinpoint weakness**



- d) At times friendly and pleasant in approach
96. The auditor's use analytical procedure at the planning stage of audit to;
- a) Obtain understanding of client's business
  - b) Identify areas of potential risk
  - c) Determine the nature timing and extent of audit procedure
  - d) **All of the above**
97. A primary purpose of audit working paper is not to
- a) **Coordinate the examination**
  - b) Assist in preparation of audit report
  - c) Support the financial statements
  - d) Provide evidence of audit work performed
98. Auditor's selection of payment vouchers Nos. 1000 to 1020, 1450 to 1470, 1530 to 1550 etc, for carrying of audit tests as per audit program is called
- a) Internal Sampling
  - b) Stratified sampling
  - c) **Cluster sampling**
  - d) Random sampling
99. The scope of audit work between client and auditor is contained in;
- a) Representation letter
  - b) **Engagement letter**
  - c) Management letter
  - d) None of these
100. Which of the following persons are not eligible for appointment as auditors of a limited company.
- a) Body corporate
  - b) A person who is not indebted to the company
  - c) A director or officer of company and a partner of such director or officer of the company
  - d) **A and c both**
101. When client impose restrictions which significantly limit the scope of audit, the auditor generally issues:
- a) Qualified or adverse opinion
  - b) Unqualified or adverse opinion
  - c) **Qualified r disclaimer of opinion**

- d) Unqualified or no opinion at all
102. If there are significant uncertainties affecting the financial statements which are capable of reasonable estimation have not been resolved till the date of the auditor's report, the auditor should;
- a) **Use emphasis of matter paragraph opinion**
  - b) Use except for opinion
  - c) Disclaim the opinion
  - d) Give adverse opinion
103. Decline in the market value of investments between the balance sheet date and the date on which the financial statements are authorized for issue should be:
- a) **Adjusted in the financial statements**
  - b) Disclosed in the financial statements
  - c) Shown as a contingency and commitment
  - d) None of these
104. A deterioration in operating results and financial position after the balance sheet date may indicate that;
- a) **Business has ceased to be a going concern**
  - b) Business is going through downsizing and liquidity problem
  - c) Business has not correctly valued its assets and liabilities
  - d) None of these
105. Internal control system is introduced to achieve among other things;
- a) Segregation of duties
  - b) Proper conduct of business by complying to management policies
  - c) **Both (a) and (b)**
  - d) None of these
106. An inventory turnover analysis is useful tool to the auditor because it may direct
- a) Inadequacies in inventory pricing
  - b) **Existence of obsolete inventory**
  - c) Methods of avoiding inventory holding cost
  - d) Inventory reorder point
107. Which of the following factors does an auditor generally need to consider in planning a particular audit sample for tests of controls.
- a) Tolerable error
  - b) **Number of items in population**

- c) Total rupee amount of the items to be sampled
  - d) Acceptable level of risk of over reliance
- 108.** During preliminary planning stage of an audit engagement for a new client and of an unfamiliar business the most useful source of information for obtaining a general understanding would be;
- a) IAS's
  - b) Client accounting manual and chart of the client
  - c) Latest annual and half yearly accounts of the client
  - d) Previous auditor's working papers**
- 109.** Final analytical review is performed during
- a) Interim audit
  - b) Final audit**
  - c) Carrying out background research
  - d) None of these
- 110.** Independent auditing can be best described as:
- a) A branch of accounting
  - b) A discipline that attests to the result of accounting**
  - c) A professional activity that measures and communicates financial and business data
  - d) A regulatory function that prevents the issuance of improper financial information
- 111.** All members of the audit staff submit weekly time report to manager. This procedure shows professional concern regarding;
- a) Quality control of audit work
  - b) Due professional cares
  - c) Adequate reviews**
  - d) Adequate planning & supervision
- 112.** In comparison to the external auditor, an internal auditor is more likely to be concerned with;
- a) Internal administration control
  - b) Cost accounting procedure
  - c) Operation auditing**
  - d) Internal control structure
- 113.** The date of the external auditor's opinion on financial statements of his client should be date of the;
- a) Submission of the report to the client**

- b) Closing of the clients book
  - c) Acceptance of the client's letter of appointment
  - d) Completion of all important audit procedures
114. The independent audit is important to readers of financial statement because it:
- a) Determines the management's performance in future
  - b) Measures financial data included in statements
  - c) **Involves the objective examination and reporting on management prepared statements**
  - d) Report on the accuracy of all information in the financial statements
115. Which of the following statement is correct with respect to the auditor's liability for negligence?
- a) The auditor will be liable for any fraudulent scheme which cannot be detected
  - b) Such liability cannot be verified by agreement of parties.
  - c) **The auditor will not be liable if he can show that he exercised the ordinary care and skill of a reasonable man in the conduct of his own affairs.**
116. An independent audit aids in the communication of economic data because the audit;
- a) Confirms the accuracy of financial statements
  - b) **Lends credibility to financial statements**
  - c) Confirms that financial data are fairly stated
  - d) Assures that any fraudulent activity has been corrected
117. Which of the documentary evidence should the auditor consider to be the most reliable?
- a) A sale invoice issued by the client supported by a delivery receipt from an outside transporter
  - b) **Confirmation of an account payable balance mailed by and returned directly to the auditor**
  - c) A working paper prepared by a client manager and reviewed by client's officer
  - d) A cheque bearing payee's endorsement mailed directly to the auditor with the bank statement
118. The working paper of an audit generally would include
- a) Copies of all those client record examined by the auditor during the course of engagement
  - b) Evaluation of the efficiency and competence of the audit staff assistants responsible for the audit
  - c) Auditor's comments concerning efficiency and competence of client management personnel

**d) Auditing procedures followed and the testing performed in obtaining evidential matter**

- 119.** The risk that material errors may occur in preparation of financial statements is known as
- a) **Audit risk**
  - b) Control risk
  - c) Inherent risk
  - d) Detection risk
- 120.** The auditor's main objective in making a preliminary evaluation of internal control is to;
- a) Assess whether management has met its responsibility to establish as effective system
  - b) Determine the degree of reliance which may be placed on internal control**
  - c) Identify those internal controls on which auditor may place reliance
  - d) Identify any weakness in the system of internal control
- 121.** The first auditor of the company shall be appointed:
- a) Within 60 days of the date of incorporation**
  - b) Within 60 days of the date of commencement of business
  - c) During the first AGM
  - d) None of the above
- 122.** The date of the auditor's report should be;
- a) The date immediately after completion of examination
  - b) After approval of the financial statements by the Board of Directors**
  - c) After approval of accounts by shareholders.
  - d) None of the above
- 123.** The nature, timing and extent of substantive procedures are influenced by the level of;
- a) Inherent risk
  - b) Control risk
  - c) Both (a) & (b)**
  - d) None of the above
- 124.** An auditor ordinarily examines invoices from lawyers primarily in order to;
- a) Substantiate accruals
  - b) Access the legal verification of litigation in process.
  - c) Estimate the amount of contingent liabilities
  - d) Identify possible unasserted litigation, claims and assessments**
- 125.** An auditor's report is addressed to;

- a) Chairman of the board of directors
  - b) Chief executive of the company
  - c) Board of directors of the company
  - d) **Members**
126. The date of the representation letter is normally the date on which;
- a) Audit is started
  - b) **Accounts are approved by the board of Directors.**
  - c) Audit report is signed by the auditors
  - d) Audit field work is completed
127. Report of cost auditor appointed u/s 258 of Companies ordinance 1984 is submitted to the;
- a) Shareholders of the company
  - b) Directors of the company
  - c) SECP
  - d) **Directors of Company & SECP**
128. Main objective of audit is
- a) Detection of errors
  - b) Detection of frauds
  - c) Detection and prevention of frauds and errors
  - d) **To ascertain whether Profit and loss & balance sheet show true and fair view of state of affairs**
129. Effective internal check system reduces
- a) The liability of auditor
  - b) **Work of the auditor**
  - c) Both work as well as the liability of the auditor
  - d) Responsibilities of the auditor
130. Dividend given should be verified with the help of
- a) General Ledger
  - b) Cash payments
  - c) **Investment ledger and dividend counter foils**
  - d) Debtors statements
131. Loans given should be verified with the help of
- a) Schedule of book debts
  - b) **Inspection of agreements**

- c) Statements of loans
  - d) Certificate from bank
132. An auditor should be dutiful like;
- a) An insurer
  - b) A detective
  - c) **A watchdog**
  - d) A bloodhound
133. Following cannot be appointed as auditor of a company
- a) A chartered accountant
  - b) A firm of chartered accountants
  - c) **A director of the company**
  - d) A retiring auditor
134. A representation letter is written by;
- a) **Management of the company**
  - b) Auditor of the company
  - c) Legal advisor of the company
  - d) None of the above
135. The essence of auditor's independence is
- a) Avoiding significant interest in the client
  - b) **Maintaining a mental attitude of impartiality**
  - c) Performing the examination from the view point of the shareholders
  - d) Being sure no relatives or personal friends are employed by the clients
136. Normally the auditor does not rely upon his study and evaluation of the client's system of internal control to;
- a) Evaluate the reliability of the system
  - b) **Uncover embezzlement of the client's assets**
  - c) Help determine the scope of other auditing procedures to be followed
  - d) Gain support for his opinion as the accuracy and fairness of the financial statements
137. Audit working papers should not.
- a) Include any client prepared papers or documents other than those prepared by the auditor or his assistant
  - b) Be kept by the auditor after review and completion of the audit except for items required for the income tax returns on the permanent file

- c) **Be submitted to the client to support the financial statements and to provide evidence of audit work performed**
  - d) By themselves be expected to provide sufficient support for the auditor's opinion
138. Auditor should reject a management advisory assignment if;
- a) **It would require him to make management decisions for an audit client**
  - b) His recommendations are subject to review by the client.
  - c) He audits the financial statements of a subsidiary of prospective client
  - d) The proposed assignment is not accounting related
139. Principal purpose of a letter of representation from management is to:
- a) Serve as introduction to company personnel and an authorization to examine the records.
  - b) Discharge the auditor from legal liability from his examination
  - c) Affirm in writing managements approval of limitations on the scope of the audit
  - d) **Remind management of its primary responsibility for financial statements**
140. With respect to proceedings of the meetings of the board of directors of a client the normal auditing procedures is to
- a) Obtain from the company secretary minutes and representation letter, which summarizes actions pertinent to the financial statements
  - b) Discuss proceedings of the board with its chairman or his designated representative
  - c) **Review the minutes of all meetings**
  - d) Obtain transcripts of all meetings or attend all meetings
141. Application controls in information technology are
- a) Manual procedures designed to ensure integrity of accounting records
  - b) Automated procedures designed to ensure integrity of accounting records
  - c) **Manual or automated procedures designed to ensure integrity of accounting records**
  - d) None of the above
142. Audit plans refers to;
- a) Audit approach
  - b) Audit strategy
  - c) **Conversion of audit strategy into a more detailed programme**
  - d) None of the above
143. Tolerable error
- a) Minimum error that an auditor is prepared to accept in a population



- b) **Maximum error that an auditor is prepared to accept in a population**
  - c) Overall materiality level
  - d) Expected error
144. General IT controls include all of the following, except
- a) Control over data centre and network operations
  - b) System software acquisition
  - c) **Input controls**
  - d) Access security
145. Tests of controls include all of the following except
- a) Obtaining evidence for approval of document
  - b) Obtaining evidence for sequence check
  - c) Obtaining evidence for arithmetical accuracy of records
  - d) **Obtaining evidence for ownership of assets**
146. Inherent limitations of internal control include all, except
- a) **Use of testing**
  - b) Human error
  - c) Override of controls by management
  - d) Collusion
147. The business risk approach to an audit enables the auditor to
- a) Provide advisory services to management regarding risk
  - b) Timely complete the audit
  - c) **Effectively assess and manage the audit risk**
  - d) Reduce the extent of substantive testing
148. An emphasis of matter paragraph is recommended to be included in an audit report by the auditor, when;
- a) The client is unable to provide sufficient explanations and information for audit
  - b) The auditor and the client are not clear about the treatment of a particular event or transaction
  - c) **There exists a significant uncertainty**
  - d) Management disagrees with the auditor on treatment of a particular transaction or account balance
149. The letter of representation should be dated as;
- a) **The date of directors approval of accounts**
  - b) Auditor's report

- c) The date of financial statements
  - d) Management letter
- 150.** The audit strategy
- a) Guides the auditor to develop a more detailed audit plan**
  - b) Documents the risk assessment procedure planned by the auditor
  - c) Identifies the other procedures to be carried out for the purposes of audit
  - d) The locations to be visited for audit purpose
- 151.** The risk that auditor gives an inappropriate audit opinion when the financial statements are materially misstated is called
- a) Control risk
  - b) Detection risk
  - c) Audit risk**
  - d) Inherent risk
- 152.** The risk that arises from factors that cause the auditor to reach an arroneous conclusion for any reason not related to the size of sample is called
- a) Sampling risk
  - b) Non sampling risk**
  - c) Detection risk
  - d) Audit risk
- 153.** Information obtained by the auditor for arriving at the conclusion on which the ausit opinion is based is called
- a) Audit evidence**
  - b) Audit finding
  - c) Significant information
  - d) Audit confirmation
- 154.** An intentional act by one or more individuals among management, employees or third parties which results in a misrepresentation of statement is called
- a) Error
  - b) Misstatement
  - c) Fraud**
  - d) Mistake
- 155.** Compliance test are designed by the auditor to
- a) Test the effective implementation of controls**
  - b) Test the transactions and balances

- c) Test the possibility of errors existing in the system
  - d) Test the entity's budget with the actual
- 156.** Application controls to computerized environment include
- a) **Input and output controls**
  - b) Organizational controls
  - c) Software controls
  - d) Internal controls
- 157.** The prime responsibility for the prevention of frauds and irregularities rests with
- a) External auditor
  - b) Audit committee
  - c) **Management**
  - d) Regulators
- 158.** Procedures designed to prevent or detect improper changes to computer programmes that are accessed through online terminal devices are called
- a) Programming controls
  - b) **Preventive controls**
  - c) System controls
  - d) General controls
- 159.** Reports that are designed to create an audit trail for each on line transaction are called
- a) Transaction logs
  - b) **On line reports**
  - c) Audit trail reports
  - d) Internal reports
- 160.** The risk relating to the susceptibility of an account balance or class of transactions to misstatement that could be material individually or when aggregated with misstatements in other balances or classes assuming that there were no related internal control is called
- a) Control risk
  - b) **Inherent risk**
  - c) Audit risk
  - d) Detection risk
- 161.** A matter which is not certain and whose outcome may affect the financial statements is termed as;
- a) Significant matter
  - b) **Uncertainty**

- c) Critical matter
  - d) Future event
- 162.** Letter of representation is required to provide evidence of
- a) Missing invoices for verification of fixed assets
  - b) Completeness of related party transactions**
  - c) Incomplete related party transactions
  - d) Existence of inventories
- 163.** The risk that the auditor will conclude based on audit tests, that a material misstatement does not exist in an account balance whereas in fact such a misstatement exists is referred to as
- a) Sampling risk
  - b) Detection risk**
  - c) Non sampling risk
  - d) Inherent risk
- 164.** Which one of the following is ordinarily included in the letter of representation
- a) Terms of engagement
  - b) Weakness of internal control
  - c) Introduction of audit staff
  - d) Transaction with related parties**
- 165.** The primary objective of analytical procedures at the final review stage is to;
- a) Obtain evidence of details tested to corroborate particular assertions
  - b) Assist in assessing the validity of the conclusions reached**
  - c) Identify areas that represent specific risks relating to audit
  - d) Satisfy doubts when questions arise about client's ability to continue in existence
- 166.** Which one of the following subsequent events would require adjustment to financial statements
- a) Issues of shares and debentures
  - b) Loss of inventories as a result of fire
  - c) Receipt of evidence that previous estimate of profit on long term contract was inaccurate**
  - d) Government action such as nationalization
- 167.** Limitation of an audit is
- a) That it does not reveal complete picture
  - b) That it does not guarantee accuracy of accounts

- c) The auditor may be biased
  - d) **All of the above**
168. Interim Audit refers to
- a) Examination of accounts continuously
  - b) **Examination of accounts in stages**
  - c) Audit work to find out and check interim profits of a company
  - d) Carrying on audit for bonus purposes at the end of year
169. Final Audit implies
- a) **Audit of accounts at the end of the year**
  - b) Finally checking of accounts to reveal frauds
  - c) Audit for submitting report immediately at the end of the year
  - d) Audit of banking companies
170. A continuous audit is specially needed for
- a) Any trading concern
  - b) Smaller concerns
  - c) **Banking companies**
  - d) Any manufacturing
171. Joint audit implies
- a) Audit of two concerns
  - b) Audit of joint stock companies
  - c) Audit of joint sector companies
  - d) **Audit of two firms of C.As**
172. System audit implies
- a) Systematic examination of accounts
  - b) Audit undertaken to improve auditing systems
  - c) **Enquiring accounting and control systems**
  - d) Checking the performance of management
173. Internal audit means
- a) Audit undertaken to ascertain truth and fairness of state of affairs
  - b) Audit undertaken internally to evaluate management functions
  - c) **Audit undertaken by employees of the organization to check financial irregularities**
  - d) Audit by independent auditor to improve internal affairs

174. Internal audit lies between
- a) **Final audit & continuous audit**
  - b) Between statutory audit & continuous audit
  - c) Both a and b
  - d) None of the above
175. The object of internal audit is
- a) To prevent errors and fraud
  - b) To detect errors and frauds
  - c) To improve financial control
  - d) **All of the above**
176. Internal check is carried on by
- a) Staff specially appointed for the purpose
  - b) Internal auditor
  - c) **The members of staff among themselves**
  - d) Supervisor of the staff
177. The auditor's main objective in making a preliminary evaluation of internal control is to
- a) Assess whether the management has met its responsibility to establish an effective system
  - b) **Determine the degree of reliance which will be placed on the internal controls**
  - c) Identify those internal controls on which to place reliance
  - d) Identify any weakness in the system which should be reported to the management
178. The nature timing and extent of substantive procedures are influenced by the level of
- a) Inherent risk
  - b) Control risk
  - c) **Both (a) & (b)**
  - d) None of the above
179. Internal control system includes
- a) Financial controls
  - b) Administrative controls
  - c) **Both**
  - d) None of the above
180. Vouching implies
- a) Inspection of receipts

- b) **Examination of vouchers to check authenticity of records**
  - c) Surprise checking of accounting records
  - d) Examining the various assets
181. Which of the following statements is correct
- a) **Valuation is a part of verification**
  - b) Verification is a part of valuation
  - c) Valuation has nothing to do with verification
  - d) Auditor is valuer
182. Goods on consignment should be valued at
- a) Cost
  - b) Market price
  - c) Cost or market price whichever is low
  - d) **Original cost plus maintenance cost**
183. Goods sold on the basis of sales or return should
- a) Be included in the stock
  - b) Not be included in the stock
  - c) **Not be checked by auditor**
  - d) None of the above
184. First auditor is appointed by
- a) Chief executive of the company
  - b) Finance manager of the company
  - c) Shareholders of the company
  - d) **None of the above**
185. The date of the auditor's report should be
- a) The date immediately after completion of examination
  - b) **After approvals of financial statements by BOD**
  - c) After approval of accounts by the shareholders
  - d) None of the above
186. If detection risk cannot be reduced to an acceptance level auditor should
- a) **Qualify or disclaim his opinion**
  - b) Withdraw from the engagement
  - c) Do either (a) or (b)
  - d) None of the above

- 187.** The auditor of XYZ limited forwarded the draft audited financial statements to the directors for the year ended 30 September 2008 on 1 February 2009. The directors approved the financial statements on 7 February 2009 and the audit report was date the same day. Which of the following is most preferable date for the directors to sign the letter of representation requested by the auditor
- a) 11 February 2009
  - b) 6 February 2009
  - c) **7 February 2009**
  - d) 8 February 2009
- 188.** During a company audit the management argues with the auditor that machinery has been very well maintained and is as good as new. Hence there is no need charging depreciation on it. Whether the auditor should
- a) Accept it
  - b) Ignore it
  - c) **Reject it**
  - d) None of the above
- 189.** If profits are overstated due to revenue expenses being charged to capital it will amount to payment of dividend?
- a) **Out of capital**
  - b) Out of capital profits
  - c) Out of revenue profits
  - d) None of the above
- 190.** In the general meeting of the company shareholders want dividend @ 10% whereas directors recommended @ 7.5% As an auditor would you
- a) Allow 10%
  - b) Not allow 10%
  - c) **Allow only 7.5%**
  - d) None of the above
- 191.** In the AGM of a company the auditor is questioned as why he has signed the balance sheet when assets would not realize the value shown in it. Which of the following given by the auditor is correct?
- a) Market value of assets has nothing to do with assets
  - b) Market value of assets cannot be ascertained
  - c) **Assets are shown treating it as a going concern**
  - d) None of the above



- 192.** If an auditor allows publication of annual reports knowing them to be materially false to deceive the shareholders, he incurs
- a) Contractual liability
  - b) Civil liability
  - c) **Criminal liability**
  - d) None of the above
- 193.** The International standards on auditing Planning, observes that adequate audit planning helps to ensure that attention is directed to critical aspects of the audit. What audit working paper will normally provide satisfactory evidence of this aspect of audit planning
- a) Client's timetable for accounts preparation
  - b) Systems flowcharts
  - c) **The planning memorandum**
  - d) Points brought forward schedule
- 194.** Which of the following statements describes most accurately the principle purpose of the engagement letter in respect of a limited company audit assignment
- a) **To define the extent of the auditor's responsibilities**
  - b) Arrangements regarding the planning of audit
  - c) To establish the audit fee for the current year
  - d) To draw the attention of the directors to the range of services that the firm can offer
- 195.** Which one of the following working papers would normally be retained on the permanent file maintained for a limited company audit client
- a) Extract of shareholders and management meetings
  - b) Entity policy regarding provident fund
  - c) Engagement letter
  - d) **Copy of the memorandum and articles of association**
- 196.** Window dressing implies
- a) Curtailment of expenses
  - b) Checking wastages
  - c) Under valuation of assets
  - d) **Over valuation of assets**
- 197.** Falsification of accounts is undertaken by
- a) Technical errors
  - b) Errors of principle
  - c) Compensating errors
  - d) **None of the above**

198. Which of the following procedures would be the most appropriate to identify the fraud of teeming and lading?
- a) Reviewing aged- debtors listings
  - b) **Debtor's circularization**
  - c) Reviewing bank reconciliation
  - d) Checking subsequent clearance of debtors
199. Detection and prevention of errors and fraud is the responsibility of
- a) Auditor (external)
  - b) Internal Auditor
  - c) **Management**
  - d) None of the above
200. The date of representation letter is normally the date on which
- a) Audit is started
  - b) Accounts are approved by the BOD
  - c) **Auditor report is signed by the auditors**
  - d) Audit field work is completed
201. One reason why an auditor uses analytical procedures that focus on the client's operations is to identify
- a) Improper separation of accounting and other financial duties
  - b) Weakness of material nature in the system of internal accounting transactions
  - c) **Unusual transactions**
  - d) Non compliance with prescribed control procedures
202. An auditor ordinarily examines invoice from lawyers primarily in order to
- a) Substantiate accruals
  - b) Assess the legal ramifications of litigation in progress
  - c) **Estimate the amount of contingent liabilities**
  - d) Identify possible unasserted litigation claims, and assessments
203. Which of the following internal control is most likely to reduce control risk for the existence or occurrence assertion for sales transaction
- a) **All sales invoices are traced to supporting shipping documents**
  - b) The credit department must authorize all credit sales of more than Rs. 10,000
  - c) Pre-numbered remittance invoices are prepared of cash received through the mail
  - d) All shipping documents are traced to supporting sales invoices

204. How does the extent of substantive tests required to constitute sufficient evidential matter vary with the auditor's assessed level of control risk
- a) Randomly
  - b) Disproportionately
  - c) **Directly**
  - d) Inversely
205. Which of the following set of duties would ordinarily be considered incompatible with good internal control if performed by the same individual
- a) Preparation of monthly statements to customers and maintenance of the accounts receivable subsidiary ledger
  - b) Posting to the general ledger and approval of additions and terminations relating to the payroll
  - c) Custody of unclaimed signed cheques and maintenance of expense subsidiary ledgers
  - d) **Collection of receipts account and maintaining accounts receivable records**
206. A major responsibility of internal auditor is to
- a) Install sound accounting, financial and operating controls at reasonable cost
  - b) **Ascertain the extent of entity compliance with established policies, plans and procedures**
  - c) Account for the entity's assets and safeguard them from losses
  - d) Develop reliable management data
  - e) All of the above
207. The independence of the internal auditing department most likely will be assured if it reports to the
- a) President
  - b) Controller
  - c) Treasurer
  - d) **Audit committee of the BOD**
  - e) Vice president of Finance
208. Each of the following might in itself form a valid basis for an auditor to decide to omit a test, except the
- a) Relative risk involved
  - b) **Relationship between the cost of obtaining evidence and its usefulness**
  - c) Difficulty and expense in testing a particular item
  - d) Degree of control risk assessed
209. Which of the following procedure most likely would not be included in a review engagement of a company

- a) Considering whether the financial statements confirm with GAAP
  - b) Inquiring about subsequent events
  - c) Obtaining a management representation letter
  - d) Assessing control risk**
- 210.** Which of the following procedures is ordinarily performed by a Chartered Accountant in a compilation engagement of a company
- a) Obtaining written representation from management indicating that the compiled financial statement will not be used to obtain credit
  - b) Applying analytical procedures designed to corroborate management's assertions that are embodied in the financial statement components
  - c) Reading the financial statements to consider whether they are free of obvious mistakes in the application of accounting principles**
  - d) Making inquiries of management concerning actions taken at meetings of the stakeholders and BOD
- 211.** After preliminary audit arrangements have been made an engagement letter should be sent to the client This letter usually would not include which of the following?
- a) A reference to the auditor's responsibility for the detection of errors and fraud
  - b) An estimate of the time to be spent on the audit work by the audit staff and management
  - c) A statement that consulting services would be made available on request**
  - d) A statement that a management letter will be issued outlining comments and suggestions to any procedures requiring the client's attention
- 212.** Which of the following would auditor ordinarily perform during his or her reviews after balance sheet date events?
- a) Analyze related party transactions to discover possible irregularities
  - b) Investigate control weakness previously reported to management
  - c) Inquire about the entity's solicitor concerning litigation**
  - d) Review the bank statements for the period after the year end
- 213.** Which of the following is ordinarily designed to detect possible material errors in the financial statements
- a) Test of controls
  - b) Analytical procedures**
  - c) Computer controls
  - d) Post audit working paper review
- 214.** Significant unexpected fluctuations identified by analytical procedures will usually necessitate

- a) Consistency related modification of the standard report
  - b) Assessment of control risk
  - c) Explanation in the representation letter
  - d) Auditor's investigation**
- 215.** When work is carried on by all the joint auditors jointly, each joint auditor is
- a) Responsible for the work which he actually carried on
  - b) Severally and jointly liable**
  - c) Jointly liable
  - d) Severally liable
- 216.** \_\_\_\_\_ is a systematic examination of the books and records of a business.
- a) Auditing.**
  - b) Vouching.
  - c) Verification.
  - d) Checking.
- 217.** Which of the following are not objectives of auditing?
- a) Ascertain the profit and preparation of P/L Account, Balance sheet.
  - b) Detection and prevention of frauds and errors.
  - c) Give a true and fair view of financial amount.
  - d) To submit the accounts to Government**
- 218.** Which of the following is not a kind of audit?
- a) Statutory and private audit.
  - b) Government and continuous audit.
  - c) Continuous, final, Interim, Cash, Cost and Management audit.
  - d) None of these.**
- 219.** An audit which is compulsory by the law
- a) Government audit.
  - b) Internal audit.
  - c) Cost audit.
  - d) Statutory audit.**
- 220.** Instruction of audit issued by controller and auditor general of Pakistan
- a) Statutory audit.
  - b) Final audit.
  - c) Management audit.
  - d) Government audit.**

221. Audit done by the employees of the business undertaking is called
- a) Final audit.
  - b) Management audit.**
  - c) Government audit.
  - d) Government audit.
222. This kind of audit is conducted generally between two annual audit
- a) Internal audit.
  - b) Interim audit.**
  - c) Final audit.
  - d) Continuous audit.
223. Management audit otherwise called as
- a) Final audit.
  - b) Efficiency audit.**
  - c) Cost audit.
  - d) Cash audit.
224. Before the work of audit is commenced, the auditor plans out the whole of audit work is called
- a) Audit plan.
  - b) Audit note.
  - c) Audit program.
  - d) Audit program.**
225. A number of checks and controls exercised in a business to ensure its efficient working is known as
- a) Internal check.
  - b) Internal control.**
  - c) Internal audit.
  - d) Interim check.
226. A Voucher is a
- a) Document is support of an entry made in books of accounts.**
  - b) Invoice received from suppliers.
  - c) Receipt issued to a customer for cash.
  - d) Dispatch receipt.
227. Voucher relates to

- a) Cash receipt.
- b) Cash payment
- c) Credit transaction
- d) **All of the above**

228. Internal check is meant for

- a) **Prevention of frauds.**
- b) Detection of frauds.
- c) Helping audit is depth.
- d) Detection of errors.

229. Internal auditor is appointed by

- a) **The management.**
- b) The shareholders
- c) The government.
- d) The statutory body.

230. Auditing begins where \_\_\_\_\_ ends.

- a) Selling.
- b) Inventory valuation.
- c) **Accounting.**
- d) Purchases.

231. A kind of audit conducted for a part of the accounting year is called \_\_\_\_\_.

- a) **Periodical audit.**
- b) Partial audit.
- c) Cost audit.
- d) Interim audit.

232. For which of the following, Audit is optional?

- a) Trusts.
- b) Joint stock companies.
- c) **Proprietorship concern.**
- d) None of the above.

233. Providing more or less depreciation on assets is an example of \_\_\_\_\_.

- a) Misappropriation of cash.
- b) Misappropriation of goods.
- c) Misappropriation of accounts.

d) **None of the above.**

234. The audit that is made compulsory under statute is called.

- a) **Statutory audit.**
- b) Partial audit.
- c) Complete audit.
- d) Continuous audit.

235. The receipt of goods must be entered in \_\_\_\_\_.

- a) **Goods inward book.**
- b) Goods outward book
- c) Receipt of Stores.
- d) Receipt issue and balance of stores

236. Who among the following can be appointed as auditor of a company?

- a) A partner or a director of the company.
- b) A person of unsound mind.
- c) Mr. Y who owes Rs. 500 to the company.
- d) **Mr. Z the holder of C.A certificate.**

237. Auditing standards differ from auditing procedures in that procedures relate to \_\_\_\_\_.

- a) Measure of performance.
- b) Audit principles.
- c) **Acts to be performed.**
- d) Audit judgments.

238. Confirmation of the court is necessary for \_\_\_\_\_.

- a) Increasing the share capital.
- b) **Reduction of share capital.**
- c) Conversion of shares into stock.
- d) Issue of new shares.

239. Profit prior to incorporation may be utilized to \_\_\_\_\_.

- a) **Write of goodwill**
- b) Pay interest on purchase consideration
- c) Writing off fixed assets.
- d) All the above.

240. Which of the following is not true about opinion on financial statements?



- a) **The auditor should express an opinion on financial statements.**
- b) His opinion is no guarantee to future viability of business.
- c) He is responsible for detection and prevention of frauds and errors in financial statements.
- d) He should examine whether recognized accounting principles have been consistently.

241. Audit means \_\_\_\_\_.

- a) Recording business transactions.
- b) Preparing the final accounts.
- c) **Examination of books, accounts, vouchers etc.**
- d) Preparing final accounts.

242. Audit program is prepared \_\_\_\_\_.

- a) **To help the auditor and his staff about the work to be done while auditing.**
- b) To help the accountant to prepare the balance sheet.
- c) To help the company to submit its accounts.
- d) To help the shareholders to file the returns.

243. Auditor is \_\_\_\_\_.

- a) A member of the company.
- b) **The agent of the members of the company**
- c) The agent of the central government.
- d) An assistant to accountant.

244. Auditor shall report on the accounts examined by him \_\_\_\_\_.

- a) **To the shareholders.**
- b) To the court.
- c) To the bank.
- d) To the general public.

245. Purchase of machinery is a \_\_\_\_\_.

- a) Revenue receipt.
- b) Capital receipt.
- c) **Capital expenditure.**
- d) Revenue expenditure.

246. Sale of land is a \_\_\_\_\_.

- a) Revenue receipt.
- b) **Capital receipt.**
- c) Capital expenditure.

- d) Revenue expenditure.
247. Shares are forfeited on the non-payment of \_\_\_\_\_.
- a) **Share calls amount.**
  - b) Calls in advance.
  - c) Minimum share capital.
  - d) Debenture amount.
248. Prospectus is a document \_\_\_\_\_.
- a) Containing the rules and regulations of the company.
  - b) Containing details about the manufacturing process of the company.
  - c) **Containing details about the share capital of the company.**
  - d) Containing the information of the sales.
249. Secret reserve can be created by \_\_\_\_\_.
- a) Public limited company only.
  - b) **Banking and financial companies only.**
  - c) Private limited company only.
  - d) Co-operative societies
250. General reserve is \_\_\_\_\_.
- a) **An appropriation from the profit.**
  - b) A must item in the debit side of the P&L account.
  - c) An appropriation from the share capital.
  - d) Important item in the balance sheet.
251. When a transaction has not been recorded in the books of account either wholly or partially such errors are called as \_\_\_\_\_.
- a) Error of commission.
  - b) **Error of omission.**
  - c) Compensating error.
  - d) Error of principle.
252. Verification of the value of assets, liabilities, the balance of reserves, provision and the amount of profit earned or loss suffered a firm is called \_\_\_\_\_.
- a) Continuous audit.
  - b) **Balance sheet audit.**
  - c) Interim audit.
  - d) Partial audit.

253. Alterations and heavy repairs to plant etc., is \_\_\_\_\_.
- a) Deferred revenue expenditure.
  - b) Capital expenditure.
  - c) **Revenue expenditure.**
  - d) Petty expenses.
254. A sale of Rs. 50000 to Mr. A was entered as a sale to Mr. B. This is an example of:
- a) Error of omission.
  - b) **Error of commission.**
  - c) Compensating error.
  - d) Error of principle.
255. Recording a transaction twice in the books of original entry is an error of \_\_\_\_\_.
- a) Principle.
  - b) Commission.
  - c) **Duplication.**
  - d) Omission.
256. Errors and frauds already committed can be discovered under the system of \_\_\_\_\_.
- a) Internal audit.
  - b) Internal check.
  - c) Internal control.
  - d) **All of the above.**
257. Treating revenue expenditure as capital expenditure is a case of \_\_\_\_\_.
- a) Fraud
  - b) Misappropriation of cash.
  - c) Misappropriation of goods.
  - d) **Manipulation of accounts**
258. Vouching of the balances of all incomes and expenses account is known as vouching of \_\_\_\_\_.
- a) Personal ledger.
  - b) **Impersonal ledger.**
  - c) Cash.
  - d) Sales.
259. Stock in trade is valued \_\_\_\_\_.
- a) At cost price.

- b) **At market price.**
  - c) At cost price or market price whichever is less.
  - d) At cost price less depreciation.
260. Goods sent on approval basis have been recorded as credit sales. This is an example of:
- a) **Error of principle.**
  - b) Error of commission.
  - c) Error of omission.
  - d) Error of duplication.
261. Preliminary expenses are the best example for \_\_\_\_\_.
- a) **Fictitious asset.**
  - b) Intangible asset.
  - c) Wasting asset.
  - d) Floating asset.
262. The profits that can be legally distributed to shareholders are called \_\_\_\_\_.
- a) Revenue profits.
  - b) Capital profits.
  - c) **Divisible profits.**
  - d) Profits prior to incorporation.
263. Errors of principle are due to \_\_\_\_\_.
- a) **Wrong entry of the transaction in the books of original entry.**
  - b) Wrong allocation of expenditure between capital and revenue.
  - c) Mistake in the payment of commission.
  - d) Mistake in the payment of salary.
264. Periodical audit is also called as \_\_\_\_\_.
- a) Final audit.
  - b) Interim audit.
  - c) **Balance sheet audit.**
  - d) Income statement audit.
265. An audit program is \_\_\_\_\_.
- a) A description, memorandum or an outline of the work to be done in a business.
  - b) **The rules and regulations prescribed for writing up the books of accounts.**
  - c) To gain knowledge of clients accounting system.
  - d) A trial work.

266. The auditor of a government company shall be appointed by \_\_\_\_\_.
- a) The government company itself.
  - b) The central government.**
  - c) The share holders.
  - d) The debenture holders.
267. An auditor of a company will be held liable under the companies act \_\_\_\_\_.
- a) If he destroys, mutilates, secrets etc., any documents, vouchers, books etc., with a view to deceive any person.**
  - b) If he has examined all the documents of the company.
  - c) If he has not contravened the provisions of sec.227.
  - d) If he is an auditor of the company.
268. The main object of the audit of the cash book may be \_\_\_\_\_.
- a) To verify the assets and liabilities.
  - b) To know that all receipts and payments have been properly recorded.**
  - c) To check the internal control system in business.
  - d) To check the bank balance.
269. The purpose of the audit of wage payment is to determine that \_\_\_\_\_.
- a) The work is executed completely for which the workers are paid wages.
  - b) The workers are paid the correct amount of wages under proper authorization.**
  - c) The workers are working regularly.
  - d) None of the above.
270. One of the audit procedures to check the issue of share capital of the newly formed company is \_\_\_\_\_.
- a) The memorandum of association and articles of association.**
  - b) The share transfer register.
  - c) The issue of debenture.
  - d) None of the above.
271. Capital reserves are created out of profits of \_\_\_\_\_.
- a) A revenue nature.
  - b) A capital nature.**
  - c) A secret reserve.
  - d) Contingency reserve.

272. A good audit report must at least meet one of the following qualifications \_\_\_\_\_.

- a) **It should offer constructive and timely suggestions to the management.**
- b) It should not point out mistakes.
- c) It should not be based on factual information.
- d) It should not be based on balance sheet.

273. The work of one clerk is automatically check by another clerk is called \_\_\_\_\_.

- a) Internal control.
- b) **Internal check.**
- c) Internal audit.
- d) None of the above.

274. The owners of the company are called \_\_\_\_\_.

- a) Debenture holders.
- b) Debtors.
- c) **Shareholders.**
- d) None of the above.

275. Verification is \_\_\_\_\_.

- a) The art of recording the business transaction.
- b) An examination of the books of accounts.
- c) **The act of establishing the accuracy of entries in the books of accounts.**
- d) None of the above.

276. Depreciation is \_\_\_\_\_.

- a) **The decrease in the value of an asset.**
- b) The increase in the value of an asset.
- c) An appreciation to the company.
- d) A credit to shareholders.

277. The main objects of investigation are \_\_\_\_\_.

- a) To discover errors and frauds.
- b) To prevent errors and frauds.
- c) To verify statements.
- d) **All the above.**

278. Internal controls and internal check are \_\_\_\_\_.

- a) One and the same.
- b) Different.

- c) **Internal control includes internal check.**
- d) None of the above.

279. Share may be issued \_\_\_\_\_.

- a) At par.
- b) At premium.
- c) At discount.
- d) **All the above.**

280. The liabilities of an auditor can be \_\_\_\_\_.

- a) Civil.
- b) Criminal.
- c) **Civil and Criminal.**
- d) Official.

281. An auditor is like a \_\_\_\_\_.

- a) Watchman.
- b) Foolish dog.
- c) Mad dog.
- d) **Watch dog.**

282. Special audit is necessary for \_\_\_\_\_.

- a) **Inefficient concern.**
- b) Processing concern.
- c) Trading concern.
- d) Manufacturing concern.

283. The first auditors appointed hold office \_\_\_\_\_.

- a) For a period of one year.
- b) For a period of two years.
- c) For a period of three years.
- d) **Till the conclusion of the first annual general meeting.**

284. Audit of company account is \_\_\_\_\_.

- a) **Compulsory.**
- b) Unnecessary.
- c) Avoidable.
- d) Depends upon directors.

285. The company's auditor is expected to give \_\_\_\_\_.

- a) **His expert opinion about the accounts.**
- b) A factual position about the accounts.
- c) A critical review of the accounts.
- d) Financial assistance.

286. Internal auditor of a company must be \_\_\_\_\_.

- a) Cost accountant.
- b) **Chartered accountant.**
- c) ICWA.
- d) Need not possess any professional qualification

287. Auditors of a joint stock company are appointed by \_\_\_\_\_.

- a) Directors of the company.
- b) Annual general meeting.
- c) **Election at the annual general meeting.**
- d) Debenture holders.

288. A company auditor can be removed by \_\_\_\_\_.

- a) Board of directors.
- b) Managing director.
- c) Any director.
- d) **General meeting.**

289. A vacancy caused by resignation of an auditor is filled by \_\_\_\_\_.

- a) Board of directors.
- b) Managing director.
- c) **General meeting.**
- d) Central government.

290. Cost audit under section 233(b) of the companies act is \_\_\_\_\_.

- a) Voluntary.
- b) Compulsory.
- c) **Advisable.**
- d) Avoidable.

291. Duties of a company auditor are defined by \_\_\_\_\_.

- a) Memorandum of Association.
- b) Articles of Association.
- c) **Companies' Ordinance 1984.**
- d) Agreement between company and the auditor.



292. When at an annual general meeting of a company no auditor is appointed or reappointed. In that case
- a) **The commission appoints a person to fill the vacancy.**
  - b) The board of directors appoints a person to fill the vacancy.
  - c) The managing director of the company appoints a person to fill the vacancy.
  - d) None of these can appoint a person to fill the vacancy.
293. Audit in depth means \_\_\_\_\_.
- a) Audit of each and every item.
  - b) Intensive audit of each and every item.
  - c) **Intensive audit of a few items.**
  - d) Audit of a few selected items.
294. When a company engages a Chartered Accountant as its internal auditor, the external auditor
- a) Need not check the areas covered by internal audit.
  - b) Should ignore the existence of internal audit.
  - c) Should incorporate the internal auditors report with his own.
  - d) **Should examine the system and efficiency of internal audit and devise a suitable audit program.**
295. Which of the following factors likely to be identified as a fraud factor by the auditor?
- a) **Initial public offer of quality shares to raise additional capital for expansion**
  - b) Bank reconciliation statement includes deposits-in-transit.
  - c) Plant and machinery is sold at a loss.
  - d) The company has made political contributions.
296. The most difficult type of misstatement to detect fraud is based on \_\_\_\_\_.
- a) Related party purchases.
  - b) Related party sales.
  - c) The restatement of sales.
  - d) **Omission of a sales transaction from being recorded.**
297. Which of the following is not likely to be a fraud risk factor relating to management characteristics?
- a) Tax evasion.
  - b) Failure to correct known weakness in internal control system.
  - c) **Adoption of conservative accounting principles.**
  - d) High management turnover.

**298.** Professional skepticism requires that the auditor assume that management is \_\_\_\_\_.

- a) Reasonably honest.
- b) Neither honest nor dishonest.**
- c) Not necessarily honest.
- d) Dishonest unless proved otherwise.

**299.** Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?

- a) Information about integrity of management.**
- b) Disagreement with management concerning auditing procedures.
- c) Review of internal control system.
- d) Organization structure.

**300.** The audit engagement letter generally should include a reference to each of the following except

- a) Limitations of auditing
- b) Responsibilities of management with respect to audit work.
- c) Expectation of receiving a written management representation letter.

**A description of the auditors method of sample selection**