

MOCK TEST PAPER - 1
INTERMEDIATE (NEW) GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Time Allowed – 3 Hours

Maximum Marks – 100

Division A- Multiple Choice Questions

Questions (1-20) carry 1 Mark each

Total 30 Marks

Questions 21-25 carry 2 Marks each

1. The matter of difficulty, time, or cost involved is :
 - (a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
 - (b) in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
 - (c) not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists.
 - (d) not in itself a valid basis for the auditor to omit an audit procedure.
2. _____ are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.
 - (a) Self-review threats
 - (b) Familiarity threats
 - (c) Intimidation threats
 - (d) Advocacy threats
3. SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor
 - (a) should not consider materiality and its relationship with audit risk while conducting an audit.
 - (b) should consider materiality and its relationship with audit risk while conducting an audit.
 - (c) should not consider materiality but should consider its relationship with audit risk while conducting an audit.
 - (d) should consider materiality but need not consider its relationship with audit risk while conducting an audit.
4. When planning the audit,
 - (a) the auditor considers what would make the financial information materially misstated.
 - (b) the auditor need not consider what would make the financial information materially misstated.
 - (c) the auditor need not consider what would make the financial information materially misstated at planning stage
 - (d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only
5. Audit documentation provides:
 - (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
 - (b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

- (c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
 - (d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
6. Which of the following is not an example of audit documentation:
- (a) Audit programmes
 - (b) Summaries of significant matters
 - (c) Audit file
 - (d) Checklists.
7. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -
- (a) at the financial statement levels only.
 - (b) at the assertion levels only.
 - (c) at the financial statement and assertion levels.
 - (d) at the financial statement or assertion levels.
8. The risks of material misstatement at the assertion level consist of two components:
- (a) Inherent risk and detection risk
 - (b) control risk and detection risk
 - (c) audit risk and detection risk
 - (d) Inherent risk and control risk
9. Which of the following is an example of inflating cash payments?
- (a) Making payments against purchase vouchers.
 - (b) Teeming and lading.
 - (c) Not accounting for cash sales fully.
 - (d) Making payments against inflated vouchers.
10. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as-
- (a) Self-revealing errors.
 - (b) Intentional errors.
 - (c) Concealed errors.
 - (d) Unconcealed errors.
11. The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?
- (a) ICAI
 - (b) SEBI
 - (c) MCA
 - (d) RBI

12. The standard that requires auditors to analyse journal entries in an audit is?
- (a) SA 260
 - (b) SA 230
 - (c) SA 315
 - (d) SA 240
13. In the case of tests of details
- (a) the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.
 - (b) the projected misstatement is the auditor's best estimate of misstatement in the population.
 - (c) the anomalous misstatement is the auditor's best estimate of misstatement in the population.
 - (d) the projected misstatement plus anomalous misstatement, if any, cannot be the auditor's best estimate of misstatement in the population.
14. Which of the following is correct :
- (a) When the projected misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - (b) When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - (c) When the anomalous misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.
 - (d) When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample provides a reasonable basis for conclusions about the population that has been tested.
15. Which of the following is correct :
- (a) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of financial data.
 - (b) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of non-financial data.
 - (c) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
 - (d) As per the Standard on Auditing (SA) 520 "Analytical Procedure" "the term "analytical procedures" means evaluations of financial information through ratio analysis.
16. **Section 139(7)** provides that in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India _____ from the date of registration of the company.
- (a) within 60 days
 - (b) within 30 days
 - (c) within 90 days

- (d) within 45 days
17. As per **Section 139(8)**, any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India,
- (a) be filled by the Audit committee within 60 days.
 - (b) be filled by the Audit committee within 30 days.
 - (c) be filled by the Board of Directors within 60 days.
 - (d) be filled by the Board of Directors within 30 days.
18. As per section 140(2) the auditor who has resigned from the company shall-
- (a) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
 - (b) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
 - (c) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.
 - (d) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.
19. Which of the following is correct :
- (a) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
 - (b) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting.
 - (c) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its extra ordinary general meeting.
 - (d) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its Board meeting or in such manner as may be determined therein.
20. In case of a fraud involving less than ` 1 crore, the auditor shall
- (a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
 - (b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.
 - (c) report the matter to the Board within such time and in such manner as prescribed.
 - (d) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed. **(20 x 1 = 20 Marks)**

Questions (21-25) carry 2 Marks each

21. Which of the following is correct in case of Banks :
- (a) The policy of income recognition should be subjective.
 - (b) The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.
 - (c) The policy of income recognition should be objective.
 - (d) The policy of income recognition may be objective or subjective.

22. Which of the following is correct :
- (a) The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - (b) The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - (c) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - (d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
23. Which of the following is incorrect :
- (a) According to Section 140(1), the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014-
 - (b) The application to the Central Government for removal of auditor shall be made in Form ADT -2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
 - (c) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
 - (d) The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution.
24. which of the following is incorrect :
- (a) Inquiry consists of seeking information of unknown persons, both financial and non- financial, within the entity or outside the entity.
 - (b) Inquiry is used extensively throughout the audit in addition to other audit procedures.
 - (c) Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.
 - (d) Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence.
25. Which of the following is incorrect :
- (a) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.
 - (b) Similar to responses to inquiries, written representations are audit evidence.
 - (c) Written representations are requested from those responsible for the preparation and presentation of the financial statements.
 - (d) Written representations provide necessary audit evidence and also they provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

(5 x 2 = 10 Marks)

Division B- Descriptive Questions

Question No. 1 is compulsory.

Attempt any **four** questions from the Rest.

Total 70 Marks

1. Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)
 - (i) A modelling tool constructs a statistical model from financial data only of prior accounting periods to predict current account balances.
 - (ii) When we are designing audit procedures to address an inherent risk or “what can go wrong”, we consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence.
 - (iii) According to SA 530 “Audit sampling”, ‘audit sampling’ refers to the application of audit procedures to 100% of items within a population of audit relevance.
 - (iv) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven.
 - (v) Other matter paragraph is paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
 - (vi) The auditor shall express an adverse opinion when:
 - (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive
 - (vii) The assessment of risks is a matter capable of precise measurement.
 - (viii) The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Central Government. **(7 x 2 = 14 Marks)**
2. Discuss the following:
 - (a) The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. When circumstances are similar, the effect on sample size of factors will be similar regardless of whether a statistical or non-statistical approach is chosen.
Explain stating the examples of factors (**any four**) that the auditor may consider when determining the sample size for tests of controls. **(4 Marks)**
 - (b) “The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business” Discuss stating clearly the broad points you would be covering in framing plan to conduct audit in an efficient and effective manner. **(4 Marks)**
 - (c) The establishment of the overall audit strategy and the detailed audit plan are closely inter-related. Explain **(3 Marks)**
 - (d) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention. Explain. **(3 Marks)**

3. (a) SWM is proprietorship firm engaged in the manufacturing of different kind of yarns. It sells its finished products both in the domestic as well as in the international market. The company is making total turnover of Rs. 30 crores. It has also availed cash credit limit of Rs.. 3 crores from Dena Bank. In the year 2018-19. Proprietor of the firm is worried about the financial position of the company and is under the impression that since he is out of India, therefore firm might not run well. He approaches an Internal Auditor about as to what would be covered in Audit. Advise regarding principal aspects (any four) to be covered in getting accounts audited. **(4 Marks)**
- (b) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. Discuss **(4 Marks)**
- (c) Any share issued by a company at a discounted price shall be void. Explain stating also the audit procedure in this regard. **(3 Marks)**
- (d) Explain the difference between reserves and provisions. **(3 Marks)**
4. (a) The objective of the IAASB is to serve the public interest by setting high quality auditing standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. Advise how this objective would be accomplished. **(4 Marks)**
- (b) State the matters to be included in the auditor's report as per CARO, 2016 regarding-
- (i) Default in repayment of loans or borrowing to a financial institution, bank etc. **(2 Marks)**
- (ii) Fraud by the company or on the Company by its officers or employees. **(2 Marks)**
- (c) The auditor of XYZ Ltd, engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether:
- (i) Management has created and maintained a culture of honesty and ethical behavior; and
- (ii) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.
- Advise what is included in control environment. Also explain the elements of control environment. **(6 Marks)**
5. (a) ABC Ltd is engaged in manufacturing of different type of yarns. On going through its financial statements for the past years, it is observed that inventory is material to the financial statements. You as an auditor of the company wanted to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory as appearing in the financial statements. Discuss, how would you proceed as an auditor. **(4 Marks)**
- (b) The auditor evaluated, in respect of T Ltd., whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.
- Auditor's evaluation included consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
- Advise the qualitative aspects of the entity's accounting practices. **(4 Marks)**
- (c) Where a company is required to constitute an Audit Committee, all appointments of an auditor under this section shall be made after taking into account the recommendations of such committee. Explain stating also the class of companies required to constitute Audit Committee. **(3 Marks)**

- (d) Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples **(3 Marks)**
6. (a) The first auditors of Bhartiya Petrol Ltd., a Government company, were appointed by the Board of Directors. Analyse. **(4 Marks)**
- (b) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention two points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. **(4 Marks)**

OR

- (c) The engagement team of FRN & Co.- Auditors of Bank of Baroda held discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements.
- The discussion between the members of the engagement team and the audit engagement partner are being done on the susceptibility of the bank's financial statements to material misstatements. These discussions are ordinarily done at the planning stage of an audit.
- Analyse and Advise the matters to be discussed in the engagement team discussion. **(4 Marks)**
- (d) Advise any six special points in an audit of hospital. **(6 Marks)**