

MOCK TEST PAPER – 2
INTERMEDIATE (NEW) GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Question No. 1 is compulsory.
*Attempt any **four** questions from the Rest.*

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. If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:
 - (a) the original engagement; or any procedures that may have been performed in the original engagement.
 - (b) the original engagement;
 - (c) any procedures that may have been performed in the original engagement
 - (d) the original engagement and any procedures that may have been performed in the original engagement.
2. Which of the following is correct :
 - (a) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
 - (b) The auditor is expected to and can reduce audit risk to zero and can therefore obtain absolute assurance.
 - (c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.
 - (d) The auditor is expected to and can reduce audit risk to zero and can therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.
3. With reference to SA 300, the auditor shall document:
 - (a) The overall audit strategy
 - (b) The audit plan
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
 - (d) All of the above
4. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
 - (a) Independence

- (b) Professional Judgement
 - (c) Professional skepticism
 - (d) All of the above
5. Which of the following is correct :
- (a) 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.
 - (b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
 - (c) 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 before the date of the auditor's report.
 - (d) The auditor shall not assemble the audit documentation in an audit file..
6. Audit evidence includes
- (a) information contained in the accounting records underlying the financial statements
 - (b) both information contained in the accounting records underlying the financial statements and other information.
 - (c) other information.
 - (d) information contained in the accounting records underlying the financial statements or other information.
7. Most of the auditor's work in forming the auditor's opinion consists of :
- (a) obtaining audit evidence.
 - (b) evaluating audit evidence.
 - (c) obtaining or evaluating audit evidence.
 - (d) obtaining and evaluating audit evidence.
8. Audit risk is a function of the
- (a) risks of material misstatement and detection risk.
 - (b) audit risk and detection risk.
 - (c) control risk and detection risk.
 - (d) inherent risk and detection risk.
9. Risk of material misstatement may be defined as the risk
- (a) that the financial statements are materially misstated after audit.
 - (b) that the financial statements are materially misstated during audit.
 - (c) that the financial statements are materially misstated prior to audit.
 - (d) All of the above
10. _____ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
- (a) Misstatement
 - (b) Error
 - (c) Fraud

- (d) Any of the above
11. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
- (a) Discuss the matter with management and, where appropriate, those charged with governance.
 - (b) Determine whether the financial statements need amendment.
 - (c) Inquire how management intends to address the matter in the financial statements.
 - (d) All of the above
12. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request is-
- (a) Positive confirmation request
 - (b) Non-response
 - (c) Exception
 - (d) Negative confirmation request
13. The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:
- (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel.
 - (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel.
 - (c) Reviewing legal expense accounts.
 - (d) All of the above
14. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express :
- (a) a disclaimer opinion
 - (b) a qualified opinion
 - (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
 - (d) unmodified opinion
15. If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-
- (a) Withdraw from the engagement immediately.
 - (b) Report to Audit team regarding withdrawal.
 - (c) Determine the professional and legal responsibilities applicable in the circumstances.
 - (d) Ask the management for his withdrawal.
16. It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts :
- (a) Haphazard sampling
 - (b) Monetary Unit Sampling

- (c) Stratified Sampling
 - (d) Interval sampling
17. Which of the following is correct :
- (a) A firm whereof all the partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - (b) A firm whereof majority of partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - (c) A firm whereof all the partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.
 - (d) A firm whereof majority of partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.
18. As per **Section 139(6)**, the first auditor of a company, other than a Government company, shall be appointed
- (a) by the Board of Directors within 30 days from the date of registration of the company.
 - (b) by the audit committee within 30 days from the date of registration of the company.
 - (c) by the Managing Director within 30 days from the date of registration of the company.
 - (d) by the shareholders within 30 days from the date of registration of the company.
19. Where a company is required to constitute an Audit Committee under section 177,
- (a) all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.
 - (b) all appointments, excluding the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.
 - (c) appointment of first auditors shall be made after taking into account the recommendations of such committee.
 - (d) appointment of subsequent auditors shall be made after taking into account the recommendations of such committee.
20. which of the following is incorrect :
- (a) In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property.
 - (b) Under section 128 of the Act, books of account of a company must be kept at the registered office. These provisions ordinarily make it impracticable for the auditor to have possession of the books and documents.
 - (c) The company provides reasonable facility to auditor for inspection of the books of account by directors and others authorised to inspect under the Act.
 - (d) working papers not being his own property, auditor can exercise lien on working papers.

(20 x 1 = 20 Marks)

Questions (21-25) carry 2 Marks each

21. You are at the planning stage for one of your firm's client XYZ Bank for the year ended 31 March 2018. The bank is a commercial bank that provides a number of products and services to the general public and other segments of the economy in the area of South Mumbai. You are assigned the audit of one of the branches of XYZ Bank. The audit engagement team was called to have a detailed discussion on the

following matters. Which one of the following should not be included in the discussion for the audit of banks?

- (a) Discuss on the error of last year in the application of accounting policies of the bank.
- (b) Discuss on the method of fraud if any perpetrated by the bank employee within particular balances and/or disclosures
- (c) Discuss with the team the appointment and remuneration to be received on this bank audit.
- (d) Discuss the effect of the results of the risk assessment procedures on other aspects to decide the nature, timing and extent of further audit procedures.

22. Which of the following is correct :

- (a) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor need not disclose the substantive reasons for the different opinion.
- (b) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.
- (c) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an emphasis of Matter paragraph in accordance with SA 706.
- (d) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph or emphasis of matter paragraph in accordance with SA 706.

23. Which of the following is incorrect :

- (a) Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- (b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
- (c) Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;
- (d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);

24. One of your junior audit team members is confused with the term 'material misstatement'. You explain him that a material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement. Which of the following would constitute material misstatement?

- (1) An error of Rs.5,000 in relation to assets of Rs.20 lakhs.
- (2) A payroll fraud of Rs.100 in a company where profit before tax is Rs.11,000.
- (3) Non-disclosure of a material uncertainty.

- (4) Financial statements have been prepared on a going concern basis when the company is in the process of being liquidated.
- (a) 1 and 2
 (b) 3 and 4
 (c) 2 and 3
 (d) 1 and 4
25. Springfield Hospital located in the rural area of Lonawala region is a government hospital run by the local doctors who are appointed by the government. The hospital was registered on 1 October 2018. Which of the following is correct in respect of the appointment of the first auditor for Springfield Hospital?
- (a) The Board of Directors of the hospital have appointed the first auditor on 5th November 2018.
 (b) The Comptroller Auditor-General of India appointed the first auditor on 15th December 2018.
 (c) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Director appointed the first auditor on 15th December 2018.
 (d) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Director appointed the first auditor on 10th November 2018. **(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) The objective of audit is to obtain absolute assurance about whether the financial statements as a whole are free from material misstatement.
 (ii) Engagement partner refers to the partner or other person in the firm who is responsible for the audit engagement.
 (iii) There is no need to put the nature of engagement to writing.
 (iv) Few members of the Board of Directors oppose the appointment of Mr. N, an employee of the company, as an Internal Auditor, stating that Mr. N is not a chartered accountant and further he is an employee of the company.
 (v) PQR & Co., Chartered Accountants, resigned from the audit of a Government Company and filed the resignation with the company and the registrar within 30 days. Comment, whether PQR & Co. has complied with the provisions of the Companies Act, 2013.
 (vi) The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements.
 (vii) Sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.
 (viii) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. **(7 x 2 = 14 Marks)**
2. Discuss the following:
- (a) The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. **(3 Marks)**

- (b) Familiarity threats are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. Explain. **(4 Marks)**
- (c) M & Co. was appointed as auditor of IGI Ltd. As an auditor what are the factors that would be considered in the development of overall audit plan? **(4 Marks)**
- (d) The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning. **(3 Marks)**
3. (a) State the matters to be included in the auditor's report as per CARO, 2016, regarding:
- (i) Private Placement of Preferential Issues. **(2 Marks)**
- (ii) Utilisation of IPO and further public offer. **(2 Marks)**
- (b) Briefly discuss the limitations of Internal Control. **(4 Marks)**
- (c) What are the provisions prescribed under Companies Act, 2013 in respect of ceiling on number of audits in a company to be accepted by an auditor? **(3 Marks)**
- (d) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind? **(3 Marks)**
4. (a) During the audit of PQR Ltd. you as an auditor requested officers of the company to have access to secretarial records and correspondence which they refused to provide. Comment. **(4 Marks)**
- (b) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain. **(4 Marks)**
- (c) Write the circumstances that indicate the possibility of fraud due to problematic or unusual relationship between the auditor and management. **(6 Marks)**
5. (a) Discuss with reference to SA-230, factors affecting form, contents and extent of audit documentation. **(4 Marks)**
- (b) State six important advantages of audit of accounts of a Partnership firm. **(4 Marks)**
- (c) State assertions that are implied in the extract of financial statement given below:

			(Rs.)
	Plant & Machinery (at Cost)		4,00,000
Less:	Depreciation:		
	Up to Previous year	1,40,000	
	For the year	<u>26,000</u>	<u>1,66,000</u>
			<u>2,34,000</u>

- (i) Indicate assertions in respect of transactions and events for the period relating to Fixed Assets.
- (ii) State specific assertions relating to the above extract of financial statement. **(6 Marks)**
6. (a) In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous. Explain stating uses of Data analytics. **(4 Marks)**
- (b) The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances. **(4 Marks)**

OR

- (c) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain **(4 Marks)**
- (d) Explain with examples the audit procedure to establish the existence of intangible fixed assets as at the period-end. **(3 Marks)**
- (e) Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity. Explain stating also criteria for a liability to be classified as current liability. **(3 Marks)**