

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

Question No. 1 is compulsory.
*Attempt any **five** 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. 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. which of the following is incorrect :
 - (a) The provisions relating to eligibility, qualifications and disqualifications of an auditor are governed by section 141 of the Companies Act, 2013
 - (b) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.
 - (c) A firm whereof majority of partners practising in India are qualified for may be appointed by its firm name to be auditor of a company.
 - (d) Where a firm including a limited liability partnership is appointed as an auditor of a company, all the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.
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. 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.
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) Communicating key audit matters in the auditor's report is 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;
- (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) Inherent risk is the susceptibility of an account balance or class of transactions to misstatement assuming that there were no related internal controls.
- (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) It is necessary for the auditor to maintain professional skepticism throughout the audit.

(7 x 2 = 14 Marks)

2. (a) "Statements" and "Guidance Notes" of ICAI- whether mandatory or recommendatory? Discuss

(4 Marks)

- (b) Inquiry from Management is helpful for Auditor to evaluate subsequent events. Discuss specific enquiries in reference of SA 560, which might have effect on the financial statements. **(4 Marks)**

- (c) The discipline of behavioural science is closely linked with the subject of auditing. Discuss. **(3 Marks)**
- (d) What do you mean by "Written Representations"? As an auditor, how you will deal if management does not provide requested written representations? **(3 Marks)**
3. (a) In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles Explain. **(4 Marks)**
- (b) The auditor R of GR and Co., a firm of Chartered Accountants is conducting audit of B Industries Ltd. State the specific inquiries by auditor when deviations from controls are detected. **(3 Marks)**
- (c) With reference to SA 320 indicate the factors which may affect the identification of an appropriate bench mark in determining materiality for the financial statement as a whole. **(4 Marks)**
- (d) What constitutes true and fair view is a matter of auditor's judgement, but some specific points must be seen by the auditor to ensure true and fair view. **(3 Marks)**
4. (a) Mention any four areas where surprise checks can significantly improve the effectiveness of an audit. **(3 Marks)**
- (b) In a system based audit, test checking approach provides a good base for the auditor to form his opinion on the financial statements. Give your comments. **(4 Marks)**
- (c) "It is not mandatory to send a new engagement letter in recurring audit, but sometimes it becomes mandatory to send new letter". Explain those situations where new engagement letter is to be sent. **(4 Marks)**
- (d) In a medium size trading organisation the accountant was given additional responsibility of making recoveries from the trade receivables. On one occasion, when an insurance claim of ` 45,000 was received, he credited the same to the account of a trade receivable and misappropriated the cash which he had recovered from the said trade receivable. Pinpoint weaknesses in the internal control system which led to this situation. Comment. **(3 Marks)**
5. How will you vouch/verify the following?
- (a) Foreign Travel Expenses **(4 Marks)**
- (b) Receipt of Capital subsidy **(4 Marks)**
- (c) Royalties received **(3 Marks)**
- (d) Goods sent out on Sale or Return basis **(3 Marks)**
6. (a) The auditor CA Z appointed under section 139 was removed from his office before the expiry of his term by an ordinary resolution of the company. Comment explaining clearly the procedure of removal of auditor before expiry of term. **(3 Marks)**
- (b) Discuss the reporting requirements regarding Fixed Assets under CARO, 2016. **(3 Marks)**
- (c) Explain the provisions of the Companies Act, 2013 with regard to Alteration of Share Capital and auditor's duty in this regard. **(4 Marks)**
- (d) Mention any four special points which you as an auditor would look into while auditing the books of a partnership firm. **(4 Marks)**
- or
- (e) What special steps will you take into consideration in auditing the receipts from entry fees of an amusement part? Mention any four points specific to the issue. **(4 Marks)**