

**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**

**Case Scenario 1 carries 10 Marks**

**Case Scenario 2 carries 10 Marks**

**Total 30 Marks**

**Case Scenario 1**

Ghan Shyam & Associates have been appointed as the statutory auditors of ABC Ltd. for the FY 2019-2020. The engagement partner, CA Ghan Shyam established the overall audit strategy and made the detailed plan with respect to the audit assignment of ABC Ltd. after discussing the same with the engagement team.

The strategy adopted by Ghan Shyam & Associates consisted of relying on the internal control system of the company and the audit plan and programme were developed accordingly & executed by the engagement team. During the course of audit, the engagement partner, CA Ghan Shyam found that some internal control system of the company were not in place. So, he decided not to rely on the internal control system of the company and accordingly changed the firm's overall audit strategy, audit plan & audit programme.

While conducting audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of ABC Ltd. CA Ghan Shyam also asked for the addresses of various debtors from the management of ABC Ltd. to send balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of ABC Ltd. asked the debtors to send the responses to such confirmation request to General Manager of accounts department who will in turn provide such responses to the audit team. Also with respect to five random debtors, CA Ghan Shyam decided to confirm the terms of agreement also along with confirming the balance amount, by seeking responses to confirmation requests from such debtors.

During the course of audit, the auditor found that the inventory of ABC Ltd. is kept at its factories and various other locations including warehouses. The audit team is unable to attend the physical verification activity undertaken by the management at all such locations.

During the course of audit, the audit team found that legal cases have been filed against the company on account of customer complaint. CA Ghan Shyam discussed with his team regarding the audit procedures that can be performed by the audit team in this regard. CA Ghan Shyam also briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of ABC Ltd.

Based on the above facts, answer the following:-

1. Is CA Ghan Shyam right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?
  - (a) CA Ghan Shyam is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.
  - (b) CA Ghan Shyam is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.
  - (c) CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.
  - (d) CA Ghan Shyam can change the overall audit strategy and audit plan only after discussing the same with the management of ABC Ltd.

2. Which of the following audit procedures should the audit team perform with respect to verification of debtors balance?
- (a) Ghan Shyam & Associates can compare the debtors balance reflected in financial statement with the total balance of ledgers account in the books of ABC Ltd.
  - (b) Ghan Shyam & Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.
  - (c) Ghan Shyam & Associates can obtain management representations with respect to the debtors balance from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.
  - (d) Both a & b.
3. Statement 1: The reliability of information to be used as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained.
- Statement 2: The audit evidence obtained from sources external to the entity are generally more reliable than the audit evidence from internal sources.
- (a) Only statement 1 is true
  - (b) Only statement 2 is true
  - (c) Both the statements are true
  - (d) None of the statements is true
4. With respect to the inventory of ABC Ltd. kept in warehouse, which audit procedures can the audit team perform to obtain sufficient and appropriate audit evidence?
- (a) Checking of warehouse receipt with the inventory record of ABC Ltd.
  - (b) Obtaining direct confirmation with respect to quantity & condition of inventory of ABC Ltd. from the warehouse.
  - (c) Both a & b
  - (d) Seeking a management representation regarding inventory valuation and mentioning the fact regarding inventory being kept at the warehouse in the audit report.
5. Is management correct in asking the debtors to provide the reply of confirmation request of auditor to the General Manager of accounts department of the company?
- (a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.
  - (b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.
  - (c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation are provided to the auditors.
  - (d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself. **(5 x 2 = 10 Marks)**

## **Case Scenario 2**

RRM & Associates have been appointed as the statutory auditors of UVW Ltd. for the FY 2019-2020. The engagement partner is CA Raj and his engagement team consists of 2 article assistants. CA Raj briefed his audit team regarding the factors affecting the sample selection and the sample size. The team was also told that the tolerable error should be zero and sample size should be selected accordingly. CA Raj gave a detailed audit programme to his team. The audit programme with respect to the checking of accounts receivable and accounts payable consists of checking the accounts on sample basis. CA Raj asked the engagement team to divide the accounts receivables and account payable balances into separate groups and to take sample from each of them.

During the course of audit, the audit team noticed that certain internal control system with respect to the accounts receivable were not in place at few instances during the FY 2019-20.

Also while checking the payment transactions on sample basis, the engagement team noticed that on 9<sup>th</sup> and 10<sup>th</sup> of every month, the miscellaneous expense vouchers were not signed by the authorised personnel. The engagement team discussed the implications of the same on their audit procedures to be performed in this regard.

Based on the above facts, answer the following:-

1. Which of the following factors should not be considered by CA Raj in deciding the extent of checking while making the sample plan in case of UVW Ltd.?
  - (a) The size of UVW Ltd.
  - (b) The state of the internal control system of UVW Ltd.
  - (c) The tolerable error range decided in case of UVW Ltd.
  - (d) The competence of the engagement team.
2. With respect to the weakness in internal control system of accounts receivable during the FY 2019-20, the audit team:-
  - (a) Should consider a larger sample size or 100% examination of accounts receivables.
  - (b) Should consider a smaller sample size of accounts receivables.
  - (c) Should not consider applying sampling techniques.
  - (d) Should give a disclaimer of opinion.
3. Statement 1: While conducting an audit, it is obligatory for the auditor to apply sampling.  
Statement 2: There may be sometimes where test checking or sampling may not be suitable.
  - (a) Only statement 1 is true
  - (b) Only statement 2 is true
  - (c) Both the statements are true
  - (d) None of the statements is true
4. With respect to selecting sample for accounts receivable and accounts payable which method of selecting of sample is advised by CA Raj to the engagement team?
  - (a) Stratified Sampling method
  - (b) Monetary Unit Sampling method
  - (c) Haphazard Sampling method
  - (d) Interval Sampling

5. With respect to the deviation identified by the auditor occurring on 9<sup>th</sup> and 10<sup>th</sup> of every month, what course of action should the audit firm adopt?
- (a) RRM & Associates should ignore such deviation as it exists only on a very few instances during the entire year under audit.
  - (b) RRM & Associates should extend its audit procedures to such deviated transactions.
  - (c) RRM & Associates shall investigate the nature and causes of such deviations as such deviations may be intentional and may indicate the possibility of fraud.
  - (d) Both b & c
- (5 x 2 = 10 Marks)**

**General MCQs**

1. .... is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism.
- (a) Familiarity threat
  - (b) Advocacy threat
  - (c) Self Review threat
  - (d) Intimidation threat
2. Which of the following is an example of revenue expenditure-
- (a) Wages on installation of Machinery
  - (b) Regular repairs incurred on PPE
  - (c) Legal expenses in purchase of land and building
  - (d) Freight inwards on purchase of PPE
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. In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures is known as :
- (a) Monitoring
  - (b) Inspection
  - (c) Subsequent Audit procedures
  - (d) Compliance procedures
5. As per SQC 1 the retention period for audit engagements ordinarily is no shorter than ..... from the date of the auditor's report.
- (a) ten years
  - (b) five years
  - (c) seven years

- (d) four years
6. Which of the following is correct, in case of joint audit, where there is disagreement with regard to the opinion or any matters to be covered by the audit report.
- (a) The auditors shall express their opinion in separate audit report.
  - (b) The audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).
  - (c) Both (a) and (b) are correct
  - (d) The auditor who is having a separate opinion is bound by the opinion of the majority of the auditors and needs to issue a common audit report.
7. .... refer to representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.
- (a) Assertions
  - (b) Positive Confirmation
  - (c) Written representation
  - (d) Audit Evidence.
8. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :
- (a) management
  - (b) Those charged with governance –
  - (c) audit committee
  - (d) board of directors
9. The risk that the financial statements are materially misstated prior to audit is called-
- (a) Risk of material misstatement
  - (b) detection risk
  - (c) audit risk
  - (d) significant risk
10. Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud are called as :
- (a) Fraud risk factors
  - (b) misappropriation of assets
  - (c) Fraud opportunities
  - (d) eventual frauds
- (10 x 1 = 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 primary responsibility for the prevention and detection of fraud rests with the statutory auditor of the company.
  - (ii) Written representation in itself is a sufficient and appropriate audit evidence about any of the matters with which they deal.
  - (iii) The auditor appointed by a company under section 139 of the Companies Act, 2013, can be appointed for conducting the audit of cost records of the same company.
  - (iv) The auditor should update and revise the audit plan as and when required, however, the overall audit strategy once established cannot be changed during the course of audit.
  - (v) All Non-Governmental Organisations (NGOs) are allowed to maintain accounts either on accrual basis or cash basis.
  - (vi) As per AS 26, internally generated goodwill is not recognised as an asset.
  - (vii) No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the Bank.
  - (viii) The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. **(7 x 2 = 14 Marks)**

2. Discuss the following:

- (a) 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 PPE. **(3 Marks)**
  - (ii) State specific assertions relating to the above extract of financial statement. **(3 Marks)**
  - (b) Lord Justice Lindley in the course of the judgment in the famous London & General Bank case had succinctly summed up the overall view of what an auditor should be as regards the personal qualities. He said, "an auditor must be honest that is, he must not certify what he does not believe to be true and must take reasonable care and skill before he believes that what he certifies is true" Explain stating clearly the qualities of an auditor. **(4 Marks)**
  - (c) "The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner." Explain stating the matters to be covered in plans. **(4 Marks)**
3. (a) Mr. A is appointed as statutory auditor of a company for the Financial Year ended 31<sup>st</sup> March, 2020. During the course of audit, it was found that few doubtful transactions had been

- committed by finance manager who retired in March, 2020. The fraud was going on since last 2-3 years and the total amount misappropriated exceeding Rs. 100 lakhs. As a statutory auditor, what would be reporting responsibilities of Mr. A? **(4 Marks)**
- (b) XYZ & Associates, Chartered Accountants, while evaluating the operating effectiveness of internal controls, detects deviation from controls. In such a situation, state the specific inquiries to be made by an auditor to understand these matters and their potential consequences. **(4 Marks)**
- (c) You have been approached by HK Ltd. to be appointed as Cost Auditor for the F.Y. 2019-20. Company has requested you to provide a certificate confirming your eligibility as per the provisions of Companies Act, 2013. List down the matters to be included in the certificate. **(3 Marks)**
- (d) The working papers of the branch auditor are also the property of the Principal Auditor and the Management of the Company, so they have right to access them. State the relevant SA and comment. **(3 Marks)**
4. (a) Board of Directors of "XYZ Ltd." found the auditors of the Company acted in a fraudulent manner, and decided to remove the auditors in board's meeting. Comment on the action of Board of Directors and describe correct procedure to be followed for removal of auditors before expiry of their term. **(4 Marks)**
- (b) You are an auditor of PQR Ltd. which has spent Rs. 10 lakhs on Research activities of the product during period under audit. Board of Directors want to recognize it as an internally generated intangible asset. Advise and discuss the conditions necessary to be fulfilled to recognize the intangible assets in the financial statements. **(4 Marks)**
- (c) Detection of manipulation of accounts with a view to presenting a false state of affairs is a task requiring great tact and intelligence. Explain stating clearly why and how such type of fraud is committed. **(3 Marks)**
- (d) M Ltd. has given certain loans to related parties and also has accepted certain deposits. As an auditor, how will you include the above items in paragraph 3 of CARO, 2016? **(3 Marks)**
5. (a) TRM Ltd. is a company engaged in manufacture of beauty products. It has hair care segment, skin care segment and kids' beauty products. The auditor wants to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework. Suggest the audit procedures in the given case. **(4 Marks)**
- (b) The audit of government expenditure is one of the major components of government audit. Explain the basic standards set for such audit of expenditure. **(4 Marks)**
- (c) Audit documentation serves a number of purposes. List such purposes. **(3 Marks)**
- (d) Auditor of ABC Ltd while auditing its financial statements wants to ensure whether the disclosures regarding sales has been made as required under Schedule III (Part 1) to Companies Act, 2013. Explain such disclosure requirements. **(3 Marks)**
6. (a) With respect to audit in an automated environment, explain the following: (any **four**)
- (i) Data Processing
  - (ii) ERP (Enterprise Resource Planning)
  - (iii) General IT control
  - (iv) Automated
  - (v) Direct Data change **(4 Marks)**

- (b) GSR & Co. has been appointed as an auditor of Tagore School. Engagement team wants to verify Fees from students in detail. Advise the audit procedure to be followed by the engagement team .

**(3 Marks)**

**Or**

- (c) The **audit programme of NGO** should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted. Explain.

**(3 Marks)**

- (d) There are different types of banks prevailing in India. Explain giving examples of such banks.

**(4 Marks)**

- (e) From the auditing point of view, the auditor should verify that a proper disclosure about contingent liabilities is made in financial statements as required by AS 29. What type of disclosures should be made for each class of contingent liability as at the balance sheet date?

**(3 Marks)**