

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

Time Allowed – 3 Hours

Maximum Marks – 100

Division A- Multiple Choice Questions

Total 30 Marks

Case Scenario 1 carries 10 Marks

Case Scenario 2 carries 10 Marks

General MCQs carry 1 Mark each

Case Scenario 1

M/s SPR & Associates are appointed as auditors of XYZ Ltd. for the Financial Year 2021-22.

- The team consisted of Mr. S, Mr. P, Mr. R all Chartered Accountants and three article assistants.
- Mr. S, the engagement partner, briefed the audit staff about various items of financial statement to be checked in detail in case of XYZ Ltd and about various aspects to be covered in the audit of the company.
- Mr. S told the audit staff about audit documentation, audit evidence, audit file, completion memorandum and many other things along with relevant Standards of Auditing applicable.
- Mr. S also told the staff about the risk of material misstatement that the financial statements are prone to and how it affects the sufficiency and appropriateness of audit evidence.
- The audit staff was also apprised about the various audit procedures to be adopted while conducting the audit of XYZ Ltd.
- Further discussions were done about various types of risks related to financial statement and the audit work, the related audit procedures, and the risk assessment procedures.
- The engagement team is also very particular about the application of various Standards on Auditing applicable in case of XYZ Ltd.

Based on the above facts, answer the following:-

- (1) is the summary of significant matters identified during audit and way they are addressed :
 - (a) Audit File
 - (b) Audit Programme
 - (c) Completion memorandum
 - (d) Checklists
- (2) The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is.....:
 - (a) Control Risk
 - (b) Inherent Risk
 - (c) Audit Risk
 - (d) Significant Risk

- (3) Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.
Statement 2: Substantive procedures consist of test of details and analytical procedures.
- Only Statement 1 is correct
 - Only Statement 2 is correct
 - Both 1 & 2 are correct
 - Both 1 & 2 are incorrect
- (4) refers to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error at the financial statement and assertion levels: -
- Analytical Procedures
 - Risk Assessment Procedures
 - Audit Procedures
 - Substantive Analytical Procedures
- (5) Statement 1:- Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level.
Statement 2:-Test of Control is audit procedure designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.
- Only Statement 1 is correct
 - Only Statement 2 is correct
 - Both 1 & 2 are correct
 - Both 1 & 2 are incorrect
- (5 x 2 = 10 Marks)**

Case Scenario 2

M/s ABC & Associates have been appointed as auditors of Venus Ltd. for the Financial Year 2020-21.

- During the course of audit, the auditors notice that certain legal expenses been charged to revenue during the financial year by Venus Ltd.
- These legal expenses are related to litigations going against the company regarding its Corporate Social Responsibility expenses incurred near its factory area.
- Further, M/s ABC & Associates noticed that there is a major change in the debtors and creditors account of Venus Ltd. during the financial year under audit. The auditors have decided to send balance confirmation requests to the debtors and creditors of Venus Ltd. Also, the auditors decide to take management representation letters wherever required.
- The auditors have noticed certain related party transactions reflected in the financial statements of Venus Ltd. during the financial year under audit. The transaction is between Venus Ltd. and a Company owned by wife of one of the directors of Venus Ltd.
- The auditors have become aware of certain subsequent events occurring in case of Venus Ltd. These are related to the outcomes of the litigations going against Venus Ltd.
- The auditors are also concerned whether the litigations going against Venus Ltd. and their outcomes have any impact on the going concern of the company.

Based on the above facts, answer the following:-

- (1) Statement 1: Although Written Representations provide necessary audit evidence, they do not provide sufficient and appropriate audit evidence on their own about the matters with which they deal.

Statement 2: Written Representations do not include financial statements, the assertions within, or supporting books and records.

- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both Statement 1 & 2 are correct
 - (d) None of Statement 1 & 2 is correct
- (2) The auditor can perform the following procedures to identify litigation and claims of Venus Ltd.:-
- (i) Inquiry of management including in house legal counsel.
 - (ii) Reviewing legal expenses account.
 - (iii) Reviewing of minutes of meetings of those charged to governance and correspondence between entity and external legal counsel.
- (a) (i) & (i) are correct
 - (b) (i), (ii) & (iii) are correct
 - (c) (ii) & (iii) are correct
 - (d) only (i) is correct
- (3) Negative confirmation requests require the third party to respond in the following cases :-
- (a) If there is agreement
 - (b) If there is disagreement
 - (c) In both cases of agreement as well as disagreement
 - (d) None of the above.
- (4) Statement 1:- A failure of the confirming party to respond, or fully respond to a positive confirmation request or a confirmation request returned undelivered is a case of Non Response.
- Statement 2:- A response that indicates difference between information requested to be confirmed and contained in entity's records and information provided by the confirming part is a case of Exception.
- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both Statement 1 & 2 are correct
 - (d) None of Statement 1 & 2 is correct
- (5) Which of the following is correct so far as the related party transactions are concerned: -
- (i) Many related party transactions are in the normal course of business.
 - (ii) Related party transactions may not be conducted under normal market term and conditions.
 - (iii) In some circumstances, related party transactions may give rise to higher risks of material misstatement.
- (a) only (i) is correct
 - (b) (i) & (iii) are correct
 - (c) (i), (ii) & (iii) are correct
 - (d) (i) and (ii) are correct

(5 x 2 = 10 Marks)

General MCQs

- (1) The overall audit strategy and the audit plan remain the _____ responsibility
- (a) auditor's
 - (b) management's
 - (c) those charged with governance.
 - (d) both management and those charged with governance.
- (2) CA Amar is the statutory auditor of XYZ Ltd. for the FY 2020-21. During the process of assembling the audit file, CA Amar briefed his team as to what all changes can be made to the audit documentation at that stage. Which of the following changes cannot be made to the audit documentation during the final assembly process?
- (a) Sorting, collating & cross referencing of working papers.
 - (b) Signing off completion checklists relating to the file assembly process.
 - (c) Deleting or discarding superseded documents.
 - (d) Recalculation of Depreciation.
- (3) 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
- (4) Which of the following is incorrect-
- For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall :
- (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
 - (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
 - (c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
 - (d) Not consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.
- (5) Which of the following is Incorrect:
- (a) An auditor conducting an audit in accordance with SAs is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

- (b) As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
 - (c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
 - (d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.
- (6) Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within _____ days of occurrence of such vacancy and the company shall inform the central government in Form CRA-2 within 30 days of such appointment of cost auditor.
- (a) 30 Days
 - (b) 45 Days
 - (c) 60 Days
 - (d) 90 Days
- (7) _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
- (a) Audit Techniques
 - (b) Audit evidence
 - (c) Audit Documentation
 - (d) Audit Procedures record
- (8) In case of Frauds involving amount less than INR 1 crores , the auditor should report to the :-
- (a) Central Government
 - (b) Reserve Bank of India
 - (c) Bank's Board/Audit Committee
 - (d) Comptroller & Audit General
- (9) Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Activa Scooter for INR 60,000. She is regular in depositing EMI of the Activa Loan but has not made any payments towards the Personal Loan due to low business during the year. In this case, which of the following facilities should be categorized as NPA ?
- (a) Activa Loan
 - (b) Personal Loan
 - (c) Higher of the two
 - (d) Both the Activa Loan & the Personal Loan
- (10) After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the
- (a) CAG
 - (b) President
 - (c) Public Accounts Committee
 - (d) Parliament

(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) Advocacy threat, is the threat which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client.
 - (ii) According to 'Audit of sanctions', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.
 - (iii) Understanding the Internal Control of a company will not help the auditor in developing an Audit Programme.
 - (iv) Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur.
 - (v) Low acceptable sampling risk requires larger sample size.
 - (vi) The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.
 - (vii) Narrative record is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer.
 - (viii) Planning is a discrete phase of an audit. **(7 x 2 = 14 Marks)**
2. Discuss the following:
 - (a) The firm should establish **policies and procedures** designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Explain. **(4 Marks)**
 - (b) Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Explain such benefits of planning in the audit of financial statements. **(4 Marks)**
 - (c) The division of internal control into five components provides a useful framework for auditors to consider how different aspects of an entity's internal control may affect the audit. Mention those components of internal control. **(3 Marks)**
 - (d) With respect to audit in an automated environment, explain the following:
 - (i) General (IT) Controls
 - (ii) Material Weakness
 - (iii) Data Processing **(3 Marks)**
3.
 - (a) When auditor identifies deficiencies and report on internal controls, he determines the significant financial statement assertions that are affected by the ineffective controls in order to evaluate the effect on control risk assessments and strategy for the audit of the financial statements. Explain. **(4 Marks)**
 - (b) The auditor shall make a report to the members of the company on the accounts examined by him. Explain with reference to relevant provisions of the Companies Act, 2013. **(3 Marks)**

- (c) Describe how risks in IT systems, if not mitigated, could have an impact on audit. **(3 Marks)**
- (d) "The role of audit committee in corporate governance is not limited to making recommendation for appointment of auditors only." Discuss. **(4 Marks)**
4. (a) Discuss the reporting requirements as per CARO, 2020, regarding:
- (i) disputed and undisputed statutory dues and
 - (ii) internal audit system of the company **(4 Marks)**
- (b) What are the required disclosures for cash & Cash equivalents to be made by the company as per Schedule III (Part I) to Companies Act, 2013? **(4 Marks)**
- (c) Studymate Limited is a company engaged in the manufacture of stationery items. The company sells its goods on credit. The debtors as on 31.03.2022, amounted to ₹ 10 crores. What is the disclosure requirement for the company with respect to the ageing schedule of the trade receivables in terms of Schedule III (Part I) to the Companies Act, 2013? **(6 Marks)**
5. (a) Akash & Associates are the statutory auditors of Deluxe Ltd. for the FY 2020-21. During the course of audit, CA Akash, the engagement partner requested the management of the company to provide written representation with respect to valuation of a transaction. The management, however does not provide the same to CA Akash. What course of action should CA Akash follow in such situation? **(3 Marks)**
- (b) "An auditor is required to make specific evaluations while forming an opinion in an audit report." State those evaluations. **(4 Marks)**
- (c) Explain and also state the role of auditor with respect to the following in case of a hotel:
- (i) Inventories **(4 Marks)**
 - (ii) Travel agents & shops **(3 Marks)**
6. (a) When are following considered as non performing as per the RBI guidelines?
- (i) Government guaranteed advances
 - (ii) Advances to staff **(4 Marks)**
- (b) Explain pledge and set off as the modes of creation of security with respect to advance granted by a bank. **(4 Marks)**

OR

- (c) State the points which merit consideration in the audit of a CLUB w.r.t its members. **(4 Marks)**
- (d) While verifying the legal and professional expenses of the client company, what audit procedures should the auditor perform? **(3 Marks)**
- (e) Name the assertion that the auditor will check by performing the following audit procedures.
- (a) Employees benefit expense in respect of all personnel have been fully accounted for.
 - (b) Discounts on sales has been properly adjusted/ accounted for.
 - (c) Employee benefit expense recorded during the period relates to the current accounting period only. **(3 Marks)**