

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

General MCQs carry 2 Marks each

Case Scenario 1

A Partnership Firm of Chartered Accountants by the name of HS and Associates was appointed to audit books of accounts of WT Limited for financial year 2019-20. HS and Associates consisted of two partners CA H and CA S.

While conducting audit of WT Limited for financial year 2019-20, CA H, one of the partners of HS and Associates used different audit procedures in order to obtain audit evidence.

The different audit procedures used by CA H were as follows:

- (1) As WT Limited was engaged in manufacturing business of wooden doors, CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. The counting of finished wooden doors was necessary for the purpose of verification of stock of finished wooden doors.
- (2) In WT Limited the stock of finished wooden doors was valued manually by multiplying number of finished wooden doors with value per finished wooden door. A team member of CA H again did the calculation in order to verify the accuracy regarding valuation of stock of wooden finished doors.
- (3) CA H with the help of his team members obtained information from people (who were experienced in manufacturing business of wooden doors) about the purchase price of raw materials required in manufacturing business of wooden doors and also obtained some non-financial information.
- (4) CA H and his team members while conducting the audit of WT Limited for financial year 2019-20 in detail checked and evaluated the books of accounts and relevant documents of W Limited.
- (5) CA H asked for written confirmations regarding account balances from Debtors and Creditors of WT Limited.

Keeping the basic concepts about various audit procedures in mind, answer the following multiple-choice questions:

1. CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. This is an example of which audit procedure:
 - (a) External Confirmation.
 - (b) Observation.
 - (c) Inquiry.
 - (d) Inspection.

2. In order to verify the accuracy regarding valuation of stock of wooden finished doors, a team member of CA H again did the calculation. This is an example of which audit procedure:
 - (a) Analytical Procedures.
 - (b) Inquiry.
 - (c) Inspection.
 - (d) Recalculation.
3. CA H with the help of his team members obtained information (both financial and non-financial information) from experienced people in manufacturing business of wooden doors. These experienced people provided the required information. This whole method of obtaining information is an example of which audit procedure:
 - (a) Inspection
 - (b) Reperformance.
 - (c) Inquiry.
 - (d) Investigation.
4. CA H and his team members in detail checked and evaluated the books of accounts and relevant documents of WT Limited. This is an example of which audit procedure:
 - (a) Inspection.
 - (b) Reperformance.
 - (c) Recalculation.
 - (d) Investigation
5. Asking for written confirmations regarding account balances from Debtors and Creditors of WT Limited by CA H is an example of which audit procedure:
 - (a) Inquiry
 - (b) Inspection
 - (c) Investigation.
 - (d) External Confirmation.

(5 x 2 = 10 Marks)

Case Scenario 2

RM & Associates have been appointed as Auditors of Techblocks Consulting Ltd. for the year 2020-21. CA R and CA M were the Engagement partners.

Para 1

The Firm has freshly appointed 2 Article Clerks who had no practical knowledge in the area of Auditing. They had to work to tight hard-headed factual issues and were baffling to understand the various terms and their objectives in the field of Auditing.

Para 2

To make sure that the Article Clerk do not misplace or mis-handle the Working Papers, CA M also described the relevance of Audit File and clarified that working papers are the property of Auditor. Such Audit file should be preserved for a period of seven years.

Para 3

CA R while scrutinizing Books of Accounts suspected some fictitious sales as a result of which he anticipated inflated Debtors. Management was reluctant to give the details. As CA R could not gather more evidence from the Management, he sought to obtain details from the third party.

Para 4

On further perusal of Opening Balances, it is essential to perceive that Accounting Policies have been consistently applied in the current period's financial statements and whether any changes have been properly accounted for and disclosed. CA M assigned this duty to his article clerk. The Article clerk explained to CA M about how he had observed that Accounting policies were not consistently applied in relation to opening balances in accordance with the financial reporting framework or a change is not properly accounted or not adequately disclosed.

Para 5

Subsequently, the Auditors gathered from the Management that there was a fire in the Factory premises after the Balance Sheet date, as a result of which the company suffered loss of Inventories. It did not provide any conditions on the Balance Sheet date. SA 560 deals with such type of transactions.

1. The Auditor explained his Audit team the purpose of Audit Documentation. Which of the following is incorrect with respect to the purpose of Audit Documentation?
 - (a) It enables the conduct of quality control reviews and inspections in accordance with SQC-1.
 - (b) It helps in preparation of Financial Statements.
 - (c) It retains a record of matters of continuing significance to future audits.
 - (d) It enables the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
2. An auditor strictly ensured that the audit team should document / assemble all the working papers in Audit file. The completion of assembling the Audit File is an administrative process and should be done in :
 - (a) It should be within 30 days from the date of Audit Report.
 - (b) It should be within 60 days from the completion of Audit.
 - (c) It should not be more than 60 days from the date of Audit Report.
 - (d) It should be before 90 days from the completion of Audit.
3. With reference to para 3 of Case scenario, this is a case of obtaining External Confirmation by the Auditor. Which of the following is inappropriate with regard to External Confirmation?
 - (a) External Confirmations are restricted to Account balances only.
 - (b) It is also used in a case to obtain Audit evidence about the absence of certain conditions say, Side Agreement.
 - (c) It can be also effective in obtaining Audit evidence about verification of Inventories held by third parties at bonded warehouses for processing or on consignment.
 - (d) External Confirmation is also functional in case of Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the Balance Sheet date.
4. With reference to para 4, in such a situation CA M shall express a :
 - (a) A Disclaimer Opinion
 - (b) A qualified opinion
 - (c) A qualified opinion or an adverse opinion in accordance with SA 705
 - (d) An unmodified opinion

5. In respect to subject matter mentioned in Para 5, what procedures should Auditor perform to identify such events?

Statement 1: Obtain an understanding of any procedures management has established as well as Inquiry with Management and those charged with governance procedures for identification of such subsequent events.

Statement 2: Inspection of Minutes of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about the matters discussed at any such meetings for which minutes are not yet available.

Statement 3: The Auditor should not read the entity's latest subsequent interim financial statements, if any.

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both Statements 1 and 2 are correct
- (d) Only Statement 3 is correct

(5 x 2 = 10 Marks)

General MCQs

1. Sec. 52 of the Companies Act states that Security Premium Account can be applied by the Company for one of the purpose mentioned below. Which of the following is a CORRECT option?
 - (a) To adjust loss on revaluation of Assets
 - (b) To pay dividend to equity shareholders
 - (c) Providing for the premium payable on redemption of Preference shares
 - (d) To use it as working capital for its business.
2. CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here?
 - (a) Static Review
 - (b) Mechanical Review
 - (c) Periodic Review
 - (d) Obsolete Review
3. The Firm R K & Associates has an extensive understanding of Code of Ethics that underlies the fundamental principles relevant to the Auditor when conducting an Audit of Financial Statements and provides a conceptual framework for applying these principles. Which of the following does not form part of the fundamental principle?
 - (a) Integrity
 - (b) Professional Competence and due care
 - (c) Professional Skepticism
 - (d) Professional behaviour
4. Which of the following is not an example of an event or condition that may cast significant doubt on entity's ability to continue as a going concern:
 - (a) Loss of key management without replacement
 - (b) Adverse key financial ratios
 - (c) Inability to pay creditors on due date

- (d) Current year profit turns to loss after providing depreciation
5. M/s PQR & Associates is appointed as the new auditors of M/s Prince Ltd. On conducting the audit, the firm found that the accountant has entered fake invoices of credit purchases in the books of a accounts aggregated of ₹ 75 Lakhs and cleared all the payments to the fake creditor.
- The auditor M/s PQR & Associates should report such fraud to :
- (a) Central Government
 (b) Reserve Bank of India
 (c) Board of Directors/Audit Committee
 (d) Comptroller & Auditor General
- (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 auditor is expected to, and can, reduce audit risk to zero and can therefore obtain absolute assurance.
- (ii) The concept of materiality is an important and relevant consideration for the auditor in financial statement.
- (iii) Audit evidence obtained from external confirmation is always reliable.
- (iv) CA K has resigned as an auditor after 2 months of his appointment in NML Ltd. He needs to file ADT-4 with the Registrar within 60 days from the date of resignation.
- (v) Satisfactory Control environment is an absolute deterrent to fraud.
- (vi) K Ltd., a non-government company, was incorporated on 01-10-2019. Mr. B, Managing Director of K Ltd., himself appointed the first auditor of the company on 31-12-2019.
- (vii) All Non-Governmental Organisations (NGOs) registered under the Companies Act, 2013 are allowed to maintain accounts either on accrual basis or cash basis.
- (viii) When auditing in an automated environment, inquiry is often the most efficient and effective audit testing method.
- (7 x 2 = 14 Marks)**
2. Discuss the following:
- (a) The person conducting the audit should take care to ensure that financial statements would not mislead anybody. Explain **(4 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. Explain stating the qualities an auditor should possess. **(4 Marks)**
- (c) "In establishing the overall audit strategy, the auditor shall, among other considerations, ascertain the nature, timing and extent of resources necessary to perform the engagement" Explain those considerations in detail. **(3 Marks)**
- (d) In case of a Bank, explain the meaning of Funded loans. Also give examples. **(3 Marks)**

3. (a) Audit documentation provides evidence that the audit complies with SAs. However, it is neither necessary nor practicable for the auditor to document every matter considered. Further, it is unnecessary for the auditor to document separately compliance with matters for which compliance is demonstrated by documents included within the audit file. Explain giving examples. **(4 Marks)**
- (b) List any five points that an auditor should consider to obtain an understanding of the Company's automated environment. **(4 Marks)**
- (c) Provisions regarding appointment of Auditors -
- (i) First auditor of a Government company and a Non-Government company.
- (ii) Subsequent auditor of a Government company and a Non- Government company. **(6 Marks)**
4. (a) While conducting audit of Vee Ltd, CA Aman, auditor of the company, found that some goods are lying with third party for a long period. Advise Aman how will he verify them. **(4 Marks)**
- (b) State the requirements relating to audit sampling, sample design, sample size and selection of items for testing. **(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) As per Section 138 of the Companies Act, 2013 only listed companies are required to appoint an internal auditor. **(3 Marks)**
5. (a) Mention the Analytical Review procedures that may be useful as a means of obtaining audit evidence regarding various assertions relating to Trade receivables, loans and advances. **(4 Marks)**
- (b) 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 the objective behind committing such fraud. **(4 Marks)**
- (c) "The company has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. However, the company utilized these funds for repayment of long term loans and advances." Advise the auditor regarding reporting requirements under CARO, 2016. **(3 Marks)**
- (d) "An auditor is required to make specific evaluations while forming an opinion in an audit report." State those specific evaluations. **(3 Marks)**
6. (a) "There is no difference in provisioning of NPA as regards to categories of NPA, whether the debt is secured or unsecured." Critically evaluate the statement on the basis of provisioning norms of NPA of nationalised bank stating clearly the provision percent required. **(4 Marks)**
- (b) You have been appointed auditor of Dr. Prem Ratan Hospital. Discuss any eight important points that would attract your attention while audit. **(4 Marks)**

OR

- (c) "While the auditor may choose to analyse the monthly trends for expenses like rent, power and fuel but for other expenses, an auditor generally prefers to verify other attributes." Mention those attributes. **(4 Marks)**
- (d) As an auditor of listed company, what are the matters that the auditor should keep in mind while determining "Key Audit Matters". **(3 Marks)**
- (e) "Public moneys should not be utilised for the benefit of a particular person or section of the community". List out the exceptions to this rule while audit against propriety. **(3 Marks)**