

**MOCK TEST PAPER**  
**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**

1. Examine with reasons (in short) whether the following statements are correct or incorrect:
- (i) A modelling tool constructs a statistical model from financial data only of prior accounting periods to predict current account balances.
  - (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) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven.
  - (v) Application controls include manual controls only that operate at a business process level.
  - (vi) Misstatements in the financial statements can arise from fraud only.
  - (vii) The assessment of risks is a matter capable of precise measurement.
  - (viii) The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Central Government.
  - (ix) 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
  - (x) 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.

**(2 x 10 = 20 Marks)**

2. Discuss the following:
- (a) The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. Explain Stating the examples of factors that the auditor may consider when determining the sample size for tests of controls.
  - (b) “The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business” Discuss stating clearly the broad points you would be covering in framing plan to conduct audit in an efficient and effective manner.

- (c) The engagement partner of AST AND ASSOCIATES, firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor.
- (d) Discuss the different ways testing is performed in an automated environment **(5 x 4 = 20 Marks)**
3. (a) RAG is proprietorship firm engaged in the manufacturing of textile and handloom products. It sells its finished products both in the domestic as well as in the international market. The company is making total turnover of Rs. 30 crores. It has also availed cash credit limit of Rs. 5 crores from Canara Bank. In the year 2017-18, proprietor of the firm is worried about the financial position of the company and is under the impression that since he is out of India, therefore firm might run into losses. He approaches a CA about advantages of getting his accounts audited throughout the year so that he may not suffer due to accounting weaknesses. Advise regarding advantages of getting accounts audited. **(5 Marks)**
- (b) 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. Discuss. **(5 Marks)**
- (c) On going through the financial statements of PQR Ltd, its auditors Kamal Gagan and Associates observed that company has taken Loans from banks and financial institutions. Further, the audit team discusses the following about Liabilities:
- "Liabilities are the financial obligations of an enterprise other than owners' funds. Liabilities include loans/ borrowings, trade payables and other current liabilities, deferred payment credits and provisions.
- Verification of liabilities is as important as that of assets, for, if any liability is omitted (or understated) or over stated, the Balance Sheet would not show a true and fair view of the state of affairs of the company."
- Advise stating clearly the audit procedures generally required to be undertaken for verification of existence of Borrowings **(5 Marks)**
- (d) "Until the invoice is paid, the invoice amount is recorded on the organization's balance sheet as accounts receivable. If balances are not recoverable, then these amounts will need to be written off as an expense in the income statement/ profit and loss account."
- It is important to carry out compliance procedures in the sales audit as part of the debtors' audit procedure.
- Verify to ensure that the system for receivables has the necessary features. **(5 Marks)**
4. (a) The objective of the IAASB is to serve the public interest by setting high quality auditing standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. Advise how this objective would be accomplished. **(5 Marks)**
- (b) State the matters to be included in the auditor's report as per CARO, 2016 regarding -
- (i) Default in repayment of loans or borrowing to a financial institution, bank etc. **(2 Marks)**
- (ii) Fraud by the company or on the Company by its officers or employees. **(2 Marks)**
- (c) The auditor of XYZ Ltd, engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether:
- (i) Management has created and maintained a culture of honesty and ethical behavior; and
- (ii) The strengths in the control environment elements collectively provide an appropriate

foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment. **(6 Marks)**

- (d) ABC Ltd is engaged in manufacturing of different type of yarns. On going through its financial statements for the past years, it is observed that inventory is material to the financial statements. You as an auditor of the company wanted to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory as appearing in the financial statements. Discuss, how would you proceed as an auditor. **(5 Marks)**
5. (a) The auditor evaluated, in respect of T Ltd., whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.
- Auditor's evaluation included consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
- Advise the qualitative aspects of the entity's accounting practices. **(5 Marks)**
- (b) M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of Enn Ltd. for the Financial Year 2016-17. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in Enn Ltd. having market value of Rs. 1,50,000. One of the shareholders, complains that the appointment of RM & Co. as an auditor is invalid because it incurred disqualification u/s 141 of the Companies Act, 2013. Analyse and advise. **(5 Marks)**
- (c) The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, explain the factors that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures. **(5 Marks)**
- (d) Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples. **(5 Marks)**
6. (a) The first auditors of Bhartiya Petrol Ltd., a Government company, were appointed by the Board of Directors. Analyse. **(5 Marks)**
- (b) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. **(5 Marks)**
- (c) The engagement team of FRN & Co.- Auditors of Bank of Baroda held discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements.
- The discussion between the members of the engagement team and the audit engagement partner are being done on the susceptibility of the bank's financial statements to material misstatements. These discussions are ordinarily done at the planning stage of an audit.
- Analyse and Advise the matters to be discussed in the engagement team discussion. **(5 Marks)**
- (d) Advise any five special points in an audit of hospital. **(5 Marks)**