

**MOCK TEST PAPER – 1**  
**INTERMEDIATE 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) As per SA 220, the engagement partner shall be responsible for the overall quality on each audit engagement assigned to him.
  - (ii) Teeming and lading is one of the techniques of suppressing cash receipts.
  - (iii) The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.
  - (iv) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time.
  - (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.
  - (a) The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. Analyse and explain.
  - (b) The auditor shall document the overall audit strategy, the audit plan, and any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. Explain.
  - (c) In order to form the audit opinion as required by SA 700, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Explain the conclusions that the auditor shall take into account. Also explain the objective of auditor as per SA 700.

- (d) Having obtained an understanding of the IT systems and the automated environment of a company, the auditor should consider the risks that arise from the use of IT systems. Explain. **(5 x 4 = 20 Marks)**
3. (a) As per SA 220, the engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. While taking responsibility for the overall quality on each audit engagement, analyse and explain the emphasis of the actions of the engagement partner and appropriate messages to the other members of the engagement team. Also define engagement partner. **(5-Marks)**
- (b) Audit documentation provides 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. Explain stating clearly purpose of audit documentation. **(5-Marks)**
- (c) Liabilities include trade payables and other current liabilities, deferred payment credits and provisions. Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity.  
Advise stating clearly the audit procedure to establish the existence of trade payables and other current liabilities as at the period-end. **(10-Marks)**
4. (a) The Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats. Explain. **(5 Marks)**
- (b) State the matters to be included in the auditor's report as per CARO, 2016 regarding-
- (i) Fixed Assets **(2.5 Marks)**
- (ii) statutory dues. **(2.5 Marks)**
- (c) The auditor of MARUT Ltd, engaged in manufacturing of Smart Motor Bikes, 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. **(5 Marks)**
- (d) Krishna Cycles Ltd is engaged in manufacturing of different type of Bicycles. 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) When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in some circumstances. Explain those circumstances. **(5 Marks)**
- (b) The auditor is not required to report on the matters specified in sub-section (1) of Section 143 unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied. Explain clearly stating the matters for which the auditor has to perform his duty of inquiry under this section. **(5 Marks)**

- (c) The design of a substantive analytical procedure is limited only by the availability of reliable data and the experience and creativity of the audit team. Explain clearly stating the techniques available as 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. Answer any **four** :
- (a) Multi-State Co-operative Societies Act, 2002 states that a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of Multi-State co-operative society. Explain stating also the persons who are not eligible for appointment as auditors of a Multi-State co-operative society. **(5 Marks)**
- (b) BPL Ltd. is running a "RAGHU PALACE CINEMA." Your firm of Chartered Accountants has been appointed to get its accounts audited. Assistant appointed on the job to conduct audit asks the audit in charge as to how to go about conducting an audit and seeks your guidance on it. Keeping in view the above you are required to explain to the assistant special steps (any five) involved in the Audit of Cinema. **(5 Marks)**
- (c) "If an accounting professional, whether in the course of internal or external audit or in the process of institutional audit finds anything susceptible to be fraud or fraudulent activity or act of excess power or smells any foul play in any transaction, he should refer the matter to the regulator. Any deliberate failure on the part of the auditor should render himself liable for action".  
Analyse and explain the above RBI Circular regarding liability of accounting and auditing profession. **(5 Marks)**
- (d) Advise any five special points in an audit of hospital. **(5 Marks)**
- (e) The assessment of risks is a matter of professional judgment. Explain stating clearly what is not included in Audit Risk? **(5 Marks)**