

**MOCK TEST PAPER- 2**  
**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**

Meeta, Neeta, Rita and Babita are friends and all of them have joined office of an auditing firm for undergoing articulated training. It is still early days in the office. However, all of them are curious about different issues of auditing. They have also studied auditing subject. They were going through one audit file of a large manufacturing company as part of their training. In the file are included some audit working papers and other related documents.

- (A) Some papers contained in file reflect following: -
- (i) Are budgets for capital expenditure approved by the Board?
  - (ii) Are approved budgets communicated in writing to accounts department and to department originating the request?
  - (iii) Is the authority to incur capital expenditure restricted to specified officials?
  - (iv) Are receipts of capital items subject to controls as in case of purchases of raw material, stores?
  - (v) Is there proper check to see that amounts expended do not exceed the amount authorised?
- Further, “Yes”, “No” and “Not applicable” along with remarks/notes have been provided by the employees of company against items stated at serial no.[i] to [v].
- (B) Also included in audit working papers is a detailed note on process of employee recruitment followed by company along with practices on related matters such as orientation, training, evaluation, compensation and promotion of employees. In particular, it seemed that auditors had shown keen interest in standards followed by the company in recruiting most qualified individuals.
- (C) The audit file also includes documentation on how customs duty paid by company on imported raw material was verified. The engagement team had examined the payment of custom duty with reference to bill of entry available in client records. It was verified that customs duty was in accordance with applicable duty rate on goods. In cases where duty was paid by clearing and forwarding agent, bill of entry with reference to bill of forwarder was verified.
- (D) The audit file includes a document, signed by CEO of company addressed to auditors, extract of which is as under: -
- We have provided you with: -

- (i) Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that you have requested from us for the purpose of the audit;
  - (ii) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (iv) All transactions have been recorded in the accounting records and are reflected in the financial statements.
- (E) The audit file included following draft to be included in audit report: -

“Revenue is one of the main profit drivers and is, therefore, susceptible to misstatement. Cut-off is the main relevant assertion insofar as revenue recognition is concerned, since an inappropriate cut-off can result in material misstatement of results for the year.

Our audit procedures with regard to revenue recognition included testing controls, automated and manual- around deliveries, inventory reconciliations and substantive testing for cut-offs and analytical review procedures.”

The issues pertaining to above for audit period under consideration were communicated with responsible persons in management.

1.1 Regarding description of expenditure on capital items reflected in Para A, which of the following views is Most appropriate?

- (a) Meeta is of view that such a document is in nature of a checklist for evaluating internal control over capital items.
- (b) Neeta is of view that such a document is in nature of audit programme for verification of capital items.
- (c) Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items.
- (d) Rita considers it to be specific audit plan in relation to capital items.

1.2 On reading description in Para B, what were the auditors trying to do by studying employee recruitment and related HR matters?

- (a) Auditors were trying to gain an understanding of how the company is monitoring controls.
- (b) Auditors were gaining knowledge to understand how employee pay rolls are prepared and whether there could be any misstatements in pay rolls due to non- inclusion of promotion increments
- (c) Auditors were trying to understand control environment of the company.
- (d) Auditors were trying to assess the control activities relevant to audit to assess risk of material misstatement.

1.3 On the basis of description provided in Para C, identify audit procedure(s) performed by auditors.

- (a) Test of Controls
- (b) Vouching
- (c) Analytical Procedures

- (d) Verification
- 1.4 What would the most appropriate nomenclature to extract of document described in Para D?
- (a) Engagement letter
  - (b) Written Representation
  - (c) External confirmation
  - (d) Offer letter to auditor
- 1.5 Given draft in Para E, which of the following views is Most appropriate in accordance with relevant Standards on Auditing?
- (a) Meeta is of the view that draft in Para E needs emphasis in audit report. Therefore, its inclusion under heading “Emphasis of Matter” is proper.
  - (b) Neeta is of the view that draft in Para E is a residuary matter. Therefore, its inclusion under heading “Other Matters” is proper.
  - (c) Rita is of the view that draft in Para E provides the basis on which opinion is to be given. Therefore, its inclusion under heading “Basis for Opinion” is proper.
  - (d) Babita is of the view that draft in Para E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading “Key Audit Matters” is proper. **(5 x 2 = 10 Marks)**

### Case Scenario 2

Rohan is part of an engagement team conducting statutory audit of branch of a nationalized bank. The financial statements to be audited include Balance sheet and Profit & Loss account of the branch drawn up in accordance with Form A and Form B respectively of the Third Schedule to the Banking Regulation Act, 1949. Besides, various advances and other returns are also to be verified as part of audit.

Rohan was part of all audit work pertaining to verification of deposits, advances, income and expenditure of the branch.

While verifying different items of profit and loss account, it was noticed that income included income on account of interest earned and other income.

The team also verified system of branch prior to sanction of advances like verifying creditworthiness of borrower etc. It was also verified whether there exists system for bringing to the notice of higher authorities, accounts which exceed the sanctioned limits or drawing power. Besides, the team also verified whether there exists a system for review of operations in accounts once a year and more frequently in case of large advances.

During the course of audit, it was noticed that one advance, consisting of a term loan, having outstanding balance of ₹ 20 crore as on balance sheet date has been guaranteed by Uttar Pradesh government. The interest of term loan has remained overdue for more than 90 days. The branch has classified advance as non-performing asset and made applicable provision and reversed unrealized income. Rohan is perplexed as to whether classification, provisioning and reversal of unrealized income made by branch is proper.

The auditee branch is a CBS branch and uses **FINACLE** software. The core banking system (CBS) is the set of basic software components that manage the services provided by a bank to its customers through its branches. The bank's customers can execute their transactions from any branch, ATM, Service Outlets, Internet, Phone at their disposal. It helps banks to reduce risk that can result from manual data entry and out of date information. It also helps banks to improve service delivery quality and time to its customer. The

software is accessed from different branches of bank via communication lines like telephones, satellite, internet, etc.

The engagement team has kept record of audit documentation in accordance with SA 230.

- 2.1 Which of the following does not constitute "Other income" in the profit and loss account of branch of a bank?
- (a) Discount on Bills purchased
  - (b) Commission on Bills sent for collection
  - (c) Loan processing fees
  - (d) Credit card fees
- 2.2 Identify what the engagement team is trying to do in respect to advances of the branch.
- (a) The engagement team is carrying out analytical procedures in respect of advances.
  - (b) The engagement team is carrying out substantive procedures in respect of advances.
  - (c) The engagement team is evaluating internal control over advances.
  - (d) The engagement team is trying to select samples for verification of advances.
- 2.3 Considering state government guaranteed advance of ₹20 crore and its NPA classification made by branch, which of the following statements is most appropriate?
- (a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh government guarantee has no effect on provisioning and income recognition.
  - (b) The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee.
  - (c) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee without having recourse to provisioning and reversal of unrealized income.
  - (d) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee. No provisioning is required. However, for purposes of income recognition, it should be treated as NPA and unrealized income should be reversed.
- 2.4 The branch is operating in CBS environment. In view of above, which of the following statements is most appropriate?
- (a) Due to CBS environment, substantive procedures alone are effective to reduce audit risk to an acceptably low level.
  - (b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management.
  - (c) The extensive use of IT systems in CBS environment substantially reduces need to assess inherent and control risks.
  - (d) Low level of branch staff sensitisation to the control expectations of management requires fewer audit procedures.
- 2.5 With regards to audit documentation, consider the following: -
- (P) NOC from previous auditor

- (Q) Management certified trial balance of branch for year under consideration
- (R) KYC verification details
- (S) Latest RBI master directions/circulars

Which of the following statements is correct as regards to audit documentation?

- (a) Only documents stated at Q and R form part of audit documentation.
- (b) Only documents stated at Q, R and S form part of audit documentation.
- (c) Only documents stated at Q and S form part of audit documentation.
- (d) All documents stated at P, Q, R and S form part of audit documentation. **(5 x 2 = 10 Marks)**

### General MCQs

1. CA X, auditor of Green Shoots Private Ltd. is going through financial statements of the company. On perusing notes to accounts, he finds ageing of trade payables reflecting in accordance with requirements of Schedule III of Companies Act, 2013. He wants to be sure that ageing of trade payables forming part of notes of accounts is proper and carries out ageing independently to confirm its veracity.

Identify audit procedure(s) being performed by CA X.

- (a) Analytical procedures
  - (b) Recalculation
  - (c) Re-performance
  - (d) Observation
2. Consider the following data appearing in financial statements of a firm: -

<b>Particulars</b>	<b>Amount in ₹</b>	<b>Amount in ₹</b>
Machinery (at cost)	XXX	10,00,000
Less: Depreciation of earlier years	6,00,000	XXX
Less: Depreciation of year	60,000	6,60,000
WDV at end of year	XXX	3,40,000

Read the following statements on basis of above: -

- (i) The firm owns machinery.
- (ii) The machinery is being utilized in business of firm productively.
- (iii) The machinery physically exists.

Which of following would be obvious assertions on the basis of above data?

- (a) Only assertions (i) and (ii) can be inferred.
  - (b) Only assertions (ii) and (iii) can be inferred.
  - (c) Only assertions (i) and (iii) can be inferred.
  - (d) All assertions (i), (ii) and (iii) can be inferred.
3. Which of the following is FALSE regarding UDIN? (Unique document identification number)
    - (a) It is to be generated on UDIN portal.

- (b) Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members.
  - (c) It has to be generated and stated for each audit report signed by a Chartered Accountant.
  - (d) It has to be generated and stated for each certificate signed by a Chartered Accountant.
4. Mr. Y is statutory auditor of “Always on Air Limited” under Companies Act, 2013 for year 2021-22. He has to travel a lot in connection with professional audit work to different locations in India. While travelling, he prefers tickets of “Always on Air Limited”. The tickets are booked by him through portal of the company at prevailing market prices. He has purchased tickets of ₹5,05,000/- during year 2021-22 in above manner.

Which of the following statements is most appropriate in this regard?

- (a) Mr. Y has become disqualified to be appointed as auditor of company by virtue of business relationship with the company.
  - (b) Such a situation has no express disqualification under Companies Act. However, there is threat to independence of Mr. Y by virtue of self-interest threats. Therefore, he should withdraw from engagement.
  - (c) Mr. Y has not incurred disqualification under Companies Act.
  - (d) Such a situation has no express disqualification under Companies Act. However, there is threat to independence of Mr. Y by virtue of advocacy threats. Therefore, he should withdraw from engagement.
5. You are part of an engagement team conducting statutory audit of branch of a nationalized bank. It is noticed that branch has sanctioned a cash credit limit for meeting working capital requirements to a proprietary firm. The proprietor has also mortgaged his residential house in the city by depositing title deed with branch. Keeping in view above, consider the following table: -

<b>Column X</b>	<b>Column Y</b>
(1) Stocks of firm	(A) Primary Security
(2) Residential house	(B) Secondary security
(3) Mode of security creation for residential house	(C) Registered Mortgage
(4) Debtors of firm	(D) Equitable Mortgage
(5) Mode of security creation for stocks and debtors	(E) Collateral security
	(F) Hypothecation

**Identify the most appropriate combination by matching Column X with Column Y: -**

- (a) 1-A, 2-B, 3-D, 4-A, 5-C
  - (b) 1-A, 2-E, 3-D, 4-A, 5-F
  - (c) 1-A, 2-B, 3-C, 4-B, 5-D
  - (d) 1-A, 2-E, 3-D, 4-B, 5-D
6. A company is engaged in manufacturing of wooden furniture. The auditor of company notes that company has identified emerging risks pertaining to probable reduction in demand of company's products due to procurement of imported furniture from South East Asian nations. It has also estimated how significant are those risks and their possibility of happening. Besides, it has also formulated an action plan to deal with the situation, in case these risks materialize.

Which of the following options would be most appropriate to describe above situation?

- (a) An example of audit risk for auditor
  - (b) An example of component of internal control of company
  - (c) An example of control risk of company
  - (d) An example of inherent risk for auditor
7. The office of C&AG conducted audit in state of Gujarat to assess whether system for enforcement of the provisions of the Air (Prevention and Control of Pollution) Act,1981 was efficient and effective. It also evaluated whether various schemes and initiatives taken by state government for abatement for air pollution were adequate. Besides, it also assessed adequacy of human resources in State pollution control Board to regulate and monitor air pollution.
- Which of the following terms best exemplifies such audit carried out by C&AG?
- (a) Propriety audit
  - (b) Audit of sanctions
  - (c) Audit against rules and orders
  - (d) Performance audit
8. During the course of audit of a listed company, CA P finds that solar power generating plant capitalized in books for ₹5.00 crore during the year does not exist. It became known that only bills were arranged and no assets were actually procured. Besides, financial statements also reflect depreciation of ₹1.50 crore on above. The bills of capitalized asset were approved by procurement head. The matter was reported to audit committee by CA P. However, no response was received. Considering above, choose the most appropriate option: -
- (a) The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO,2020.
  - (b) The matter needs to be reported to MCA in ADT-4. It does not require reporting under CARO,2020.
  - (c) The matter need not be reported to MCA. However, it requires reporting under CARO,2020.
  - (d) The matter needs neither reporting to MCA nor under CARO,2020.
9. CA M is internal auditor of Crayon Products Limited. Which of the following is not TRUE about scope of internal audit?
- (a) Internal audit is an independent assurance activity.
  - (b) Internal audit helps in improving internal control of the company.
  - (c) Internal audit cannot review non-financial activities of company.
  - (d) Internal audit can review compliance of company with various laws and regulations.
10. Which of the following is not in accordance with spirit of "Professional Skepticism"?
- (a) Being alert to conditions that may indicate possible fraud
  - (b) Overlooking unusual circumstances
  - (c) Using appropriate assumptions in determining nature, timing and extent of audit procedures and evaluating results
  - (d) Being alert to circumstances that suggest need for audit procedures in addition to those required by Standards on Auditing
- (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) Confidentiality requires an auditor to be straight forward and honest in all professional and business relationships.
  - (ii) If during the audit it appears as though actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality.
  - (iii) The internal control questionnaire is a series of instructions/ questions which a member of the auditing staff must follow and/or answer.
  - (iv) The higher the auditor's assessment of the risk of material misstatement, the smaller the sample size needs to be.
  - (v) Systematic sampling means dividing heterogeneous population into homogeneous sub population, where samples are drawn from each sub population.
  - (vi) The Auditor is expected to reduce audit risk to zero and can therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
  - (vii) Audit evidence obtained through observation of the application of a control is less reliable than audit evidence obtained by inquiry about the application of a control.
  - (viii) A detailed Audit Programme once prepared for a business can be used for all business under all circumstances. **(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 the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Explain the purpose of monitoring compliance with quality control policies and procedures. **(4 Marks)**
  - (b) XYZ & associates are appointed as the statutory auditors of Fisco Ltd. for the FY 2021-22. While constructing the audit programme, the engagement partner, CA X, should keep in mind various points. List such points. **(4 Marks)**
  - (c) Explain what understanding should an auditor obtain regarding an entity's risk assessment process (one of the components of the internal control of the entity). **(3 Marks)**
  - (d) With respect to audit in an automated environment, explain the following:
    - (i) CAATs
    - (ii) Data Analytics
    - (iii) Database **(3 Marks)**
3.
  - (a) In exercising judgment as to which risks are significant risks, the auditor shall consider various factors. Explain. **(4 Marks)**
  - (b) ABC Ltd. removed their statutory auditor before the expiry of the firm's term by passing a resolution in the meeting of Board of Directors for his removal without obtaining prior approval of the Central

- Government. Has the company complied with the relevant provisions of the Companies Act in this regard? **(4 Marks)**
- (c) Explain the objective and enlist the activities involved in the General IT Controls over "Program Change". **(3 Marks)**
- (d) Explain how the casual vacancy in the office of an auditor will be filled in case of a company. **(3 Marks)**
4. (a) Discuss the reporting requirements as per CARO, 2020, regarding:
- (i) Inventory and
- (ii) Deposits accepted by company or amounts which are deemed to be deposits. **(4 Marks)**
- (b) The securities premium account may only be applied by the Company towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares. Is the statement correct. Explain. **(4 Marks)**
- (c) The auditor has to ensure whether PPE has been valued appropriately and as per generally accepted accounting policies and practices and also the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Explain how the auditor will verify the same. **(6 Marks)**
5. (a) CA Amar is the statutory auditor of XYZ Ltd. for the FY 2021-22. During the course of audit, CA Amar found that a litigation is going against the company for which the company has hired an external legal team (management expert). CA Amar wanted to use the information as audit evidence which is prepared using the work of the management expert. What should CA Amar consider before using the work of such management expert? **(3 Marks)**
- (b) What is meant by Emphasis of Matter Paragraph? Give some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. **(4 Marks)**
- (c) Explain and also state the role of auditor with respect to the following in case of a school:
- (i) The fees from the students. **(4 Marks)**
- (ii) Other Receipts/Grants & Donations **(3 Marks)**
6. (a) When is an agricultural advance considered as non performing as per the RBI guidelines? **(4 Marks)**
- (b) Explain hypothecation and assignment as the modes of creation of security with respect to advance granted by a bank. **(4 Marks)**

**OR**

- (c) Explain the meaning of Government Audit and also discuss its objectives. **(4 Marks)**
- (d) While checking sales of the client, the auditor has to ensure that all sales are accurately measured as per applicable accounting standards and correctly journalized, summarized, and posted. Explain the audit procedures to ensure the same. **(3 Marks)**
- (e) Explain how you would verify rent expense incurred by a Company. **(3 Marks)**