



The Institute of Chartered Accountants of India

Code: IN6AA419078
Subject : 06 Auditing and Assurance

Total Marks: 70
Marks Obtained : 49.5

Subject : Auditing
Number of Answer Books used : Main + 4 additional sheets

For use by ICAI only

419078



03 FEB 2021

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1	✓						
2	✓						
3							
4	✓						
5	✓						
6	✓						
7							
8							
9							
10							
11							
12							
13							
14							
Total							

Total Marks awarded (in words) _____

Examiner's Signature _____

Use only Blue / Black Ball Point Pen to write and shade the circles.
AVOID RED PEN.
Write the marks in the boxes before shading the respective circles.

Total Marks awarded

0	0
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9



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INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

- Answers should be written in figures and words in the allotted space at the right hand corner of the answer book and nowhere else including additional answer book/s and graph paper.
- Answers should be written in the box in numbers and darken the appropriate circles of the OMR provided in the right hand corner of the cover page with **Black / Blue** ball point pen.
- Write particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.
4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.
 5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.
 6. The answers should be written neatly and legibly
 7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.
 8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.
 9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"
 10. Before submission of answer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.



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Q1	<u>Part II</u>
1a	<u>Ans (1.)</u>
1aStep1	(a.) <u>Incorrect</u> :- The complexity of business environment depends on the level of automation, if a business environment is more ~~then~~ automated, it is likely to be <u>more complex</u> . & vice-versa. <u>Example</u> :- In an ERP system (Enterprise Resource Planning), the automation is high & tend to be <u>more complex</u> as compared to manual system.
1b	(b.) <u>Incorrect</u> :- The auditor is <u>not expected</u> , & cannot reduce audit risk to zero & therefore cannot obtain ~~reasonable~~ absolute assurance that the financial statements as a whole are free from material misstatements, due to fraud or error. This is because of <u>inherent limitations of an audit</u> .
1bStep1	



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4



2

1c

2

1cStep1



1

1d

1

1dStep1

1.5

1f

(c) Correct:- Determining Materiality involves a exercise of professional judgement. A percentage is given applied to a chosen benchmark as a starting point in the determining materiality for a financial statements as a whole.

(d) Incorrect:- The objectives & scope of internal audit functions are relating to ~~both~~ activities +
• relating to Governance.
• relating to Risk Management / Assessment
• relating to internal control.
(Balance sheet, statement of financial position, professional, evaluation & examination)

(f) Incorrect:- Any casual vacancy in the office of an auditor, in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by C&AG, be filled by the Board of Directors

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1.5

1fStep1

within 7 days of the date of
vacancy.
• If the vacancy is a result of
resignation of the auditor,
it shall also be approved
by the members ^{of the company} in the ~~an~~ general meeting
(Extraordinary) convened within
3 months from date of
~~renew~~ appointment made
by the directors.

DO NOT WRITE ANYTHING HERE

2

1g

(g) Correct:- Sufficiency is the
measure of quantity
of audit evidence.
• It is affected by the auditor's
assessment of the risk
of material misstatement
(higher the assessed risk, the
more the audit evidence required).
• and by the quality of audit
evidence (higher the quality, less
the audit evidence).
• However, obtaining more audit
evidence cannot compensate
for the poor quality.

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2

1gStep1



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(2a)

1

1h

1

1hStep1

Incorrect:- Communication key matter is not a substitute for the auditor expressing a modified audit opinion when required by the circumstances of a specific audit engagement in accordance with

SA-705.

Further, it is not:-

- a separate opinion on individual matters
- a substitute for the ~~etc~~ disclosures in the financial statements required by applicable financial framework
- a substitute for reporting as per SA 570.

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12 Q4

4 4a

Ans. (4a)

As per "SA-530" Audit Sampling

(i) Sampling risk:- It is the risk that the auditor's conclusion based on a sample may be different from the conclusion that would have been reached if the entire population was subject to the same audit procedures. This leads to two types of erroneous conclusion:-

- in the case of test of controls, that the controls are more effective than they actually are,
- in the case of test of details, that the misstatements don't exist, when in fact it does.
- the auditor is primarily this type of erroneous conclusion, because of ~~it~~ it affects the audit effectiveness and more likely to result in an inappropriate audit opinion.



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- • in the case of test of controls, that the controls are ~~too~~ less effective than they actually are, &
- in the case of test of details that the ~~controls~~ misstatements exist, when in fact it doesn't.
- this type of ~~erroneous~~ erroneous conclusion affects audit efficiency.
- it includes "substantive audit work" to prove the original result were incorrect.



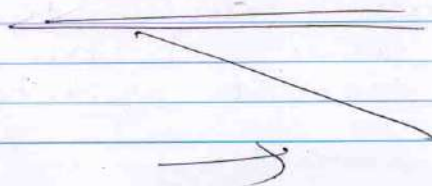
4aStep1

Non-Sampling Risk ÷ It is the risk that auditor ~~expresses~~ reaches an erroneous conclusion for any ~~reason~~ reason other than sampling risk.

Example:- human mistakes, ~~and~~ Mathematical problems in calculation, etc.



4aStep2





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4b

Ans. (4b)

→ There are basically four types of audit test to be used +

- Inquiry
- Observation
- Inspection and
- Reperformance

→ Inquiry is the most ~~efficient~~ efficient audit test but gives the ~~least~~ least audit evidence & least effective. ~~The~~ Inquiry should always be applied with combination of any other method. Inquiry alone is not sufficient.

→ Reperformance is the most effective audit test & gives the best audit evidence but is ~~often~~ least efficient most of the time & time consuming.

→ Generally, applying inquiry in combination with inspection, gives the most efficient & effective audit evidence.



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→ However which audit test to use, when to use & what combination is a matter of professional judgment of the auditor.

→ the factors that affect the judgment are:-

- risk assessment
- ~~desired~~ desired level of confidence
- environment of automation.
- extent of automation, etc.

the common methods used are:-

- ~~Observe how an~~ Obtain an understanding of how an ~~auto~~ automated transaction is processed by doing a walk through of one end-to-end transaction using a combination of inspection, inquiry & observation.
- Observe how a ~~test~~ user processes ~~the~~ transactions under different scenarios.



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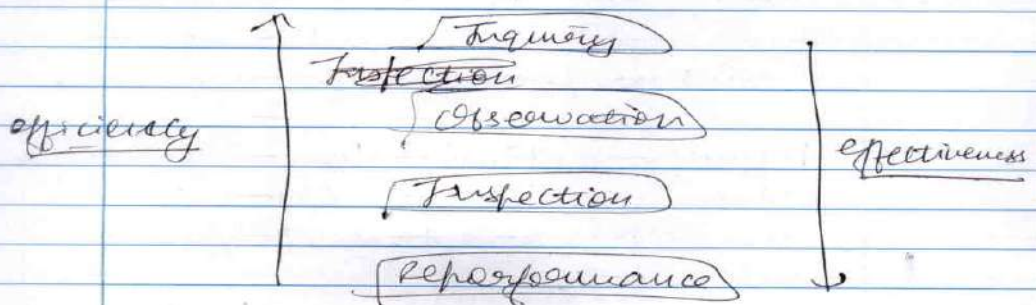
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- DO NOT WRITE ANYTHING HERE
- ☐ Inspect the configuration defined in an ~~app~~ application.
 - ☐ Inspect the system logs.
 - ☐ Inspect the technical & manual/ user manual of users.
 - ☐ Carry out ^{negative} test checks & observe ~~to~~ errors message displayed by the applications.
 - ☐ Conduct re-performance using raw source data & independently applying formulas.
- DO NOT WRITE ANYTHING HERE



4bStep1



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4d

Ans (4d)

three ways where cash receipts can be suppressed are:



(i) 4dStep3

Not accounting for cash sales fully.



(ii)

Not accounting for miscellaneous receipts, other incomes, etc.



4dStep2

(iii)

Writing down the assets entirely, selling them subsequently & misappropriating the proceeds.



(iv)

Writing off as bad debts in respect of accounts & misappropriating the proceeds.



4dStep1

(v)

Adjusting unauthorised discounts, rebates in the customers accounts & misappropriating subsequently.



(vi)

Learning & loading.

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2

4c

Ans. (4c)

(i) Interest income from fixed deposits +

1

4cStep1

It should be recorded on a time proportionate basis taking into account the relevant date & the outstanding amount.
The amount shall +

→ Obtain a listing of the fixed deposits by the entity at the end of each quarter & ~~prepare~~ using the interest obtain the amount of interest & reconcile it.

→ ~~Requesting~~ Requesting Confirmation with bank about the amount of fixed deposit with ^{it} ~~at~~ the year end.

→ requesting confirmation from the bank about the interest credited to the entity & reconcile it.



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(ii) Dividend income :-
It shall be recognized only when :-

→ the entity's right to receive the payment of dividend is established :-



→ it is probable that the economic benefits flow to the enterprise, and



4cStep2

→ the amount can be estimated reliably.



(iii) Gain/loss on sale of investment in mutual funds :-

→ It shall be recognized when all the ~~the~~ significant ownership interest is transferred.

→ It shall be determined as an amount of difference between the redemption (sale) value and the carrying (book) value of the investment



4cStep3

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Q5	
5b	<u>Ans (5b)</u> The auditor's ~~section~~ report shall include the heading 'Basis for Opinion' after the 'Opinion' section which shall state - (i) State that the audit was conducted & performed in accordance with the ~~the~~ standards on Auditing. (ii) ~~Refer~~ Refer to the section of the auditor's report that describes the auditor's ~~ref~~ responsibilities relevant to the SA's (iii) ~~State~~ State that the auditor is independent of the ~~the~~ entity & complying with the ethical requirements & professional and legal standards.



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(iv)

2

5bStep1

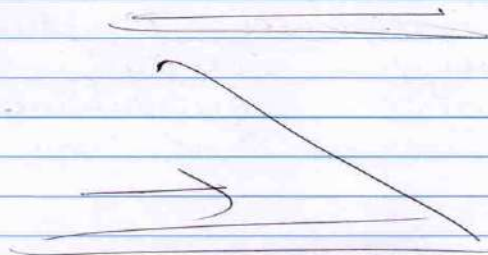
State that the auditor believes that he has ~~also~~ obtained sufficient appropriate audit evidence on the which to base the opinion ~~of~~ on the financial statements.

→ When the auditor modifies the opinion, the following amendments should be made to the Section:

- 'Basis for Opinion' shall be replaced with 'Basis for Modified Opinion'.
- Include within the section the reason of the modification of the financial statements.

1

5bStep2





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2

5c

Ans (5c)

→ The substantive ~~and~~ analytical procedure is limited only by the availability of the reliable data & the creativity & experience of the audit team. Such techniques are available.

• Trend Analysis - It involves the comparing the current balance of an account with the ~~period~~ period balances or with ~~a~~ ~~for~~ a trend in two or ~~for~~ more period balances.

It involves checking whether the current balance of an account moves in line with the trend established in prior periods.



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(ii) Ratio analysis - It is useful in analysing assets, liabilities, incomes & expenses accounts.

An individual balance is difficult to predict ~~predicts~~ on its own, but its relationship with the other ~~account~~ accounts is often more predictable.

(iii) Reasonableness tests - Unlike trend analysis, this does not rely on values of prior period, but upon the non-financial data for the period under consideration. It is useful in income statement accounts, certain prepayment & outstanding accounts.

(iv) Structural modelling - A modelling tool that constructs a statistical model based on the financial/non-financial data of the prior period to ~~predict~~ predict current account balances.

2 5cStep1



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2 5d

Ans (5d)

According to Section 144,
→ ~~any auditor appointed shall~~
~~not provide or~~

→ Section 144 prescribes certain services
not to be rendered by an
auditor.

→ An auditor appointed under
this act, shall provide only
such service as may be
approved by the Board
of directors or audit committee,

but shall not include any of
the following services:

- (i) accounting & book keeping services
- (ii) internal audit
- (iii) actuarial services
- (iv) investment banking services
- (v) investment advisory services
- (vi) design & implementation of
the financial information
system.



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(vi) rendering of outsourced financial services.

(vii) such other services as may be permitted.



5dStep1

Provided that an audit firm or an individual who provides any non-audit services on or before the commencement of this act, shall comply with the provisions of this ~~act~~ ~~section~~ ~~within a time~~ before the closure of first financial year after the date of such commencement.

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☐	
☒	Q6
☒	6a
☐	Ans. (6a).
☐	→ Verification of the receipts of an NGO.
☐	(i) <u>Income (Interest) on investments</u> & Verify the interest (income) on investment with the investment register & the physical verification, also to reconcile the interest using recalculation & confirmation procedures.
☐	(ii) <u>Subscription fees</u> & Verify the subscription fees with the register of members & the subscription received on each one of them & also reconcile it with a number of periodicals or magazines received & issued to the members. & Verify with the subscription register & receipts issued.



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(iii)

Membership fees - It may be ~~the~~ life time membership fees which are provided only once in a lifetime, the auditor shall verify it with the register of members

& the member receipts issued, to the members, also the number of magazines & periodicals issued must reconcile with it.

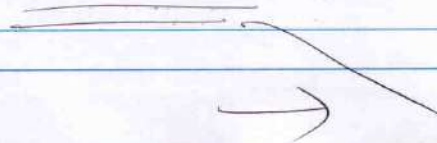
Grants &

(iv)

Donations - It shall be verified by reference to the receipts issued & the confirmation & cash received in the accounts by ~~the~~ verifying the bank accounts of the person. & also the register of the donations maintained.



6aStep1





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→ Where the remittances under the Consolidation arrangement are made by the bank & it is the share of other member banks, it shall be treated as not required in the books of member banks.

Provisions:

Standard	15%	
Sub-standard	15%	
Doubtful	25%	100%
1-3 yrs	40%	100%
>3	100%	100%
Losses	100%	100%



6bStep1



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2 6d

Ans. (6d)
Ans (6d).

As per "AS-1 - Disclosure of Accounting Policies" & in line with the auditor's duty.

• A member of staff qualify his audit report if:

→ ~~sign~~ adequate disclosures relating to the & accounting policies as ~~is~~ required by the Schedule III of the Act (company) has not been made.

→ the accounts are not prepared on accrual basis.

→ ~~the accounts are not prepared on a going concern basis & the state financial st~~

→ the fundamental Accounting assumption ~~is not followed~~ of going concern is not followed & the fact is not disclosed in the financial statements



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(iv) ~~the~~ any significant change in an accounting policy has not been disclosed.

1

6dStep1

Where the company is given any exemption about any of the requirements above & the audit is not indicated above exemption, the auditor shall disclose the exemption in the report rather than making it an subject matter of qualification.

In the following case XYZ Ltd. is prepared accounts on the cash basis, which is violation of the AS-9 & Companies Act.

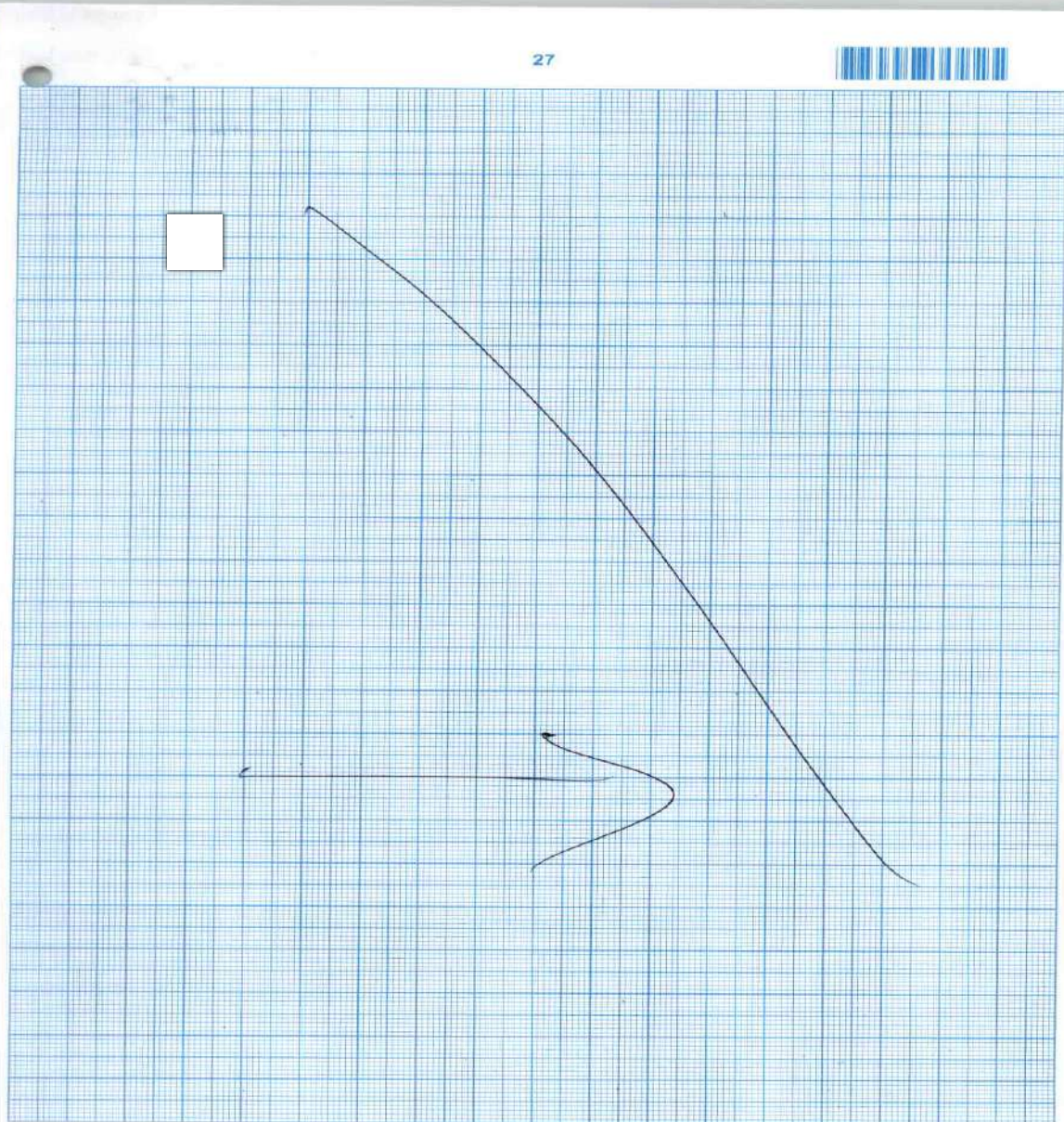
→ Therefore, in the following case, the auditor of the XYZ Ltd. shall qualify his audit report & make clear disclosures that the fundamental accounting assumption is not followed.



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→ the auditor shall ~~at~~ make a qualified opinion (qualify the report) on the basis of such violation.

→ He shall ~~also~~ disclose that the accrual basis is ~~is~~ not followed.



6dStep2



6dStep3



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Addl. Book No. 2

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ADDL. BOOK

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ADDITIONAL ANSWER BOOK

12 Q2

2 2d

Ans. (2d.)

- The objectives of the auditor regarding written representations are:-

→ To obtain written representation

To obtain written representation from the ~~the~~ management. Also that the management believes that it has fulfilled the ~~the~~ responsibility for the preparation of the financial statements & completeness of information provided to the auditor.

1 2dStep1



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→ ~~to support other~~ other

→ to support other audit evidence +

the ~~other~~ auditor shall use the written ~~other~~ representation to support the audit evidence ~~other~~ from specific assertions of the financial statements & the classes of transactions, account balances & disclosures.

→ to respond ~~to~~ appropriately & +

to respond appropriately to written representation provided by the ~~other~~ entity & management or if the written representation is ~~to~~ not provided as requested by auditor.

2dStep2

2dStep3

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2c

Ans(2c)

Misappropriation of entity's assets
Theft of an entity's asset is often perpetrated by employees in relative small & immaterial ~~not~~ amounts. It may also involve management which can conceal or disguise the theft for bigger theft, it includes following:-

1

2cStep1

Embezzling receipts (example, when cash sales are embezzled by the employees)

1

Stealing an entity's assets (example, ~~assets~~ employees can steal the goods of the entity)

1

2cStep2

→ Causing an entity to pay for goods & services not received (example, when payment is made against ~~entity~~ fictitious vouchers)



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2cStep3

→ Using an entity's assets for personal use (example, when the employee takes the assets of entity for personal benefits)



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3 2b

Ans (2b)

The procedure for appointing or
auditor a person other than
the retiring auditor are -

DO NOT WRITE ANYTHING HERE

→ Special notice shall be required
for appointing or auditor
a person other than
the retiring auditor or providing
expressly the retiring
auditor shall not be reappointed
except, on the completion of
one term / two term of five
consecutive years.

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→ On receipt of ~~such~~ a notice of
a resolution, the company
shall forthwith send a
copy thereof to the
auditor.

1 2bStep2



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→ the auditor may after the receipt of such a notice, may be given a reasonable opportunity of being heard & may make notification in writing to the company, & shall request its notification to the members of the company

1 2bStep3

and the company shall, unless the representation is received by it too late to do so:-

- state that in every notice of resolution, state the fact of representation having been made.
- send a copy of representation to every member of the company to whom the notice of the meeting is sent, either after or before the receipt of representation by the company



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4

2a

Ans(2a).

The fundamental principles ~~relevant~~
~~to the audit~~ of professional
ethics, relevant to the auditor
when conducting an audit
of financial statements in
accordance of Code of Ethics
by ICAI are:-

3

2aStep1

Integrity

Objectivity

Professional Competence & due care

Confidentiality

Professional behaviour.

→ The code of Ethics requires the
auditor to be independent of
the entity of which is
he auditing

→ Auditor should always be & appear
to be independent of the
entity to all reasonable persons.

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ADDL. Book No. 3.....

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ADDL. BOOK

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ADDITIONAL ANSWER BOOK

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1 2aStep2

→ Independence implies that the judgement of an individual is not subordinate to the wishes or direction of some other person.

→ ~~A character~~ It is a mind as well as personal character.

→ The auditor's objectivity should not be compromised.

→ He should provide the independent report without affecting by influences & threats.

→ He shall maintain confidentiality of the information provided to him for the purpose of audit.



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1 6c

Ans - (6c.)

→ The objectives and scope of an internal audit function with respect to activities relating to internal control are -

(i) Examination of internal control
It helps in the examination of the internal control with the objective analysis with an objective of identifying any deficiency in the system & to correct it. It improves the effectiveness & efficiency of internal control.

(ii) Compliance of laws & regulations
It helps in complying with all the laws & regulations as the company may be subject to from time to time.

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(iii) Evaluation of internal control

It evaluates the internal control to identify the defects & providing remedy.

DO NOT WRITE ANYTHING HERE



(iv) Complying with Professional Standards & regulatory requirements - It helps the entity with the overall legal requirements in the environment

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6cStep1



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The Institute of Chartered Accountants of India

Code: IN6AA419078
Subject : 06 Auditing and Assurance

Total Marks: 70
Marks Obtained : 49.5

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The Institute of Chartered Accountants of India

Code: IN6AA419078
Subject : 06 Auditing and Assurance

Total Marks: 70
Marks Obtained : 49.5

Result Overview

Awarded Marks: 49.5 Max Marks:70

NA Not Attempted O Optional M Marked

Q1 Compulsory (Score: 9.5/14)

Question No	Awarded Marks	Maximum Marks	Status
Q1	9.5	14	M
1a	1	2	M
1b	1	2	M
1c	2	2	M
1d	1	2	M
1e	0	2	O
1f	1.5	2	M
1g	2	2	M
1h	1	2	M
Q2_Q6 (Score: 40/56)			

Question No	Awarded Marks	Maximum Marks	Status
Q2	12	14	M
2a	4	4	M
2b	3	4	M
2c	3	3	M
2d	2	3	M
Q3	0	14	O
3a	0	4	O
3b	0	4	O
3c	0	3	O
3d	0	3	O
Q4	12	14	M
4a	4	4	M
4b	3	4	M
4c	2	3	M
4d	3	3	M
Q5	9	14	M
			M

			...
5a	2	4	
5b	3	4	M
5c	2	3	M
5d	2	3	M
Q6	7	14	M
6a	2	4	M
6b	2	4	M
6c	1	3	M
6d	2	3	M