1. You are an article assistant in XYZ & Co. You are assigned to conduct internal audit of ABC Rubber Ltd. (a tyre manufacturing company in Dehradun). Audit was commenced on 21st Dec, 2017. Draft report was issued on 15th Feb, 2018. Final discussion with management and audit committee was held on 2nd Mar, 2018. All the observations & summaries were prepared, and final report was signed on 5th Mar, 2018. After completion of audit, you are appointed as in-charge for audit file documentation. After collecting all the working papers and audit evidence, when are you supposed to complete audit documentation:

(a) 4th April, 2018

(b) 1thMay, 2018

(c) 4th May, 2018

(d) 3rd June, 2018

2. XYZ Ltd. is leading company in textile industry. It appoints ABC & Co. to conduct internal audit report. As an article assistant in ABC & Co., you are assigned to conduct internal audit of XYZ Ltd. While conducting audit, you undertake informal oral inquiries addressed to internal staff of XYZ Ltd. During this process, one of the clerks inform you about a cash related fraud committed by Asst. Treasury Manager. In order to support this observation, you indulge into informal discussion with Senior Treasury Manager. After this discussion you conclude that a fraud related to cash has been committed. To support this observation, you ask Clerk and Senior Treasury Manager to give a written confirmation. Both of them refuse to give any written confirmation. While presenting this observation to top management, management argues that informal oral inquiries cannot be considered as valid audit procedures to obtain sufficient and appropriate audit evidence. What is the next course of action taken by you:

(a) Override management's response and communicate this observation to audit committee

(b) Discuss with management and try to convince that informal oral queries are valid audit procedure to obtain audit evidence.

(c) Drop this observation due to insufficient audit evidence

(d) Obtain corroborative audit evidence to support your observation

3. Z & Associates is a reputed audit firm in Delhi. The firm is appointed to conduct internal audit of PQR Ltd., a pioneer company in petroleum industry. As an article assistant in Z & Associates, you are assigned to conduct this internal audit. While conducting audit, one of your seniors find a fraud in payroll procedures. The fraud was communicated to management. Management accepted that primary responsibility for prevention and detection of frauds is that of the

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management of the entity. Management asks internal auditor to aid with fraud prevention and detection. But your senior refuses to provide such assistance and argues that internal auditor is not responsible to help management in fraud prevention and detection. Considering all the facts of the case, what is the correct approach to address this situation:

(a) Override your senior's argument and help management in fraud prevention and detection.

(b) Agree with your senior's arguments and do not help management in fraud prevention and detection.

(c) Arrange a discussion with management, senior and partners of firm. You agree that internal auditor is responsible to help management in fraud prevention and detection.

(d) Break the formal line of communication and directly discuss with partner of firm.

4. You are an article assistant in X & Associates. You are assigned to conduct internal audit of PQR Ltd., a leading company in insurance industry. While conducting the audit, you find some discrepancy in valuation of claims payable provision. In order to confirm your claim, you obtain technical advice and assistance from an actuary. Actuary values the provision of claims payable and submits his report. After receiving actuary's report, you come to know that actuary has financial interest in PQR Ltd. What is your responsibility in this situation?

(a) Accept the report of actuary as his financial interest in PQR Ltd. doesn't affect the report submitted by him.

(b) You should satisfy yourself that expert has no financial interest in PQR Ltd. that prevents him from rendering unbiased and impartial judgements and opinions.

(c) Compute the extent of actuary's financial interest in PQR Ltd. and then take a decision whether to accept his report or not.

(d) Reject the report submitted by actuary. Take assistance of other actuary for valuation of claims payable provision.

5. M & Associates is a reputed audit firm in Mumbai. The firm is appointed as internal auditor by ABC Ltd., a leading company in manufacturing industry. While conducting audit of purchase department, you observe that in one case purchase order (P.O.) was issued on 22nd Nov, 2018. On further analysis, you find that goods in respect of that P.O. were received on 16th Nov, 2018. Invoice of such goods was received on 19th Nov, 2018. You bring this into notice of management. Management disagrees with this observation and produces a copy of revised P.O. issued on 13th Nov, 2018. How will you handle this situation?

(a) Agree with management's argument and consider the revised P.O. issued on 13th Nov, 2018.

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(b) Obtain confirmation from vendor in this respect to clarify your observation.

(c) Disagree with management's argument and report this observation in internal audit report along with all facts, figures and audit evidences.

(d)Drop this observation as it is not being supported by appropriate audit evidence.

6. ABC Ltd. has appointed M & Associates to conduct internal audit for F.Y. 2017-18. You are a member of internal audit team. During the course of audit, you observe that one of the partners of firm has personal interest in ABC Ltd. What is the correct course of action to be taken?

(a) Continue with the audit as partner who has interest in ABC Ltd. is not in-charge of this internal audit.

(b) Report this to management of ABC Ltd.

(c) Report this to senior partner of M & Associates and insist to withdraw from this engagement.

(d) Document this circumstance in audit file and continue with audit.

7. You are appointed as a member of internal audit team which is assigned to conduct internal audit of FG Ltd. While conducting the audit of sales department, you insist on obtaining balance confirmation from debtors. Management argues that this is out of scope of audit as it was not mentioned in terms of engagement. You go through the terms of engagement and find that no such restriction is mentioned in engagement letter. You inform this fact to management. In order to restrict you from obtaining balance confirmation from debtors, management insists on changing the terms of engagement. What is the appropriate step to be taken by you?

(a) You disagree to the changes in terms of engagement and withdraw from the engagement henceforth. You report this to other parties under contractual obligation.

(b) You agree to the revised terms of engagement and do not obtain balance confirmation.

(c) You document this issue in audit file and discuss with audit committee.

(d) You override the management of FG Ltd. and inform debtors to provide balance confirmation.

8. HMN Ltd. is a leading company in mining industry. It is engaged in extraction of rock phosphate. It has appointed X & Co. to conduct internal audit for F.Y. 2018-19. You are assigned to conduct internal audit of HMN Ltd. While conducting audit of maintenance department, you find that there are many spare items related to dumpers, sprinklers, shovels, drills & dozers lying unused on shop floor. You observe that maintenance department in not maintaining any record of such

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unused spare items. Management argues that all the spare parts are obsolete in nature. Hence, no records are required. What will be your recommendation to the management?

(a) You suggest management to discard these spare parts as they are obsolete in nature.

(b) You suggest management to prepare proper inventory register for all spare parts.

(c) You suggest management to prepare proper inventory register only for high value spare parts.

(d)You suggest management to outsource maintenance operations as it will be more beneficial for HMN Ltd.

9. Mr. Suresh is an Internal Auditor of ABC Ltd. He has been assigned to initiate the audit proceedings. To whom he should approach for initial discussion around internal audit planning and engagement?

(a) Management personnel responsible with governance of internal audit process

(b) Audit Committee

(c) Both A&B

(d) Plan should be developed independently by internal auditor based on scope provided without any management discussion

10. Being an internal auditor of hotel ABC Hospitality Ltd, you have been assigned the audit of purchase department for the quarter ended 30.9.2018. While conducting the physical verification of stock you found that the quantity of goods ordered, and the quantity of goods received from the vendors is not equal. The reason for the same was that the clerk did not match the required documents while receiving the goods. While preparing your internal audit report, you suggest to management to avoid these mistakes, when goods are received, the clerk should match the goods with which of the following:

(a) Vendor's shipping document and Purchase order.

(b) Vendor's invoice and receiving report

(c) Receipt note and vendor's invoice.

(d) Purchase order and the requisition form

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11. SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year.

Being the internal auditor what internal audit procedures may be applied to audit the canteen income?

i. Check the records maintained for the canteen operations to support all financial transactions.
ii. Review the agreements and contracts in case the canteen is run by an outside party.
iii. Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, FEMA, GST, Companies Act, etc.
iv. Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.

Which of the above mentioned procedures would be relevant?

(a). i, ii, iii and iv.

(b). i, ii and iii.

(c). i, ii and iv.

(d). i, iii and iv.

12.TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR 899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within an year. If that doesn't happen then the company may look for funding through private placement.

For some projects the company receives grants from government. These projects run upto 5-10 years. XYZ & Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received.

i. Check the donations received with the copies of receipts.
ii. Check sanction letters for any conditions attached with the donations.
iii. Examine the statements submitted for utilisation of grant.
iv. Verify the grants received from the Government or other authorities with reference to all the correspondences.
v. Verify all the bank statements of the company to trace the grants received and its utilization.

(a). i, ii, iii, iv and v.

(b). i, ii, iii and iv.

(c). i, iii, iv and v.

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(d). i, ii, iii and v.

13.ONZ Ltd is in the business of trading of consumer equipments. The company's turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly.

The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time.

During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged manually on automated generated invoice.

How would you deal with this as an auditor?

(a) Internal auditor should report this matter.

(b) Internal auditor should discuss with management about way forward and drop this point.

(c) Internal audit observation is not right.

(d). Internal auditor should ignore on the grounds of materiality.

14. MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time.

The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements, repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.

(a) Internal auditor should report this matter as this can be a serious deficiency.

(b) Because all other proofs are available, internal auditor should ignore this point.

(c) Internal auditor should report this matter to Reserve Bank of India.

(d) Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.

15. AAS Ltd is in the business of fast food chains. During the internal audit of accruals/ expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company but no review mechanism was seen for this. Management explained that there is a review mechanism but

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this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?

(a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor.

(b) The Company's management seems reasonable here.

(c) This matter should be considered on the basis of materiality.

(d) Internal auditor should further investigate as this is indicative of fraud.

Answer :

1	(c)
2	(d)
3	(c)
4	(b)
5	(c)
6	(c)
7	(a)
8	(b)
9	(c)
10	(a)
11	(c)
12	(b)
13	(a)
14	(a)
15	(a)

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