ISA 200

Audit of the financial statements relieve management from their responsibilities.

False: Audit of financial statements does not relieve management from their responsibilities.

Auditor should comply SA, even it is not relevant.

False: The auditor need not comply with each requirement of an SA in the circumstances where the entire SA is not relevant.

Auditor may departure from SA in exceptional circumstances.

True: In the exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA.

Auditor should not modify his opinion when a relevant SA's objective cannot be achieved.

False: Auditor needs to modify his opinion when a relevant SA's objective cannot be achieved.

Management is not primary responsible for preparation and presentation of financial statements.

False: Management is primary responsible for preparation and presentation of financial statements.

ISA 210

Auditor can accept or continue his audit engagement without satisfying any requirements.

False: As per SA-210, auditor has to accept or continue his audit engagement only when preconditions for an audit are present and there is a common understanding between the auditor and management.

Management is responsible for designing and implementing necessary internal controls.

True: The management is responsible for designing and implementing necessary internal controls according to the nature and size of the business of the entity.

Management may or may not provide additional information which is requested by the auditor for the purpose of the audit.

False: It is one of the pre-conditions for an audit, i.e. management should provide additional information that the auditor may request from management for the purpose of the audit.

Management needs to provide unrestricted access to the auditor in respect of persons within the entity.

True: Management needs to provide unrestricted access to the auditor in respect of persons within the entity for the purpose of audit.

Letter of engagement is needs to be sent by the auditor in recurring audits also normally.

False: Normally, auditor need not send letter of engagement in recurring audits except in some cases.

Letter of engagement should be sent by the auditor to his client before the completion of audit.

False: Letter of engagement should be sent by the auditor to his client before starting the audit.

ISA 220

Engagement partner is a senior partner in an audit firm.

False: Engagement partner is a Partner in an audit firm who is responsible for the audit engagement.

Engagement quality control review should be undertaken after the audit report is issued.

False: As per SA 220, the engagement quality control review should be undertaken before making sign on the audit report.

Engagement quality control reviewer must be a suitably qualified external person.

False: Engagement quality control reviewer must be a practicing CA but not the member of engagement team. So he may be internal or external to the audit firm.

Engagement team should not include an expert.

False: Engagement team refers to all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

Engagement quality control review is compulsory for all audit engagements.

False: It is applicable only for listed companies and other specified companies.

Engagement quality control reviewer need not evaluate the engagement documentation.

False: Engagement quality control reviewer needs to evaluate the engagement documentation.

ISA 230

Working papers and Work papers both are different.

False: As per SA 230, working papers and work papers both are the same.

Working papers are papers which are prepared by management and obtained by the auditor.

False: Working papers are papers which are prepared or obtained by the auditor and retained by him.

Audit file must be in electronic form that comprises the audit documentation for a specific engagement.

False: Audit file may be in electronic form or physical form as per SA 230.

Experienced auditors may be internal or external to the firm appointed as auditor.

True: As per SA 230, experienced auditor may be internal or external to the firm appointed as auditor.

After assembly of the final audit file, auditor may delete or discard audit documentation of any nature.

False: After assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

The content of audit documentation is uniform for every audit.

False: The form and content of audit documentation is varied based on size of entity, risk of material misstatement, significance of the audit evidences obtained etc.

ISA 240

Fraud risk factors necessarily indicate the existence of fraud.

False: Fraud risk factors are the indicators of existence of fraud. Even though they does not confirm about the existence of fraud, they have often been present in the circumstances where frauds have occurred.

An auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements.

True: Auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements. He cannot obtain absolute assurance because of presence of inherent limitations of an audit.

The auditor can detect 100% frauds in his audit.

False: Auditor cannot detect 100% frauds and errors in his audit due to the presence of inherent limitations of an audit.

The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to exercising reasonable care and skills.

False: The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill.

As per SA-240, misstatements in the Financial Statements can arise from fraud only.

False: As per SA 240, misstatements in the financial statements can arise from either fraud or error

ISA 260

SA 260 deals with communication with management.

False: SA 260 deals with communication with TCWG.

The Auditor need not communicate the matter relating to planned scope and timing of the audit to TCWG.

False: The auditor needs to communicate the matter relating to planned scope and timing of the audit to TCWG before starting the audit.

There is no chance for risk of material misstatement when there is no two way communication between the auditor and TCWG as per SA 260.

False: There is a chance for risk of material misstatement when there is no two way communication between the auditor and TCWG as per SA 260.

Auditor needs to communicate to TCWG regarding independence in some cases.

True: In the cases of listed entities, auditor needs to communicate to TCWG regarding independence.

Auditor has to communicate some matters to TCWG in writing or orally as per SA 260.

False: Auditor has to communicate some matters to TCWG in writing only as per SA 260.

ISA 265

Auditor should communicate all deficiencies in internal controls to TCWG, whether they are significant or not.

False: Auditor should communicate all deficiencies in internal control to TCWG, if they are significant only.

Auditor is responsible to report about all deficiencies which are existed in the internal controls to the management.

False: Auditor is responsible to report about all deficiencies which are noticed by him during his audit in internal controls to the management.

As per SA 265, auditor need not provide explanations regarding potential effects to identified deficiencies to the management or TCWG.

False: As per SA-265, auditor needs to provide explanation regarding potential effects to identified deficiencies to the management or TCWG.

The purpose of the audit was for the auditor to express an opinion on the financial statements and internal controls.

False: The purpose of audit was for the auditor to express an opinion on the financial statements but not on internal controls.

Evidence of ineffective aspects of the control environment is an indicator for other deficiency.

False: Evidence of ineffective aspects of the control environment is an indicator for significant deficiency in internal control.

ISA 300

The Auditor is not required to document the overall audit strategy as per SA 300.

False: The auditor is required to document the overall audit strategy as per SA 300.

Successor auditor is required to communicate with Predecessor auditor.

True: In case of an initial audit engagement, Successor auditor is required to communicate with Predecessor auditor as an ethical requirement.

Auditor has no mandatory obligation to plan the audit of Financial Statements.

False: As per SA 300, auditor is responsible for planning an audit of Financial Statements.

Auditor is required to document the significant changes made to the audit plan.

True: Auditor is required to document the significant changes made to the audit plan along with the overall audit strategy and audit plan.

SA 300 is framed in the context of an initial audit engagement.

False: SA 300 is framed in the context of recurring audits.

Establishing an understanding of the terms of the engagement is part of preliminary engagement activities as per SA 300.

True: Establishing an understanding of the terms of the engagement, as required by SA 210 is part of preliminary engagement activities as per SA 300.

Auditor should not change his audit plan during the audit.

False: Auditor can change his audit plan as per SA 300 based on the circumstances but those changes must be documented.

ISA 315

Risk Assessment procedures are required to be performed by the management of the company.

False: Risk assessment procedures are required to be performed by the auditor.

The auditor shall obtain an understanding of all controls, whether they are related to the audit or not.

False: Auditor is required to understand the controls, only when they are relevant to audit.

Significant risk refers to an identified and assessed risk of material misstatement that, in the management's judgement, requires special audit consideration.

False: Significant risk refers to an identified and assessed risk of material misstatement that, in the auditor's judgment, require special audit consideration.

There is regular need for knowledge of business during conduct of audit.

True: Usually knowledge is obtained at the start of the audit and updated during audit. There is continuous need for knowledge (knowledge is refined and added in later stage of audit)

Audit doesn't require knowledge of business operations on part of auditor.

False: In financial statement of client, results of various operations/functions are shown. Unless auditor has knowledge about basic business operations, he can't judge their financial results in effective way.

ISA 320

In determination of Materiality, management has to use their professional judgment.

False: In determination of Materiality, auditor has to use his professional judgment.

As per SA 330, auditor should consider materiality and its relationship with audit risk while conducting an audit.

False: As per SA 320, auditor should consider materiality and its relationship with audit risk while conducting an audit.

Materiality is an important consideration for the management to evaluate whether the financial statements reflects a true and fair view or not.

False: Materiality is an important consideration for the auditor to evaluate whether the financial statements reflects a true and fair view or not.

The materiality should not be changed during the audit.

False: The materiality can be changed by the auditor during his audit.

Performance materiality is always lesser or higher than the materiality for the financial statements as a whole.

False: Performance materiality is always lesser than the materiality for the financial statements as a whole.

ISA 330

The auditor shall obtain less persuasive audit evidence in case of higher the auditor's assessment risk.

False: The auditor shall obtain more persuasive audit evidence in case of higher the auditor's assessment risk.

If there is no change in internal control, auditor shall test the controls at least once in every fifth audit.

False: If there is no change in internal controls, auditor shall test controls at least once in every third audit.

If there are no identified misstatements, it reveals that controls are effective.

False: If there are no identified misstatements, even there may be some weaknesses in internal controls because of inherent limitations of an audit and inherent limitations of internal controls.

Compliance procedures are performed to detect material misstatement at the assertion level and include tests of details of classes of transactions, account balances and disclosures.

False: Substantive procedures are performed to detect material misstatement at the assertion level and include test of details of classes of transactions, account balances and disclosures. Compliance procedures are designed to evaluate the operating effectiveness of control in preventing, or detecting and correcting, material misstatements at the assertion level.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express an unmodified opinion.

False: If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaimer opinion.

ISA 500

Management's Expert refers to an individual or organization possessing expertise in a field other than accounting or auditing whose work in that field is used by the auditor in obtaining the audit evidence.

False: Management's expert refers to an individual or organization possessing expertise in a field other than accounting or auditing whose work in that field is used by the management in the preparation of financial statements.

Auditor should rely on information which is produced by the entity.

False: Based on the reliability, auditor may depend on the information which is produced by the entity or information provided by the third parties.

Always external evidence is more reliable than the internal evidence.

False: If internal controls are weak, external evidence is more reliable than the internal evidence and if internal controls are strong, internal evidence is more reliable than external evidence.

If the evidence collected by the auditor is less qualitative, then he has to obtain more number of such evidences.

False: Obtaining more number of audit evidences does not compensate their poor quality.

ISA 501

SA 501 deals with only inventory.

False: SA 501 deals with inventory, litigations and claims and segment information.

If the risk of material misstatement regarding litigation or claims has been identified, the auditor may communicate with entity's external legal counsel, if management permits.

False: If the risk of material misstatement regarding litigation or claims has been identified, the auditor may communicate with entity's external legal counsel and management should permit.

As per SA 501, auditor may ignore such inventory which is under the custody and control of a third party.

False: Auditor has to obtain external confirmation regarding the inventory which is under the custody and control of a third party.

If law or regulation prohibits the entity's external legal counsel from communicating with the auditor, the auditor has no further duty.

False: If law or regulation prohibits the entity's external legal counsel from communicating with the auditor, the auditor shall perform alternate audit procedures.

If auditor can't attend physical inventory, he need not perform additional procedures

False: If he can't attend physical inventory count on planned date due to unforeseen circumstance, he should take some physical counts on alternative date and perform procedure to adjust change in inventory between period end and date of physical count.

ISA 505

In case of negative confirmation request, the third party has to give reply to the auditor in case of agreement and disagreement.

False: In case of negative confirmation request, the third party has to give reply to the auditor only in the case of disagreement.

External confirmation may be obtained by the auditor from the company or third parties.

False: External confirmation is to be obtained by the auditor from the third parties.

If management refuses to allow the auditor to send a confirmation request, then auditor should withdraw from the audit immediately.

False: If management refuses to allow the auditor to send a confirmation request, then auditor should ask the management for the reasons.

Reply is required in all cases in positive confirmation request.

True: It asks the respondent to reply to the auditor in all cases either by indicating the respondent's agreement/disagreement with the given information or by asking the respondent to fill in information.

ISA 510

Initial Audit engagement refers that the financial statement for prior period were audited by same current year auditor.

False: Initial audit engagement refers to that the financial statements for prior period were audited by predecessor auditor (or) not audited.

Auditor need to obtain sufficient appropriate audit evidence regarding opening balances.

True: Auditor needs to obtain sufficient appropriate audit evidence regarding opening balances to ensure that they are free from material misstatements.

SA 510 discussed with opening balances in case of initial audit engagement but not about consistency of accounting policies.

False: SA 510 discussed with opening balances in case of initial audit engagement and consistency of accounting policies.

If the prior period financial statements were audited by a predecessor auditor and there was a modification to the opinion, then current auditor may ignore that modification because it is irrelevant in current year.

False: It may be relevant or irrelevant in the current year. If it is relevant in the current year, then auditor needs to discuss with management regarding amendments to be made to the financial statements.

In initial engagement, auditor should perform procedures regarding opening balances.

True: He should obtain sufficient appropriate evidence that:

a) Opening balances are correctly brought forward

b) Opening balances do not contain misstatements affecting current period financial statements and

c) Consistent application of appropriate accounting policy has been observed.

ISA 520

Analytical procedures mean evaluations of financial information through analysis of plausible relationships among financial data only.

False: Analytical procedures mean evaluations of financial information through analysis of plausible relationships among financial and non-financial data.

Analytical review procedures assist the auditor in planning the nature, timing and extent of other audit procedures.

True: Analytical review procedures assist the auditor in planning the nature, timing and extent of other audit procedures.in case of unusual fluctuations then he has to increase the extent of checking.

Substantive analytical procedures are generally more applicable to large volumes of transactions that cannot be predictable over time.

False: Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.

Inter firm analysis refers to comparison of current period information with the prior period information.

False: Inter firm analysis refers to comparison of client information with other entities belonging to the same industry.

If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information, the auditor has to modify his opinion without any other responsibility.

False: If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information, the auditor has to investigate in to the reasons.

Analytical procedure refers to the procedure adopted by the management to ensure that transactions of one period are separated from those at the commencement of the following year.

False: Analytical procedures means Analysis of trends and ratios, Identification of abnormal deviations and Investigation of those deviations. Whereas cut – off procedures means the procedure adopted by the management to ensure that transactions of one period are separated from those at the commencement of the following year.

ISA 530

Sampling unit refers to the individual items constituting a sample.

False: Sampling unit refers to the individual items constituting a population.

Statistical sampling involves random selection of the sample items.

True: Statistical sampling involves random selection of the sampling units and the use of probability theory.

Anomaly refers to a misstatement or deviation that is demonstrably representative of misstatements or deviation in a population.

False: Anomaly refers to misstatements or deviation that is demonstrably not representative of misstatements or deviations in a population.

The words 'Audit risk' and 'Sampling risk' both convey the same meaning.

False: Audit risk will include sampling risk and non-sampling risk. Audit risk refers to auditor may give an inappropriate opinion on the financial statements and sampling risk refers to sample results may not match with population results.

Tolerable misstatements refer to misstatements in monitory amount which is not acceptable by the auditor.

False: Tolerable misstatements refer to misstatements in monitory amount which is acceptable by the auditor.

Stratification refers to the process of dividing a population into sub-populations, each of which is a group of sampling units which have different characteristics.

False: Stratification refers to the process of dividing a population into sub-population, each of which is a group of sampling units which have similar characteristics.

ISA 560

Subsequent events refer to the events which occurring between the date of the financial statements and the date of the auditor's report and facts that become known to the auditor before completion of his audit.

False: Subsequent events refer to the events which occurring between the date of the financial statements and the date of the auditor's report and facts known to the auditor after the date of audit report.

The auditor is required to consider all subsequent events while discharging his duties.

True: The auditor is required to consider all subsequent events while discharging his duties as per SA 560.

Adjusting events are those which are indicative of conditions that arose subsequent to the date of the balance sheet.

False: Adjusting events are those events in respect of which conditions that are existed on the balance sheet date.

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.

True: It is the general rule that auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report except in the case of subsequent events.

Adjustable events are simply required to be disclosed.

False: Adjustable events are simply required to be adjusted.

SA 560 deals with 'Going Concern'.

False: SA 560 deals with 'Subsequent Events'.

Subsequent events means events after B/S date but up to next 12 months.

False: It means Significant events occurring between balance sheet date and audit report date.

ISA 570

It is the responsibility of the management to verify the going concern but auditor need not perform any procedure.

False: The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern to know whether there are any events or conditions which casts doubts on going concern and management plans to address them.

When management has not yet performed an assessment of the entity's ability to continue as a going concern, then auditor has no further duty.

False: When management not yet performed an assessment of the entity's ability to continue as a going concern, then the auditor request the management to make its assessment.

If any financial/operational/other indicator is existed in the company then auditor can conclude that going concern is inappropriate.

False: If any financial/operational/other indicator is existed, then it may cast a doubt the entity's ability to continue as a going concern.

As per SA 570, the objective of the Auditor is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of consistency assumption in the preparation and presentation of the Financial Statements.

False: As per the objectives given in SA 570 "Going Concern", the auditor is required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of going concern assumption in the preparation and presentation of the financial statements.

A company which has been unable to negotiate borrowings from its bankers claims that it will be able to continue as a 'going concern'.

False: In the case of the company which has not been able to negotiate its borrowings with its bankers, there will be a substantial doubt in its ability to continue as a going concern without such financial support.

Alternative Answer –

True: If the company which has not been able to negotiate borrowings from its bankers for reasons like delay/failure in the submission of adequate documents/information or for other reasons other than the company's financial status then the statement is true.

If the auditor believes that the entity will not continue as a going concern, he should issue disclaimer of opinion.

False: As per SA 570 "Going Concern", if the auditor concludes that the going concern assumption is not appropriate and the entity will not be able to continue its operation in foreseeable future, he should express an adverse opinion.

ISA 580

Written representation is a written statement by auditor provided to the management to confirm certain matters or to support other audit evidence.

False: Written representation is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.

The written representation shall be in the form of a representation letter addressed to the management.

False: The written representation shall be in the form of a representation letter addressed to the auditor.

The auditor shall disqualify his opinion on the financial statements if management does not provide the written representation.

False: The auditor shall disclaim his opinion on the financial statements if management does not provide the written representation.

ISA 600

Other auditor is responsible for reporting on the financial information of an entity when that financial information of one or components audited by another auditor.

False: Other auditor is responsible for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

Principal auditor is also referred as other auditor.

False: Principal auditor is responsible for reporting on the financial information of an entity. Other auditor is responsible for reporting on the financial information of component which is included in the financial information audited by the principal auditor.

There is no need of co-ordination between principal auditor and other auditor.

False: There should be a sufficient liaison between the principal auditor and the other auditor.

In all circumstances, if the other auditor issues a modified auditor's report, the principal auditor should incorporate such modifications in his audit report on company as a whole.

False: If the other auditor issues a modified auditor's report, the principal auditor may incorporate such modifications in his audit report only if it is material at company as a whole.

If the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, then the principal auditor should express an adverse opinion.

False: If the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, then the principal auditor should express a qualified opinion or disclaimer opinion.

As per SA 600, the principal auditor should rely on the work of another auditor.

False: As per SA 600, the principal auditor may rely on the work of another auditor.

ISA 610

Statutory auditor must not rely on the work of an internal auditor.

False: Statutory auditor may rely on the work of an internal auditor as per SA 610.

If internal auditor is an outsider to the company, then he has more independence.

True: Internal auditor may be an employee of the company or outsider. If he is outsider, than he has more independence.

Internal auditor in a company may have functional responsibility in the company.

False: Internal auditor in a company should not have the functional responsibility in the company so as to maintain his objective.

If statutory auditor depends on the work of an internal auditor, then both are responsible for statutory auditor's opinion in his audit report.

False: If statutory auditor depends on the work of an internal auditor, then only statutory auditor is responsible for his opinion in his audit report.

The internal auditor is responsible to all the stakeholders of a company.

False: The internal auditor is responsible to board of directors of a company.

ISA 620

Auditor's expert means the senior auditor whose work is actually used by the other auditors.

False: Auditor's expert means the expert whose work is used by the auditor in obtaining sufficient and appropriate audit evidence relating to the financial statements.

Auditor cannot depend on the work of an expert.

False: Auditor may use the work of an expert as per SA 620.

Expert refers to an individual (or) organization possessing expertise in a field of accounting and auditing.

False: Expert refers to an individual (or) organization possessing expertise in a field other than accounting and auditing.

If auditor depends on the work of an expert, then both are responsible for audit opinion.

False: If auditor depends on the work of an expert, then auditor is alone responsible for his audit opinion.

Expert's work should be mentioned in the audit report by the auditor in all cases.

False: Expert's work should be mentioned in the audit report by the auditor in case of modified report, if modification is made by auditor in his audit report based on the work of expert.

Auditor must completely rely on work of expert.

True: Auditor alone is responsible for his own report (opinion). However he is entitled to rely on expert if he exercised due skill and care and there is nothing to doubt.

If auditor provides modified report he must mention expert name in report.

False: Auditor may need to refer expert work while giving modified report, if modification is based on expert work. But reference of expert name can be given in audit report only after obtaining expert's prior consent.

ISA 700

SA 700 deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

True: SA 700 deals with the form and content of the auditor's report.

An unmodified opinion indicates that the financial statements have not been prepared by using the generally accepted accounting principles.

False: An unmodified opinion indicates that the financial statements have been prepared by using the generally accepted accounting policies.

Auditor has to express his opinion in the introductory paragraph in the independent auditor's report.

False: Auditor has to express his opinion in the opinion paragraph in the independent auditor's report.

ISA 705

If auditor is unable to obtain sufficient appropriate audit evidence, then auditor has to express an adverse opinion (or) disclaimer opinion.

False: If auditor is unable to obtain sufficient appropriate audit evidence, then auditor has to express a qualified opinion or disclaimer opinion.

If management refused to remove the limitation, then the auditor mention the same in the audit report without any other obligation.

False: If management refused to remove the limitation, then auditor shall communicate the matter to TCWG and determine whether it is possible to perform alternate procedures to obtain sufficient appropriate audit evidence.

The auditor shall place "Basic for modification paragraph" immediately after the opinion paragraph in the auditor's report.

False: The auditor shall place "Basis for modification paragraph" immediately before the opinion paragraph in the auditor's report.

If auditor issuing modified report, then he should quantify the effect of such modification on the financial statements in the all cases without any exception.

False: If auditor issuing modified report, then he should quantify the effect of such modification on the financial statements. If quantification is not possible, then mention the reasons in the audit report.

The auditor has to use the words "Except for the effects of the matter(s) described in the basis for modified opinion paragraph, while issuing an adverse opinion."

False: The auditor has to use the words "Except for the effects of the matter(s) described in the basis for modified opinion paragraph, while issuing a qualified opinion.

ISA 706

'Emphasis of matter paragraph' is consisting of matters which are important and not included in the financial statements.

False: 'Emphasis of matter paragraph' consists of matters which are important and already included in the financial statements.

'Other matter paragraph' consists of matters which are important and already included in the financial statements.

False: 'Other matter paragraph' is consisting of matters which are important and not included in the financial statements.

'Emphasis of matter paragraph' should be included in the auditor's report immediately before the opinion paragraph.

False: 'Emphasis of matter paragraph' should be included in the auditor's report immediately after the opinion paragraph.

ISA 710

As per SA 710, Auditor need not verify accounting policies.

False: As per SA 710, auditor needs to verify accounting policies.

In the case of corresponding figures, the auditor's opinion refers to each period for which financial statements are presented.

False: In the case of corresponding figures, the auditor's opinion refers to current period only.

In the case of comparative financial statements, the auditor's opinion refers to current period only.

False: In the case of comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

Auditor has no duty relating to correspondings (or) comparatives as per SA710.

False: SA 710 deals with auditor's responsibilities relating to correspondings and comparatives.

SA710 deals with emphasis of matter paragraph and other matter paragraph.

False: SA 710 deals with comparatives and correspondings. SA 706 deals with emphasis of matter paragraph and other matter paragraph.

Miscellaneous

1.

The basic objective of audit does not change with reference to nature, size or form of an entity

Correct: An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. It is clear that the basic objective of auditing, i.e., expression of opinion on financial statements does not change with reference to nature, size or form of an entity.

2.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements

Correct: As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

3.

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.

Correct: As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

4.

The audit engagement letter is sent by the client to auditor.

Incorrect: As per SA 210 "Agreeing the Terms of Audit Engagements", the Audit engagement letter is sent by the auditor to his client.

5.

Mr. S, one of the new team members of the auditor of Extremely Effective Limited was of the view that for the purpose of conducting an audit, only knowledge of direct tax is required whereas no knowledge of indirect tax is required.

Incorrect: The viewpoint of Mr. S is incorrect because for the purpose of conducting an audit, proper knowledge of both direct tax as well as indirect tax is required.

6.

According to Mr. H, one of the team members of the auditor of Very Essential Limited was of the view that no relation exists between accounting and auditing from the point of view of a company.

Incorrect: The viewpoint of Mr. H is incorrect because there exists a proper relation between accounting and auditing from the point of view of a company. Audit is conducted for financial statements of a company and those financial statements are prepared with the help of books of accounts of that company. In order to properly conduct an audit of a company, an auditor is required to be aware of accounting principles and accounting policies of that company.

7.

The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

Correct: Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

8.

Establishing an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan is prerogative of the management.

Incorrect. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

9.

Planning is a discrete phase of an audit

Incorrect. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures

10.

Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) does not need any revision.

Incorrect: Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that occurred during the audit (for example, a decision to dispose of a major part of the entity's business), new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures.

11.

The audit plan is more detailed than the overall audit strategy

Correct. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

12.

As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor.

Incorrect: As per SA 230 on "Audit Documentation" the working papers are the property of the auditor and the auditor has right to retain them. He may at his discretion can make available working papers to his client. The auditor should retain them long enough to meet the needs of his practice and legal or professional requirement.

13.

Purchase invoice is an example of internal evidence.

Incorrect: Internal evidence is the evidence that originates within the client's organisation. Since purchase invoice originates outside the client's organisation, therefore, it is an example of external evidence.

14.

Sufficiency is the measure of the quality of audit evidence.

Incorrect: Sufficiency is the measure of the quantity of audit evidence. On the other hand, appropriateness is the measure of the quality of audit evidence.

15.

Inquiry alone is sufficient to test the operating effectiveness of controls.

Incorrect: Inquiry along with other audit procedures (for example observation, inspection, external confirmation etc.) would only enable the auditor to test the operating effectiveness of controls. Inquiry alone is not sufficient to test the operating effectiveness of controls.

16.

When auditor inquires the management as part of the audit procedures it should be formal written form only and not informal oral inquiries.

Incorrect: When auditor inquires the management as part of audit procedures such inquiries may range from formal written inquiries to informal oral inquiries.

17.

Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur.

Incorrect: Assertions refer to representations by management that are embodied in the financial statements as used by the auditor to consider the different types of the potential misstatements that may occur.

18.

There is direct relationship between materiality and the degree of audit risk.

Incorrect: There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa. For example, the risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.

19.

Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.

Incorrect: Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.

20.

Tests of control are performed to obtain audit evidence about the effectiveness of Internal Controls Systems.

Correct: Tests of Control are performed to obtain audit evidence about the effectiveness of:

(a) the design of the accounting and internal control systems that is whether, they are suitably designed to prevent or detect or correct material misstatements and

(b) the operation of the internal controls throughout the period.

21.

Maintenance of Internal Control System is the responsibility of the Statutory Auditor.

Incorrect: The management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. Maintenance of Internal Control System is responsibility of management because the internal control is the process designed, implemented and maintained by those charged with governance/management to provide reasonable assurance about the achievement of entity's objectives.

22.

Information obtained by performing risk assessment procedures shall not be used by the auditor as audit evidence to support assessments of the risks of material misstatement.

Incorrect: Information obtained by performing risk assessment procedures and related activities may be used by the auditor as audit evidence to support assessments of the risks of material misstatement.

23.

Fraud can be termed as intentional error.

Correct: Fraud is the word used to mean intentional error. This is done deliberately which implies that there is intent to deceive, to mislead or at least to conceal the truth. It follows that other things being equal they are more serious than unintentional errors because of the implication of dishonestly which accompanies them.

24.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Correct: As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'. It is important that management, with the oversight of those charged with governance place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detention and punishment. This involves a commitment to create a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance.

25.

Fraudulent financial reporting only involves manipulation, falsification or alteration of accounting records or supporting documents from which financial statements are prepared.

Incorrect: As per SA 240, "The Auditor's Responsibilities Relating to fraud in an Audit of Financial Statements', fraudulent financial reporting may involve manipulation, falsification or alteration of accounting records or supporting documents from which financial statements are prepared, misrepresentation in or intentional omission from, financial statements of events, transaction or other significant information or intentional misapplication of accounting principles relating to amounts, classification, manner of presentation or disclosure.

26.

Unusual delays by the entity in providing requested information shows **problematic or unusual relationships between the auditor and management.**

Correct: It is a strong example of circumstances that indicate the possibility of fraud. This happiness only because of the Management's intolerance towards the auditor's Professional skepticism

27.

In comparing management fraud with employee fraud, the auditor's risk of failing to discover the fraud is less for management fraud.

Incorrect: In comparing management fraud with employee fraud, the auditor's risk of failing to discover the fraud is greater for management fraud because of management's ability to override existing internal controls

28.

Excessive interest by management in maintaining or increasing the entity's inventory price or earnings trend is an example of Fraud Risk Factor related to Opportunities.

Incorrect: Excessive interest by management in maintaining or increasing the entity's inventory price or earnings trend is an example of Fraud Risk Factor related to Rationalization.

29.

Misstatements in the financial statements can arise from fraud only.

Incorrect: Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

30.

Misappropriation of Assets involves the theft of an entity's assets and is often perpetrated by employees in relatively large and material amounts.

Incorrect:- Misappropriation of Assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts.

31.

The method which involves dividing the population into groups of items is knows as block sampling.

Incorrect: The method which involves dividing the population into groups of items is known as cluster sampling whereas block sampling involves the selection of a defined block of consecutive items.

32.

Universe refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Incorrect: Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

33.

Non Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.

Incorrect: Statistical sampling is an approach to sampling that has the random selection of the sample items; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.

34.

Sample need not be representative

Incorrect: Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same. The sample must be large enough to provide statistically meaningful results.

35.

The objective of stratification is to increase the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.

Incorrect: The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.

36.

When statistical sampling is used to select a sample, sample need not be representative because the statistical sampling takes care of the representation.

Incorrect: Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same. The sample must be large enough to provide statistically meaningful results.

37.

Stratified Sampling is used for homogeneous population.

Incorrect: Stratified sampling is used when the population is diversified i.e heterogeneous. The population is divided into sub population having similar characteristics. Sample are then chosen from these sub populations which are called as Stratum. Therefore, stratified sampling is not useful in case of homogeneous population.

38.

Auditor can depend on routine checks to disclose all the mistakes or manipulation that may exist in accounts.

Incorrect. Routine checks cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts, certain other procedures also have to be applied like trend and ratio analysis in addition to reasonable tests.

39.

Only purpose of analytical procedures is to obtain relevant and reliable audit evidence when using substantive analytical procedures.

Incorrect. Analytical procedures use comparisons and relationships to assess whether account balances or other data appear reasonable. Analytical procedures are used for the following purposes:

(i) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and

(ii) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

40.

Analytical Procedures are required in the planning phase only.

Incorrect. Analytical Procedures are required in the planning phase and it is often done during the testing phase. In addition these are also required during the completion phase.

41.

Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time

Incorrect. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.

42.

Ratio analysis is useful in analyzing revenue and expense account only.

Incorrect: Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts

43.

Reasonableness test rely only on the events of the prior period like other analytical procedures.

Incorrect: Unlike trend analysis, Reasonableness test does not rely on events of prior periods, but upon non-financial data for the audit period under consideration.

44.

The statutory auditor of the company can apply analytical procedures to the standalone financial statements of a company only and not to the consolidated financial statements.

Incorrect: Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.

45.

The auditor shall express a qualified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Incorrect: The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

46.

There is no need of addressee in the Auditor's report.

Incorrect: The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

47.

The auditor shall modify the opinion in the auditor's report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.

Incorrect: The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

48.

The auditor shall express a disclaimer of opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Incorrect: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

49.

The auditor shall express a disclaimer of opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Incorrect: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

50.

Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.

Incorrect: Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.

51.

When the auditor has to express an adverse opinion, he need not communicate with those charged with governance as this may have an impact on payment of his audit fees.

Incorrect: When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

52.

Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.

Incorrect: Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised).