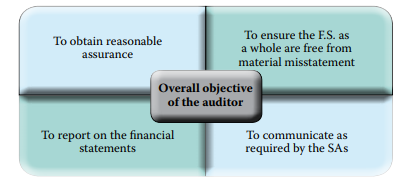
AUDITING



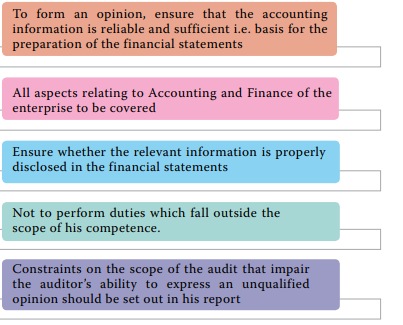
What is an Audit

“An audit is 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.



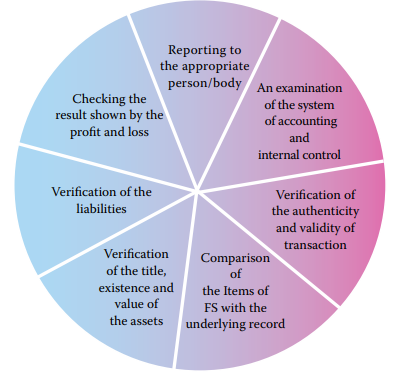
SCOPE OF AUDIT





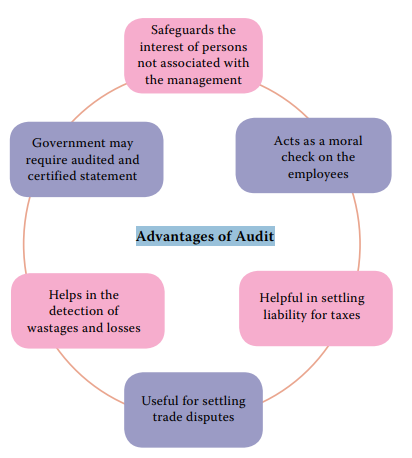


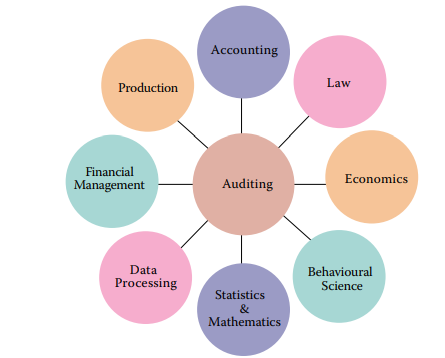
Aspects to Be Covered In Audit





Advantages of Audit





**OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING**

**(a) To obtain reasonable assurance about whether the F. S. as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared, in all material respects, in accordance with an applicable FRF.**

**(b) To report on the F.S. and communicate as required , in accordance with the auditor’s findings**

**Aspects to be considered by Auditor while performing Audit**

1. **Ethical Requirements**
2. **Professional Skepticism**
3. **Professional Judgement**
4. **Sufficient Appropriate audit Evidence**

**Ethical Requirements**

The fundamental principles are:

1. Integrity

2. Objectivity

3. Professional competence & due care

4. Confidentiality, &

5. Professional behavior

Independence comprises both independence of mind and independence of appearance.

**Professional Skepticism**

Attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

**Professional Judgement**

The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

**Sufficient Appropriate audit Evidence**

 **Sufficiency** refers to quantum and **Appropriateness** refers to quality.

**Purpose**: to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.

 **Audit Risk**: Risk that the auditor expresses an inappropriate audit opinion when the F.S. are materially misstated.

Audit Risk is a function of the ROMM and detection risk.

**Preparation of F.S.** is the duty of Mngt./TCWG.

 Duty of management also includes to make accounting estimates and selection and application of appropriate accounting policies.

**Inherent Limitations for an audit**

(a) **Nature of Financial reporting**: involves judgment by Mngt. Based on facts and circumstances.

(b) **Nature of audit Procedures**: directed towards obtaining reasonable assurance.

(c) **Balance between benefit and cost**: user expectation to get ARwithin a reasonable period and atreasonable cost.



**“Agreeing the Terms of Engagement”**

**Preconditions:** If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement

Determine *whether the financial reporting framework* to be applied in the preparation of the financial statements is acceptable.

*Obtain the agreement of management* that it acknowledges and understands its responsibility as discussed

**Letter of Engagement**: The agreed terms of the audit engagement shall be recorded in an audit engagement letter



**Contents**



(a) The objective and scope of the audit of the financial statements;

(b) The responsibilities of the auditor;

(c) The responsibilities of management;



(d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and

(e) Reference to the expected form and content of any reports to be issued by the auditor

**Reference to applicable law**: If law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies.

**Recurring audits**: On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.



**Changes Prior to acceptance of audit**: If management or those charged with governance impose a limitation on the scope of the auditor‟s work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement.



**Changes after acceptance of audit:**

a shall not agree to a change in the terms of the audit engagement where there is no reasonable justification

b If the terms of the audit engagement are changed, record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

c If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:



(a) Withdraw from the audit engagement where possible under applicable law or regulation; and

(b) Determine whether there is any obligation either contractual or otherwise, to report the circumstances to other parties.

**CIRCUMSTANCES REQUIRING REVISION IN TERMS**

* Indications that the entity misunderstands the objective and scope of the audit.
* Revised or special terms of engagement.
* Recent change of senior management.
* Significant change in ownership.



* Significant change in nature or size of the entity’s business.
* Change in legal or regulatory requirements.
* Change in FRF adopted in the preparation of the F.S.
* A change in other reporting requirements.

**QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS**

**Objective:**

To implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

(a) The audit complies with professional standards and regulatory and legal requirements; and

(b) The auditor’s report issued is appropriate in the circumstances

**Compliance with ethical requirements**

a If matters come to the engagement partner’s attention that the engagement team members have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action

b The engagement partner shall take appropriate action to eliminate such threats to independence or reduce them to an acceptable level or, if considered appropriate, to withdraw from the audit engagement.

**Client acceptance and continuance procedure**

Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;

- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;

- Whether the firm and the engagement team can comply with relevant ethical requirements; and

- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

**Quality control Measures**

a Direction and Supervision

b Review of Engagement Partner

c Consultation

d In case of Differences of opinion, engagement team shall follow the firm’s policies and procedures for dealing with and resolving differences of opinion.

**Engagement Quality control Review (EQCR):** a process designed to provide an evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report

**Applicability**: *For audits of financial statements of listed entities,* and those other audit engagements, if any, for which the firm has determined.

**Who can conduct EQCR**:

1. a partner other than engagement partner

2. suitably qualified external person

3. team made up of individuals headed by a member of the Institute.

**Reviewer shall:**

1. Discuss significant matters with the engagement partner.

2. Review of the financial statements and the proposed auditor’s report

3. Review of selected audit documentation

4. Evaluation of the conclusions reached in formulating the auditor’s report

**AUDIT DOCUMENTATION (WORKING PAPERS)**

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached

**Form Content and Extent of Documentation**

a The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements.

b The results of the audit procedures performed, and the audit evidence obtained.

c Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

**Factors affecting form content and extent of documentation**

a The size and complexity of the entity

b The identified risks of material misstatement

c The need to document a conclusion

d The audit methodology and tools used

**Ownership of Working Papers:**

Further, “Quality Control”, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients.

**Retention period:**

**The auditor shall assemble** the audit documentation within not more than 60 days after the date of the auditor’s report.

After the 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.

**Purpose of Maintaining Working papers:**

(a) Evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor;

(b) Evidence that the audit was planned and performed and applicable legal and regulatory requirements.

c) Assisting the engagement team to plan and perform the audit.

(d) Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities.

(e) Enabling the engagement team to be accountable for its work.

(f) Retaining a record of matters of continuing significance to future audits.

(g) Enabling the conduct of quality control reviews and inspections in accordance with SQC

(h) Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

**AUDITOR’S RESPONSIBILITIES IN RELATION TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**



**Meaning and Nature of Fraud**

Intentional Act involving use of deception to obtain an unjust or illegal advantage.

Auditor is concerned with Fraud that causes **Material Misstatement**

Misstatement may result from:

A **Fraudulent Financial Reporting**

1. Recording fictitious journal entries to manipulate operating results.

2. Inappropriate assumptions.



3. Changing judgements to estimate account balances.

4. Omitting, advancing or delaying recognition of events and transactions occurred during the year.

5. Concealing facts that affect the amount recorded in F.S.

6. Engaging in Complex Transactions that are structured to misrepresent the financial position or financial performance.

7. Altering records relating to significant transactions.



B **Misappropriation of Assets**



1. Embezzling receipts.

2. Stealing physical assets.

3. Causing an entity to pay for goods and services not received.

4. Using entity assets for personal use.

**Fraud Risk Factors / Characteristics of Fraud**

 **Incentive or pressure to Commit Fraud:** Arises when mngt is under pressure toachieve an unrealistic target.

 **Perceived opportunity to do so**: Arises when an individual believes that internal control can be overridden.

 **Rationalization to do so**: Arises when an individual possess an attitude or character that allows them knowingly and intentionally to commit a dishonest act.

**Conditions or events which increases risk of fraud or error**

1. **Discrepancies in Accounting Records**: arises due to improper recording, unauthorised transactions, last minute adjustments.

2. **Conflicting or missing evidences**: missing documents, altered documents, non availability of original documents, unexplained items etc.



3. **Unusual relationship between auditor & mngt**: undue time pressure, unusual delay in providing info, unwillingness to address weaknesses in IC.

4. **Others**: Mngt not allowing auditor to meet with TCWG, varied accounting policies, frequent changes in accounting estimates.

**Risk associated for non detection of material misstatements**



Due to Inherent limitations there is always an unavoidable risk of material misstatement in F.S. due to Fraud.

 Risk of non detecting a material misstatement resulting from fraud is higher than the risk of non detecting one resulting from error.

 Risk of Material Misstatements due to Management Fraud is higher than due to Employee Fraud.

**Responsibility of Joint Auditors**

**Objective**

(a) To lay down broad principles for the joint auditors in conducting the joint audit.

(b) To provide a uniform approach to the process of joint audit.

(c) To identify the distinct areas of work and coverage thereof by each joint auditor.

(d) To identify individual responsibility and joint responsibility of the joint auditors in relation to audit

**Definition of Joint Audit and Joint Auditor**

• A joint audit is an audit of F.S. of an entity by two or more auditors appointed with the objective of issuing the audit report.

• Such auditors are described as joint auditors.

**Audit Planning, Risk Assessment & Allocation of Work**

**Involvement of EP & Key members of ET**

EP and other key members of the ET from each of the joint auditors shall be involved in planning the audit.

**Establishment of Audit Strategy**

Joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

**Development of Audit Plan**

Prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall:

a. Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor;

b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;

c. Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team’s efforts;

d. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner(s) for the entity is relevant.

e. Ascertain the NTE of resources necessary to perform the engagement.

**Assessment of RMM**

RMM need to be considered & assessed by each of the joint auditors and shall be communicated to other joint auditors, and documented, whether pertaining to the overall F.S. level or to the area of allocation among the other joint auditors

**Audit procedures**

Joint auditors shall discuss & document the NTE of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to TCWG.

**Engagement Letter & MRL**

Joint auditors shall obtain common engagement letter and common management representation letter.

**Allocation of Work**

• Joint auditors should, by mutual discussion, divide the audit work among themselves.

• The division of work would usually be in terms of audit of identifiable units or specified areas.

• In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure.

• Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors

**Documentation of Work Allocated**

• After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and the same shall be communicated to TCWG of the entity.

• Documentation of allocation of work helps in avoiding any dispute or confusion which may arise among the joint auditors regarding the scope of work to be carried out by them.

• Further, the communication of allocation of work to the entity helps in avoiding any dispute or confusion which may arise between the entity and the joint auditors.

**Responsibility and Coordination among Joint Auditors**

Responsibilities of Joint Auditors

• In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

• All the joint auditors shall be jointly and severally responsible for:

a. the audit work which is not divided among the joint auditors and is carried out by all joint auditors;

b. decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the NTE of the audit procedures to be performed by each of the joint auditors.

c. matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

d. examining that the F.S. of the entity comply with the requirements of the relevant statutes;

e. presentation and disclosure of the F.S. as required by the applicable FRF;

f. ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.

• It shall be the responsibility of each joint auditor to determine the NTE of audit procedures to be applied in relation to the areas of work allocated to said joint auditor.

• It is the individual responsibility of each joint auditor to study and evaluate the prevailing system of internal control and assessment of risk relating to the areas of work allocated to said joint auditor

**Coordination among Joint Auditors**

Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

**Audit Conclusion and Reporting**

Reporting Requirements

• Joint auditors are required to issue common audit report.

• However, in case of any disagreement among joint auditors with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

• A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement.

• In case of separate reports, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Such reference shall be made under the heading “Other Matter Paragraph”

**Review of work by other joint auditor**

• Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SAs.

• It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.

• Each joint auditor is entitled to assume that the other joint auditors have brought to said joint auditor’s notice any departure from applicable FRF or significant observations that are relevant to their responsibilities noticed in the course of the audit.

**Consideration s w.r.t. division and branches**

Where F.S. of a division/branch are audited by one of the joint auditors, the other joint auditors are entitled to proceed on the basis that

• such F.S. comply with all the legal and regulatory requirements and

• present a true and fair view of the state of affairs and of the results of operations of the division/branch concerned.

**Discussion of Conclusion**

Before finalizing audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report

**Communication with TCWG**

When the joint auditors expect to modify the opinion in the auditor’s report, they shall communicate with TCWG the circumstances that led to the expected modification and the proposed wording of the modification to ensure compliance

• If the joint auditors expect to include an EOM or an OM paragraph in the auditor’s report, the joint auditors shall communicate with TCWG regarding this expectation and the proposed wording of this paragraph to ensure compliance.

**Planning an Audit of Financial Statements**

**Importance of Planning**

1. To devote appropriate attention to important areas.

2. Identify and Resolve potential problems on timely basis.

3. Properly organized & managed Audit.

4. Assists selection of ET members with requisite capabilities and competence.

5. Co-ordination of work done by auditors of components and experts.

6. Facilitating direction and supervision of Engagement team.

**Preliminary Engagement Activities**

(a) Procedures required w.r.t. continuous of Client relationship.

(b) Evaluate compliance with Ethical Requirements

(c) Understanding of terms of Engagement

**CHANGES TO PLANNING DECISIONS**

 Auditor shall update & change overall audit strategy and audit plan as necessary during the course of the audit.

 Audit Strategy and Audit Plan may need to be modified as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures.



 Based on the revised consideration of assessed risks, auditor need to modify the NTE of further audit procedures. This may be the case when information comes to the auditor’s attention that differs significantly from the information available when the auditor planned the audit procedures.

**Planning Activities**

1. **Establishment of Audit Strategy**
2. **Development of Audit Plan**

**Establishment of Audit Strategy**

**Factors to be considered**

 Characteristics of Engagement.

 Reporting Objectives.

 Significant factors to direct ET efforts.

 Result of Preliminary Engagement Activities.

 NTE of Procedures to be performed.

**Development of Audit Plan.**

NTE of RAP (Risk Assessment Procedures)

NTE of furthers Audit Procedures(FAP)

Other Planned Audit Procedure.

**“Materiality in Planning and Performing an Audit”**

Material items are relatively important items i.e the knowledge of which would influence the decisions of the users of financial statements

Materiality of an item depends upon particular circumstances & facts of each case. It is not possible to lay down precisely as to what amount or what account may be material in all circumstances. Materiality is a relative term & what may be material in one circumstance may not be material in another



Planning is not a discrete phase of an audit but rather a continuous process. It begins shortly after completion of previous audit & continues until completion of current audit engagement. It includes consideration of timing of certain activities & audit procedures that need to be completed prior to performance of further audit procedures. E.g., planning includes the need to consider, prior to the auditor’s identification and assessment of the ROMM, such matters as:



1. The analytical procedures to be applied as risk assessment procedures.

2. Obtaining a general understanding of the legal and regulatory framework.

3. The determination of materiality.

4. The involvement of experts.

5. The performance of other risk assessment procedures.

**Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and Its Environment**.

**Risk Assessment Procedures**

 Procedures to obtain an **understanding of entity** **& its environment** including I.C.

 To **Identify and assess the RMM at F.S. and Assertion Level**

It Includes

a. Inquiry of mngt.& others

b. Analytical Procedures

c. Observation & Inspection

**Understanding of Entity & its Environment**

Auditor shall obtain understanding of:

1. Relevant Industry, Regulatory & other External Factors including FRF.

2. Nature of Entity including.

 Its Operations

 Ownership & Governance structure

 Types of investments

 The way Entity is structured & how it is financed

3. Selection & Application of Accounting Policies & reasons for changes thereto.

4. Entity objectives & Strategies & those business risks that may result in increase ROMM.

5. Measurement & review of Financial Performance.

6. Internal control relevant to audit.

**Evaluate Components of Internal Control**

The division of internal control into the following five components provides a useful framework for auditors to consider how different aspects of an entity’s internal control may a *The control environment:*

The control environment includes:

(i) the governance and management functions and

(ii) the attitudes, awareness, and actions of those charged with governance and management affect the audit

*The entity’s risk assessment process:*

The auditor shall obtain an understanding of whether the entity has a process for:

(a) Identifying business risks relevant to financial reporting objectives;

(b) Estimating the significance of the risks;

(c) Assessing the likelihood of their occurrence; and

(d) Deciding about actions to address those risks

*The information system, including the related business processes, relevant to financial reporting, and communication:*

(a) The classes of transactions in the entity’s operations that are significant to the financial statements;

(b) The procedures by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions;

*Control activities:*

These are the techniques used for implementing internal control. It can be either manual or automated.

An audit requires an understanding of **only those control activities** related to **significant class of transactions, account balance, and disclosure** in the financial statements

*Monitoring of controls:*

Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two to test the operating effectiveness.

**4 Risks that require Special Audit Considerations**

(a) Whether the risk is a risk of fraud;

(b) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;

(c) The complexity of transactions;

(d) Whether the risk involves significant transactions with related parties;

(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and

(f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual

**Identification and Assessment of ROMM**

a) **F.S. Level**: RMM that relate pervasively to the F.S. as a whole and potentially affect many assertions.

b) **Assertion level for classes of Transaction, Account Balances & disclosures**: It helpsin determining the NTEof further auditprocedures necessaryto obtain SAAE.

**Assertions evaluated**

**Transaction occurred during the year**

* Occurrence
* Completeness
* Accuracy
* Cut-off
* Classification

**Account balances at period end**

* Existence
* Rights and Obligations
* Completeness
* Valuation and Allocation

**Presentation & Disclosures**

* Occurrence and Rights & Obligation
* Completeness
* Classification and understandability
* Accuracy and Valuation

**Steps in Risk Assessment Process**

 Identify risks

 Assess & Evaluate the identified risks.

 Relate identified risk to what go wrong at assertion level.

 Likelihood of misstatement

**Risk require special consideration**

1. Risk of fraud

2. Risk related to recent significant Economic, Accounting & other Developments.

3. Complexity of Transactions.

4. Transactions with Related Parties

5. Significant Unusual Transaction

**“Materiality in Planning and Performing an Audit”**

Materiality is a subject of professional judgment and discussion presented in FRF provides a reference to the auditor in determining materiality.

If FRF does not include a discussion, following can be referred:

(a) Misstatements including omissions expected to influence the economic decision of users.

(b) Size or nature of misstatement & the surrounding circumstances.

(c) Common financial information needs of the users as a group.

Judgment of materiality provides a basis for:

(a) Determination of NTE of RAP

(b) Identifying and assessing ROMM.

(c) NTE of further audit procedures.

**Performance Materiality**

 The amount set by auditor at less than materiality for F.S as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected & undetected misstatement exceeds materiality for F. S. as a whole

**Revision of Materiality**

 In event of becoming aware of information that would have caused auditor to have determined a different amount initially, auditor shall revise materiality for the F.S. as a whole & if required, for particular classes of transactions, account balances or disclosures.

 If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the NTE of the further audit procedures remain appropriate.

**Use of benchmark in determining Materiality**

A %age is often applied to a chosen benchmark as a starting point in determining materiality for the F.S. as a whole.

**Factors affecting identification of appropriate benchmark**

1. The elements of the financial statements;

2. Items on which the attention of the users of the particular entity’s financial statements tends to be focused;

3. The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;

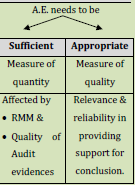
4. The entity’s ownership structure and the way it is financed; and

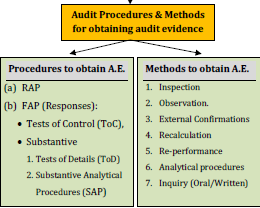
5. The relative volatility of the benchmark.

**“Audit Evidence”**

**Meaning and Nature of Audit Evidence (A.E.)**

Information used by auditor In arriving at the conclusion On which auditor’s opinion is based.





**Reliability of Audit Evidence**

(a) External Evidences are considered more reliable than internal evidences.

(b) The reliability of internal evidence is increased when the related controls, imposed by entity are effective.

(c) Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.

(d) Audit evidence in documentary form, is more reliable than evidence obtained orally.

(e) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies.

**AUDIT EVIDENCE- SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS**

**Objective**

a Existence and condition of inventory

b Completeness of litigation and claims involving the entity

c Presentation and disclosure of segment information in accordance with the applicable financial reporting framework

**Evidence about existence and condition of inventory**

a Audit procedure

a-i Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting

a-ii Observe the performance of management’s count procedures

a-iii Inspect the inventory

a-iv Perform test counts.

b *If physical inventory counting is conducted at a date other than the date of the financial statements*:

Audit procedures as prescribed above + stock reconciliation for changes between cut off date and alternate date

c *If the auditor is unable to attend physical inventory counting due to unforeseen circumstances*:

the auditor shall make or observe some physical counts on an alternative date, and perform alternate audit procedures on intervening transactions

**Litigation & Claims**

Auditor is required to identify litigation and claims by following procedures:

 **Inquiry:** of Mngt. & others within entity, including in house legal counsel.

 **Review** – minutes of meetings of TCWG, communication between entity & external legal counsel.

 **Review** – legal expenses account

**Segment Reporting – Presentation & Disclosures**

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

(a) Obtaining an understanding of the methods used by management in determining segment information, and

 Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and

 Where appropriate, testing the application of such methods; and

(b) Performing analytical procedures or other audit procedures appropriate in the circumstances

**External Confirmations**

**Meaning**: Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

**Type of Confirmation request**

*Positive Confirmation request:*

A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information

*Negative Confirmation Request:*

A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

**Areas where External Confirmation may be obtained:**

(a) Bank balance & Other confirmation from bankers

(b) Account Receivable/Account Payable Balances

(c) Stock Lying with Third Parties

(d) Property Title Deed held by third parties

(e) Investments Purchased but delivery not taken.

(f) Loan from Lenders

(g) Terms of agreement or Transaction with Third Parties

**Evaluating Responses**

If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts

In the case of each non-response to positive confirmation request, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence

If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor’s opinion

**External Confirmation Procedure**

A Determining the information to be confirmed or requested

b Selecting the appropriate confirming party

c Designing the confirmation requests

d Sending the requests, including follow-up requests when applicable

**Management’s refusal to allow the auditor to send confirmation request**

a Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness

b Evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement

c Perform alternative audit procedures designed to obtain relevant and reliable audit evidence if the reasons are valid

*If the auditor concludes that management’s refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures*,the auditor shall communicate with those charged with governance. The auditor also shall determine the implications for the audit and the auditor’sopinion .

**INITIAL AUDIT ENGAGEMENT- VERIFICATION OF OPENING BALANCES**

**Initial audit Engagement:**

An engagement in which either:

(i) The financial statements for the prior period were not audited; or

(ii) The financial statements for the prior period were audited by a predecessor auditor

**Audit procedures for verifying Opening Balance**

a read the most recent financial statements, if any, and the predecessor auditor’s report thereon, if any

b whether the prior period’s closing balances have been correctly brought forward to the current period

c whether the opening balances reflect the application of appropriate accounting policies

d accounting policies reflected in the opening balances have been consistently applied in the current period’s financial statements

e whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

**Audit Conclusions and Reporting**

a auditor is unable to obtain sufficient appropriate audit evidence- qualified opinion or a disclaimer of opinion

b auditor concludes that the opening balances contain a misstatement that materially affects the current period’s financial statements- shall express a qualified opinion or an adverse opinion, as appropriate

c If the predecessor auditor’s opinion regarding the prior period’s financial statements included a modification to the auditor’s opinion that remains relevant and material to the current period’s financial statements, the auditor shall modify the auditor’s opinion on the current period’s financial statements

**ANALYTICAL PROCEDURES**

**The term “analytical procedures”** means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

**Precautions to be taken**

a Determine the suitability of particular substantive analytical procedures for given assertions

b Evaluate the reliability of data from which the auditor’s expectation of recorded amounts is developed

c Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement

d Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.

**Techniques to be used**

a Trend analysis

b Ratio analysis

c Reasonableness tests



d Structural modelling

**AUDIT SAMPLING**

**Audit sampling (sampling)**

The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

**Sampling risk**

The risk that the auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect

**Non-sampling risk** – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk

**Anomaly** – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population

**Tolerable misstatement** – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

**Tolerable rate of deviation** – A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

**Sampling Methods**

**Random Sampling**

Random selection ensures that all items in the population or within each stratum have a known chance of selection. It may involve use of random number tables. Random sampling includes two very popular methods which are discussed below–

**(i) *Simple Random Sampling*:** Under this method each unit of the whole population *e.g.* purchase or sales invoice has an equal chance of being selected. The mechanics of selectionof items may be by choosing numbers from table of random numbers by computers orpicking up numbers randomly from a drum. It is considered that random number tables are simple and easy to use and also provide assurance that the bias does not affect theselection. This method is considered appropriate provided the population to be sampledconsists of reasonably similar units and fall within a reasonable range.

**(ii) *Stratified Sampling*:** This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them. Each stratum is treated as if it was a separate population and if proportionate of items are selected from each of these stratum. The number of groups into which the whole population has to be divided is determined on the basis of auditor judgment.

**Interval Sampling or Systematic Sampling:** Systematic selection is a selection method in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

**Monetary Unit Sampling:** It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.

**Haphazard sampling:** Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, always choosing or avoiding the first or last entries on a page)

**Block Sampling**: This method involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.

**RELATED PARTIES**

a A related party as defined in the applicable financial reporting framework

b Where the applicable financial reporting framework establishes minimal or no related party requirements

b-i A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity

b-ii Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries

b-iii Another entity that is under common control with the reporting entity through having:

i. Common controlling ownership;

ii. Owners who are close family members; or

iii. Common key management.

**Note:** However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

***Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions:***

During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

• Entity income tax returns.

• Information supplied by the entity to regulatory authorities.

• Shareholder registers to identify the entity’s principal shareholders.

• Statements of conflicts of interest from management and those charged with governance. Records of the entity’s investments

**SUBSEQUENT EVENTS**

(a) **Date of the financial statements** – The date of the end of the latest period covered by the financial statements.

(b) **Date of approval of the financial statements** – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements.

(c) **Date of the auditor’s report** – The date the auditor dates the report on the financial statements

(d) **Date the financial statements are issued** – The date that the auditor’s report and audited financial statements are made available to third parties.

(e) **Subsequent events** – Events occurring between the date of the financial statements and the date of the auditor’s report, and facts that become known to the auditor after the date of the auditor’s report.

**Events Occurring Between the Date of the Financial Statements and the Date of the Auditor’s Report**

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

(c) Reading minutes, if any, of the meetings, of the entity’s owners, management and those charged with governance, that have been held after the date of the financial statements

(d) Reading the entity’s latest subsequent interim financial statements, if any.

(e) Obtain written representations , that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

**Facts Which Become Known to the Auditor After the Date of the Auditor’s Report but Before the Date the Financial Statements are Issued**

(a) Discuss the matter with management and, where appropriate, those charged with governance.

(b) Determine whether the financial statements need amendment and, if so,

(c) Inquire how management intends to address the matter in the financial Statements

(d) The auditor shall:

Provide a new or amended auditor’s report that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor’s procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

III. **Facts Which Become Known to the Auditor After the Financial Statements have been Issued.**

(a) Discuss the matter with management and, where appropriate, those charged with governance.

(b) Determine whether the financial statements need amendment and, if so,

(c) Inquire how management intends to address the matter in the financial statements.

(d) If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, If management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor’s report

**GOING CONCERN**

**Conditions that may cast doubt about G.C. Assumption**

**Financial Conditions**

1. Net Liability position.

2. Non renewal of borrowings.

3. Withdrawal of Financial Support.

4. Adverse Financial Ratios.

5. Inability to pay creditors.

6. Substantial Losses.

7. Inability to arrange finances.

8. Negative Operating cash flow.

9. Deterioration in value of assets.

10. Discontinuation of dividend.

**Operating Conditions**

1. Management intention to liquidate the entity.

2. Loss of KMP.

3. Loss of a major market, key customer, franchise etc.

4. Labour Difficulties.

5. Shortage of Important Supplies.

6. Emergence of successful competitor.

**Others**

1. Non compliance of Statutory Requirements.

2. Pending legal proceedings against the entity.

3. Changes in Law or regulation.

4. Uninsured or underinsured assets.

**Management Responsibilities**

 Asses the entity’s ability to continue as a going concern.

 General purpose F.S. are prepared on a going concern basis unless management intends to liquidate the entity or to cease operation.

 In case F.S. are not prepared on going concern basis, the fact would need to be appropriately disclosed.

**Auditor’s Duties**

To obtain SAAE about the appropriateness of mngt use of going concern basis of accounting

Determine whether mngt has already performed a preliminary assessment of entity ability to continue as going concern.

Auditor identifies events that cast significant doubt on entity ability to continue as going concern

**“Written Representation”**

A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records

**Form and Content of Written Representation**

It must be in paper form as a representation letter addressed to the auditor

**Content:**

i) request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework

ii) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement

iii) All transactions have been recorded and are reflected in the financial statements

iv) As required by Other SAs

v) As required by auditor’s judgment

The date of the written representations shall be as near as practicable to, but not after, the date of the auditor’s report

**Doubt over Reliability of Written Representation**

a if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter

b If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management

c If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor’s report

**Management Refuses to provide Written Representation**

(a) Discuss the matter with those charged with governance;

(b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor’s report

**Forming an Opinion and reporting on Financial Statements**

**Meaning & Types of Audit Reports**

1. **Unmodified reports**
2. **Modified Reports**

**B.1 – Matters that affect Audit Opinion.**

B.1.1 – Qualified Opinion

B.1.2 – Adverse Opinion

B.1.3 – Disclaimer of Opinion

**Elements of an Unmodified Audit Report**

1. **Title**
2. **Addressee**
3. **Opinion Section**
4. **Basis for Opinion**
5. **Going Concern**
6. **Key Audit Matter**
7. **Management Responsibilities for the F.S.**
8. **Auditor’s responsibilities for the Audit of F.S.**
9. **Other Reporting responsibilities**
10. **Signature**
11. **Place**
12. **Date**

**Title**

“Independent Auditor’s Report” – so as to distinguish from reports issued by others.

**Addressee**

Auditor’s Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared

**Opinion Section**

Opinion Para shall also cover the following:

* Identify the Entity.
* Identify the title of each financial statement.
* Specify the period/date covered by each F.S.
* State that F.S. have been audited.

**Basis for Opinion**

* States that audit was conducted in accordance with SAs.
* Refer to Section of Auditor’s report that describes the auditor’s responsibilities.
* Compliance of Ethical requirements including independence.
* Auditor’s believing that they had obtained sufficient and appropriate audit evidence to provide a basis for the opinion.

**Going Concern**

Where applicable, auditor shall report

**Key Audit Matter**

In case of Listed Entity, auditor shall communicate Key Audit Matters in Auditor’s Report

**Management Responsibilities for the F.S.**

* To prepare F.S. in accordance with applicable FRF.
* Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud.
* Making reasonable and prudent judgements and estimates.
* Design, Implementation and maintenance of Internal Control.
* Assessing the appropriateness of Going Concern basis of accounting.
* Overseeing the financial reporting process.

**Auditor’s responsibilities for the Audit of F.S.**

**Other Reporting responsibilities**

Heading: “Reporting on Other Legal and Regulatory Requirements”.

**Signature**

In personal name and name of firm, along with the membership number and firm registration number

**Place**

The city where audit report is signed

**Date**

It should not be earlier than date on which audit evidences are collected.

**“Communicating Key Audit Matters in the Independent Auditor’s Report”**

Meaning: Those matters that in the auditor’s judgment were of most significance in audit of financial statement of current period. These are selected from matters communicated with TCWG.

(a) To enhance the communicative value of the auditor’s report by providing greater transparency.

(b) To provide additional information to intended users of F.S. to assist them in understating those matters that in auditor’s judgment were of most significance.

(c) To assist intended users in understanding the entity & areas of significant management judgment.

(d) To provide a basis to further engage with management and TCWG about certain matters relating to the entity.

**Manner of Reporting**

 Use separate section titled as “Key audit Matters.”

 Use introductory language in this section as – “Key audit Matters are those matters that in the auditor’s judgement, were of most significance in the audit of financial statements of current period and these matters were addressed in the context of audit of financial statements as a whole and auditor does not provide a separate opinion on these matters”.

 Description of each key audit matter shall follow the introduction.

 Description of key audit matter shall address the reason why the matter was considered as key audit matter

**Circumstances in which a matter determined to be key audit matter is not communicated**

 Law or regulation precludes public disclosure about the matter; or.

 Audit determines that the matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.

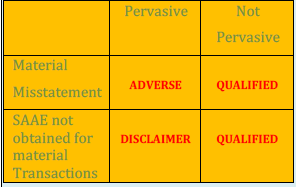
 It will not be applied if entity has publicly disclosed information about the matter.

**Modified opinion Vs. Going concern Vs. Key Audit Matters**

 Key audit matter is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.

 Auditor shall report modification / Going concern in accordance with applicable SA, and include a reference to basis for Qualified (Adverse) opinion or the material ascertaining related to going concern section in the Key Audit Matters Section

**Modifications to the Opinion in the Independent Auditor’s Report**



**Types of modified Opinion**

Qualified

Issued when:

F.S. are misstated having material but not pervasive effect.

Or

Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.

Adverse

Issued when F.S. are misstated having material and pervasive effect.

Disclaimer

Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.

**Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor’s Report**

**Emphasis of Matter Para**

**Meaning**

A Para included in the Auditor’s report that refers to a matter appropriately reflected/ disclosed in the financial statement that in the auditor’s judgment is of such significance that it is fundamental to the user’s understanding of financial statement.

**Requirements**

 EOM Para is not a substitute of Key Audit Matter or Modified Opinion.

 EOM should be included within a separate section titled as “Emphasis of Matter”.

 EOM should refer only to information presented/disclosed in the financial statements.

 It must be indicated that auditor’s opinion is not modified in respect of this matter.

**Circumstance when EOM Para can be issued**

(a) Uncertain situation as to future outcome of an exceptional litigation.

(b) Significant subsequent events.

(c) Early application of new AS in advance of its effective date.

(d) Occurrence of major catastrophe that may have a significant effect on entity financial position.

**Other Matter Para**

**Meaning**

A Para included in Auditors Report that refers to a matter other than presented/ disclosed in financial statement that in the auditors judgment is relevant for users understanding of audit auditors responsibilities or auditor’s report.

**Requirements**

 OM Para is not a substitute of Key Audit Matter.

 OM Para should be included in the audit report in a separate section termed as “Other Matter”.

 Differentiate “Other Matter” with Key Audit Matter”.

**“Using the Work of Internal Auditors”**

**Meaning & scope of Internal Audit Function**

**Meaning**

A function of an entity that performs assurance & consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.

Scope of Internal Audit

1 Activities relating to governance.

2 Activities relating to Risk Management

3 Activities relating to Internal Control

* + Evaluation of Internal Control
  + Examination of Financial and operating information
  + Review of Operating Activities
  + Review of Compliance with Laws and Regulations

MCQ

1. **\_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.**

**a)** Audit Techniques

**b)** Audit Evidence

**c)** Audit Documentation

**d)** None of the above

2. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_ may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.**

**a)** Audit File

**b)** Audit Evidence

**c)** Completion Memorandum

**d)** Both (a) and (b) above

3. **As per SQC-1 “An appropriate time limit within which to complete the assemble of the final audit file is ordinarily not more than \_\_\_\_\_ days after the date of auditor’s report.**

**a)** 30

**b)** 60

**c)** 90

**d)** 45

4. **As per SQC-1, auditor should retain audit documentation for at least \_\_\_\_\_\_\_\_\_ years**

**a)** 5

**b)** 6

**c)** 7

**d)** 8

5. **Which of the following factors may affect the form, content and extent of audit documentation:**

**a)** Size and complexity of the entity

**b)** Identified risk of material misstatements

**c)** Significance of audit evidence obtained

**d)** All of above

6. **Audit documentation can be made by auditor:**

**a)** Paper mode

**b)** Electronic mode

**c)** Both (a) and (b)

7. **Who is the owner of audit working papers?**

**a)** Auditee

**b)** Auditor

**c)** (a) and (b)

**d)** ICAI

8. **Additional numbers of purposes served by audit documentation are:**

**a)** Enabling the engagement team to plan and perform the audit

**b)** Enabling the engagement team to be accountable for its work

**c)** To enable the engagement partner for direction, supervision and review the work performed by engagement team members.

**d)** All of above

9. **If in exceptional circumstances the auditor departs from Standards on Auditing, he shall\_\_\_\_\_\_\_\_\_\_\_**

**a)** Document the reason for departure

**b)** Perform alternative procedures

**c)** Both (a) and (b)

**d)** Auditor is not allowed to depart from SAs

10. **Which of the following is not content of permanent audit file:**

**a)** Record of study and evaluation of internal control

**b)** Audit planning and audit documentation

**c)** Memorandum and Article of Association

**d)** Notes relating to significant accounting policies

11. **Which of the following is content of current audit file:**

**a)** Correspondence relating to acceptance of annual reappointment

**b)** Copies of communication with experts or other auditors

**c)** Audit evidence obtained

**d)** All of above

12. **Loan agreement are the integral parts of**

**a)** Permanent audit file

**b)** Current audit file

**c)** Temporary audit file

**d)** None of the above

13. **Working on trial balance is the part of**

**a)** Permanent audit

**b)** Current audit file

**c)** Temporary audit file

**d)** None of the above

14. **Pick the odd one**

**a)** Written representations and confirmation from clients.

**b)** Audit planning and audit programme

**c)** Correspondence relating to annual reappointment

**d)** Memorandum and Article of Association of the Company

15. **From the initial client interview to the preparation of audit report an auditor must keep a record of all the work you do in**

**a)** Audit file

**b)** Audit report

**c)** Audit papers

**d)** None of the above

16. **Which of the following is not true of working papers?**

**a)** They record the audit evidence to provide support for the auditor’s opinion

**b)** They assist in review of the audit work

**c)** They are a direct aid in the planning of the audit

**d)** They provide proof of the correctness of the financial statements

17. **The audit working papers should contain information on planning the audit work, the nature, timing and extent of audit procedures performed, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the conclusion drawn leading to an opinion.**

**a)** The results of the audit procedures

**b)** The auditor’s opinion of management

**c)** All gratuities received by auditor

**d)** Names of the employees who cooperated with the auditor.

18. **The extent of what is included in working paper is**

**a)** Thoroughly specified in SAs

**b)** Determined by each staff auditor

**c)** Thoroughly specified under law

**d)** A matter of professional judgement

19. **Which of the following factors would least likely affect the quantity and content of an auditor’s working papers**

**a)** The nature of auditor’s report

**b)** The assessed level of control risk

**c)** The possibility of peer review

**d)** The content of management representation letter.

20. **A current audit file would always contain which of following?**

**a)** Loan agreements, pension plans, agreements with parent company and subsidiaries

**b)** Company documents such as corporate charter or articles of association and corporate bylaws.

**c)** A record of the nature, timing and extent of audit procedures performed and the results of such procedures**.**

**d)** Prior year analysis of fixed assets, long term debt, and terms of stock and bond issues.

21. **Which of the following SAs deals with auditor’s responsibilities w.r.t. audit documentation:**

**a)** SA 580

**b)** SA 230

**c)** SA 505

**d)** SA 700

22. **Audit documentation may be useful for**

**a)** Engagement team

**b)** Quality control reviewer

**c)** External inspector

**d)** All of these

23. **After assembly of audit file, the auditor\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**a)** May delete audit documentation if it is of no use

**b)** May delete audit documentation if it is occupying much of its space

**c)** Shall not delete audit documentation before its retention time period

**d)** May delete audit documentation before its retention period if it is required by any law.

24. **The auditor shall not document the following**

**a)** Overall audit strategy

**b)** Changes made during the audit engagement which are insignificant

**c)** Audit plan and reason for such change

**d)** Audit plan

25. **The client had received an assessment order from the income tax department. Mr. A, the auditor was approached for the same. However, Mr. A did not retain the working papers relating to his audit findings for the particular period. He has failed to comply with**

**a)** SA 220

**b)** SA 210

**c)** SA 230

**d)** SA 250

26. **Preparing sufficient and appropriate audit documentation\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor’s report is finished.**

**a)** Based on engagement

**b)** Based on time

**c)** Based on objective

**d)** Based on audit plan

27. **Documentation prepared after the audit work has been performed is likely to be**

**a)** More accurate than documentation prepared at the time such work is performed

**b)** Less accurate than documentation prepared at the time such work is performed

**c)** More appropriate than documentation prepared at the time such work is performed

**d)** None of the above

28. **State which of the following statement is true**

**a)** Auditor is bound to provide copies of the working papers to the CEO of the Company

**b)** Extract & Copies of important legal documents, agreements relevant to audit is part of current audit file

**c)** The auditee has no rights to compel the auditor to provide copies of the working papers

**d)** All of the above

**AUDIT EVIDENCE**

MCQ

1. **Which of following SA deals with auditor’s responsibility to design and perform audit procedures in such a way to enable the auditor to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion**

**a)** SA 500

**b)** SA 501

**c)** SA 330

**d)** SA 315

2. **Sufficient audit evidence is a measurement of**

**a)** Quality of audit evidence

**b)** Quantity of audit evidence

**c)** Both of (a) and (b)

**d)** None of these

3. **Appropriate audit evidence is a measurement of**

**a)** Quality of audit evidence

**b)** Quantity of audit evidence

**c)** Both of (a) and (b)

**d)** None of these

4. **The auditor must obtain following audit evidence to draw reasonable conclusion**

**a)** Sufficient audit evidence

**b)** Appropriate audit evidence

**c)** Sufficient and appropriate audit evidence

**d)** None of these

5. **Which of the following is the least persuasive type of audit evidence?**

**a)** Bank statements obtained from the client

**b)** Documents obtained by auditor from third parties directly

**c)** Carbon copies of sales invoices inspected by the auditor

**d)** Computations made by the auditor

6. **Following audit procedures are performed by auditor to obtain sufficient appropriate audit evidence**

**a)** Risk assessment procedures

**b)** Test of controls

**c)** Substantive audit procedures

**d)** Both (b) and (c)

7. **Which of the following is not a factor to determine sufficient audit evidence**

**a)** Reliability of information

**b)** Materiality of item

**c)** Risk of material misstatements

**d)** Size and characteristics of the population

8. **Which of the following is a factor to determine sufficient audit evidence**

**a)** Materiality of item involved

**b)** Risk of material misstatements

**c)** Size and characteristics of the population

**d)** All of these

9. **Which of the following is a factor to determine appropriate audit evidence**

**a)** Reliability of information

**b)** Relevancy of information

**c)** Both (a) and (b)

**d)** None of these

10. **Depending upon nature audit evidence can be classified as**

**a)** Visual evidence

**b)** Oral evidence

**c)** Documentary evidence

**d)** All of these

11. **Depending upon source audit evidence can be classified as**

**a)** Internal audit evidence

**b)** External audit evidence

**c)** Both (a) and (b)

**d)** None of these

12. **Which of the following is not internal audit evidence**

**a)** Bank Reconciliation Statement

**b)** Bank Statement

**c)** Copy of Sales Invoice

**d)** Voucher

13. **Which of the following is not external audit evidence**

**a)** Bank Statements

**b)** Purchase Invoice

**c)** External Confirmation

**d)** Salary Sheet

14. **Techniques to obtain audit evidence are**

**a)** Inspection

**b)** Recalculation

**c)** External confirmation

**d)** All of these

15. **Pick the odd one**

**a)** Confirmation

**b)** Inquiry

**c)** Re-computation

**d)** Ledger posting

16. **Pick the odd one**

**a)** Bank reconciliation statement

**b)** Copy of sales invoice

**c)** Purchase invoice

**d)** Minutes book

17. **Which of following statement is incorrect**

**a)** Recalculation consists checking reasonableness of appropriates of accounting policies

**b)** Inspection consists of examining records, documents whether internal or external in paper form or electronic form and physical examination of assets

**c)** An external confirmation represents audit evidence obtained by auditor as direct written response to the auditor from a third party.

**d)** Evaluating responses of inquiry is an integral part of inquiry process.

18. **Observation consists**

**a)** Review of financial statements

**b)** Looking at a process, procedure being performed by others

**c)** Independent execution of procedure or controls that were originally performed as part of entity’s internal control.

**d)** All of these

19. **Before using the work of an expert the auditor shall evaluate**

**a)** Competency of expert.

**b)** Capability of expert

**c)** Objectivity of expert

**d)** All of above

20. **Information regarding the competence, capabilities and objectivity of management’s expert may come from a variety sources such as:**

**a)** Discussion with expert

**b)** Personal experience with previous work of that expert

**c)** Published papers or books written by that expert

**d)** All of these

21. **Pick the most appropriate. Auditing evidence is more reliable when**

**a)** Received from third party

**b)** Received from reliable third party

**c)** Received from audited organization resources

**d)** Both a & b

22. **Which is NOT a technique of obtaining evidence**

**a)** Correction

**b)** Computation

**c)** Confirmation

**d)** Both a & b

23. **Which of the following statements is, generally correct about the reliability of audit evidence?**

**a)** To be reliable, evidence should be conclusive rather than persuasive

**b)** Effective internal control system provides reliable audit evidence

**c)** Evidence obtained from outside sources routed through the client

**d)** All are correct

24. **In case of inconsistency between audit evidences obtained by auditor for ant item of the financial statement, the auditor shall**

**a)** Withdraw from audit engagement

**b)** Perform alternative audit procedures

**c)** Perform additional audit procedures to obtain corroborative audit evidence

**d)** All of the above

25. **Which of the following is incorrect w.r.t. inquiry**

**a)** Inquiries may range from formal written inquiries to informal oral inquiries

**b)** Conducting inquiry alone is not sufficient to obtain sufficient and appropriate audit evidence

**c)** Inquiry can be conducted with the person within the entity and with the person outside the entity

**d)** Evaluation of responses of enquiries is not an integral part

26. **Which of the following is correct**

**a)** Audit procedures and audit techniques are not one and same thing.

**b)** Audit procedures and audit techniques are often used interchangeably.

**c)** Inspection of bank reconciliation statement is an audit technique.

**d)** All of the above

27. **Audit is usually conducted in three steps:**

**1. A pre-examination or opening meeting with the auditee marks the beginning of the process**

**2. Involves a suitability audit of the documented procedures against the selected reference standard**

**3. The auditor examines in depth the implementation of the quality system**

**a)** True

**b)** False

**c)** Partially false

**d)** None of the above

28. **In auditing most of the time we deal with persuasive audit evidence which helps the auditor**

**a)** To understand the nature of audit

**b)** To understand the source of audit evidence

**c)** For conclusion of the audit

**d)** None of the above

29. **State which of the following techniques are not used for obtaining audit evidence**

**a)** Questioning the management with objective to get suitable response

**b)** Involve inspection record or documents internal or external

**c)** Detailed examination of some specific areas

**d)** Trend analysis

30. **Reperformance involves**

**a)** Evaluation of financial information using financial and non-financial data.

**b)** Questioning the management with objective to get suitable response

**c)** Auditor’s independent execution of procedures or controls that were originally performed by management

**d)** Checking the mathematical accuracy documents or record. It can be manually or electronically

31. **State which of the following statement is true**

**a)** Audit evidence are persuasive in nature

**b)** Audit evidence are conclusive in nature

**c)** Both (a) and (b)

**d)** None of the above

32. **Which of the following are designed to obtain audit evidence as to completeness, accuracy and validity of data produced by the accounting system**

**a)** Test of controls

**b)** Substantive procedures

**c)** Analytical procedures

**d)** All of the above

33. **Substantive procedures does not involves**

**a)** Checking of transactions

**b)** Analytical review

**c)** Checking of balance

**d)** Checking whether internal controls are working effectively

34. **Test of controls involves in**

**a)** Testing of transaction and balance

**b)** Analytical review

**c)** Check the internal control exist and operating effectively

**d)** All of the above

35. **The reliability of audit evidence is influenced by its**

**a)** Source

**b)** Nature

**c)** Circumstances

**d)** All of the above

**AUDIT EVIDENCE- SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS**

**Mcq**

**1.** **Which of the following SA deals with deals with special consideration by auditor in obtaining sufficient appropriate audit evidence with respect to existence and condition of inventory, completeness of litigation and claim and presentation and disclosure of segment information:**

**a)** SA 500

**b)** SA 501

**c)** SA 505

**d)** SA 510

**2.** **The responsibility for determining the quantity and value of inventory rests with**

**a)** Management

**b)** Auditor

**c)** Auditor and Management both

**d)** None of these

**3.** **The auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attending physical inventory count, unless impracticable, to**

**a)** Evaluate the management’s instruction and procedures for recording and controlling the results of the entity’s physical inventory counting

**b)** Observe the performance of management’s count procedures

**c)** Inspect the inventory

**d)** All of above

**4.** **If auditor is unable to attend physical inventory counting due to unforeseen circumstances the auditor shall**

**a)** Obtain a written representation from management of entity

**b)** Conduct external confirmation form third party

**c)** Make or observe some physical count on an alternative date, and perform audit procedures on intervening transactions

**d)** All of these.

**5.** **If attendance at physical inventory counting is impracticable, the auditor shall**

**a)** Perform Alternative audit procedures

**b)** Perform Additional audit procedures

**c)** Obtain written representation from management of entity

**d)** None of the above

**6.** **When inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by**

**a)** Request confirmation from third part as to the quantities and condition of inventory held by third party

**b)** Perform inspection or other audit procedures appropriate in the circumstances

**c)** Both (a) and (b)

**d)** None of the above

**7.** **Litigation and claim involving the entity may have a material effect on the financial statements and thus may be required**

**a)** To be disclosed in the financial statements

**b)** To be accounted in the financial statements

**c)** Either (a) or (b)

**d)** Both (a) and (b)

**8.** **The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement including:**

**a)** Inquiry of management and others within the entity

**b)** Performing analytical procedures as are appropriate

**c)** Reviewing minutes of meetings of members

**d)** All of above

**9.** **When the audit procedures performed indicated that other material litigation or claims may exist, then the auditor shall**

**a)** Seek direct communication with the entity’s internal legal counsel through a letter of inquiry, prepared by auditor and sent by the management.

**b)** Seek direct communication with the entity’s external legal counsel through a letter of inquiry, prepared by management and sent by the auditor

**c)** Seek direct communication with the entity’s external legal counsel through a letter of inquiry, prepared by auditor and sent by the management

**d)** Seek direct communication with the entity’s internal legal counsel through a letter of inquiry, prepared by management and sent by the auditor

**10.** **If management does not permit auditor to communicate with legal counsel or legal counsel refuses to respond to auditor, the auditor shall**

**a)** Express unmodified opinion

**b)** Modify opinion

**c)** Provide key audit matter section in his report

**d)** All of these

**11.** **With respect to segment information, the auditor shall obtain evidences regarding \_\_\_\_\_\_\_\_ of segment information as per\_\_\_\_\_\_\_\_\_\_\_.**

**a)** Preparation, Standard on auditing

**b)** Disclosure, Standard on auditing

**c)** Preparation, Financial reporting framework

**d)** Presentation and Disclosure, Financial reporting framework**.**

**12.** **State which of the following is covered under AS 17 and SA 501**

**a)** Claims & Litigation

**b)** Segment Reporting

**c)** Both (a) and (b)

**d)** None of the above

**EXTERNAL CONFIRMATIONS**

MCQ

1. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ means audit evidence obtained as direct written response from a third party in paper/electronic form.**

**a)** Internal Confirmation

**b)** External Confirmation

**c)** Written Representation

**d)** All of above

**2.** **Which of the following SAs deals with auditor’s responsibilities to design and perform external confirmation procedures to obtain relevant and reliable audit evidence**

**a)** SA 580

**b)** SA 330

**c)** SA 500

**d)** SA 505

**3.** **A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information, is**

**a)** Negative Confirmation Request

**b)** Exception

**c)** Positive Confirmation Request

**d)** Non-Response

**4.** **A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request, is**

**a)** Negative Confirmation Request

**b)** Positive Confirmation Request

**c)** Exception

**d)** Non Response

**5.** **A response that indicates a difference between information requested to be confirmed, or contained in the entity’s records, and information provided by the confirming party, is**

**a)** Error

**b)** Exception

**c)** Fraud

**d)** All of above

**6.** **A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called**

**a)** Disagreement

**b)** Confirmation failure

**c)** Restriction on auditor’s scope

**d)** Non-Response

7. **The auditor should use negative confirmation request if**

**a)** Population comprises a large number of small, homogeneous account balances or transactions

**b)** The auditor has assessed the risk of material misstatement as low

**c)** A very low exception rate is expected

**d)** All of above

**8.** **Factors to be considered when designing confirmation request:**

**a)** Prior experience of auditor

**b)** Assertions being addressed

**c)** Information to be confirmed

**d)** All of above

**9.** **In case any exception is identified by auditor by conducting external confirmation, he shall perform**

**a)** Alternative audit procedures

**b)** Additional audit procedures

**c)** Test of Controls

**d)** Both (a) and (b)

**10.** **In case of non-response in the process of external confirmation, the auditor shall perform**

**a)** Alternative audit procedures

**b)** Additional audit procedures

**c)** Test of Controls

**d)** Both (a) and (b)

**11.** **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ should carefully plan and control external confirmation**

**a)** Management

**b)** TCWG

**c)** Auditor

**d)** All of these in consultation with one another

**12.** **Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform:**

**(a)** No additional testing

**(b)** Additional testing including agreeing the balance to cash received; agreeing the detail of the respective balance to the customer’s remittance advice

**(c)** Additional testing including preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these revenue transactions actually occurred

**(d)** Both (b) and (c)

**13.** **Which of the following statement is not true, if management refuses to allow the auditor to send a confirmation request**

**a)** Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness

**b)** The auditor also shall determine the implication for the audit and the auditor’s opinion in accordance with standards on auditing

**c)** Evaluate the implication of management’s refusal on the auditor’s assessment of the relevant risk of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures.

**d)** Auditor shall withdraw from engagement**.**

**14.** **The auditor shall investigate exceptions to determine whether or not**

**a)** They are indicative of misstatements

**b)** The audit evidence is sufficient and appropriate

**c)** It is conclusive to conclude

**d)** All of the above

**15.** **State which of the following statement is true, with the auditor’s use of external confirmation procedures to obtain audit evidence as per SA 505**

**a)** Positive confirmation provide less persuasive audit evidence than negative confirmation

**b)** Positive confirmation provide less conclusive audit evidence than negative confirmation

**c)** Negative confirmation provide less conclusive audit evidence than positive confirmation

**d)** Negative confirmation provide less persuasive audit evidence than positive confirmation

16. **The auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatements at**

**a)** At initial audit engagement level

**b)** The time, when the auditor is aware of circumstances or condition that would cause recipients of negative confirmation requests to disregard such requests

**c)** The assertion level

**d)** All of the above

17. **A refusal by management to allow the auditor to send a confirmation request**

**a)** is a limitation on the scope of audit

**b)** is a limitation on the audit evidence

**c)** is a limitation on the audit documentation

**d)** All of the above

18. **State which of the following circumstance, refusal by management to allow the auditor to send a confirmation request is reasonableness as per SA 505**

**a)** Existence of a legal dispute

**b)** Ongoing negotiation with TCWG

**c)** When the reason for exception available

**d)** All of the above

19. **When the auditor evaluates the evidence obtained and response received from the third party is unreliable, then which one of the best option available to the auditor**

**a)** Perform alternative audit procedure to obtain relevant and reliable audit evidence

**b)** Revise the assessment of the risk of material misstatement at the assertion level and modify planned audit

**c)** The auditor shall communicate with TCWG in accordance with SA 260

**d)** The auditor shall determine the implications for the audit and auditor’s opinion in accordance with SA

**INITIAL AUDIT ENGAGEMENT- VERIFICATION OF OPENING BALANCES**

**Mcq**

**1.** **Which of the following SA deals with the auditor’s responsibilities relating to Opening balances when conducting an initial audit engagement:**

**a)** SA 500

**b)** SA 510

**c)** SA 710

**d)** SA 540

2. **An initial audit engagement in engagement in which :**

**a)** The financial statements for the prior period were not audited

**b)** The financial statements for the prior period were audited by a predecessor auditor

**c)** Either (a) or (b)

**d)** None of (a) or (b)

3. **Predecessor auditor is:**

**a)** Joint auditor

**b)** Auditor of component’

**c)** Internal auditor

**d)** The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor**.**

4. **To obtain information relevant to opening balances including disclosures, the auditor shall**

**a)** Read the most recent financial statement, if any and auditor’s report thereon

**b)** Conduct written communication with predecessor auditor

**c)** Inquire with management

**d)** All of the above

5. **Which of the following is true**

**a)** If auditor concludes that opening balances contain misstatements that materially affects the current period’s financial statements, the auditor shall express disclaimer of opinion.

**b)** If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaimer of opinion, as appropriate, in accordance with SA 705.

**c)** If auditor concludes that the current period’s accounting policies are not consistently applied in relation to opening balances, or a change in accounting policies is not properly accounted for , or not adequately disclosed in accordance with applicable reporting framework, the auditor shall express a qualified opinion or an adverse opinion as appropriate, in accordance with SA 705.

**d)** Both (b) and (c)

6. **Auditors of M/s A Ltd were changed for the accounting year 2019-20. The closing stock of the company as on 31-03-2019 amounting to Rs 100 Lakhs continued as it is and became closing stock as on 31-03-2020. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs. 100 Lakhs on the understanding that it pertains to the preceding year which was audited by another auditor.**

**a)** Auditor’s contention is wrong

**b)** Auditor’s contention is right

**c)** Auditor can choose to skip them as it is audited by predecessor auditor

**d)** Auditor can rely on the previous audit report

7. **If auditor concludes that the opening balances contain a misstatement and such misstatement materially affects the current period’s financial statements and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed**

**a)** The auditor shall express a disclaimer of opinion

**b)** The auditor shall perform additional procedures and advise management to revise financial statements

**c)** The auditor shall express a qualified opinion or an adverse opinion

**d)** All of the above

8. **Which of the following is incorrect, in relation to the predecessor auditor’s report**

**a)** Evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period

**b)** If the prior period’s financial statements were audited by predecessor auditor and there was a modification to the opinion, the auditor shall also modify his opinion

**c)** Evaluate the effect of the matter giving rise to the modification in the internal control

**d)** Auditor shall express a qualified opinion or an adverse opinion if no appropriate disclosure is made

9. **If a change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework**

**a)** The auditor shall express a disclaimer of opinion

**b)** The auditor shall perform additional procedures and advise management to update financial statements

**c)** The auditor shall express a qualified opinion or an adverse opinion

**d)** All of the above

10. **If the auditor concludes that the current period’s accounting policies are not consistently applied in relation to opening balances in accordance with applicable financial reporting framework**

**a)** The auditor shall express a disclaimer of opinion

**b)** The auditor shall perform additional procedures and advise management to revise financial statements

**c)** The auditor shall express a qualified or an adverse opinion

**d)** All of the above

11. **The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatement that**

**a)** Materially affect the current period’s financial statements

**b)** Materially affect the prior period’s financial statements

**c)** Materially affects one or more prior period’s financial statements

**d)** All of the above

12. **The auditor shall obtain sufficient appropriate audit evidence about whether the \_\_\_\_\_\_\_\_\_ reflected in the opening balances have been consistently applied in the current period’s financial statements**

**a)** Accounting policies

**b)** Accounting estimates

**c)** Fundamental accounting assumptions

**d)** Applicable financial reporting framework

**RELATED PARTIES**

1. **Which of the following SA deals with auditor’s responsibilities regarding related party relationships and transactions when performing an audit of financial statements**

**a)** SA 540

**b)** SA 550

**c)** SA 560

**d)** SA 570

*2.* **transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interest is called as:**

**a)** Arm’s length transaction

**b)** Related party transaction

**c)** Significant transaction

**d)** None of these

3. **Related party transaction may be conducted**

**a)** In the normal course of business

**b)** Not under normal market terms and conditions

**c)** With no exchange consideration

**d)** All of these

4. **A related party transaction may have the following features:**

**a)** A person or entity under common control

**b)** Owners who are close family members

**c)** Common key management

**d)** All of these

5. **Which of the following is not a record or document that may provide information about related party relationships and transactions:**

**a)** Entity income tax return

**b)** Internal auditor’s report

**c)** Memorandum of Association

**d)** Life insurance policies acquired by the entity.

6. **To identify and assess risk of material misstatements due to fraud or error that could result the entity’s related party relationships and transaction the auditor shall:**

**a)** Inquiry with management and others within the entity

**b)** Perform other risk assessment procedures

**c)** Both (a) and (b)

**d)** None of these

7. **If auditor identifies significant related party transactions, not conducted on the terms and conditions like normal rate and market conditions then, he should evaluate-**

**a)** Business rationale behind these transactions

**b)** Consistency of terms with management’s explanation

**c)** Accounting and disclosure of such transactions in financial statements

**d)** All of these

8. **Statement(1)**

**As per SA-550, auditor should examine whether related party transactions have been appropriately accounted for and disclosed in the financial statements as per financial reporting framework; though he need not check authorization of such transactions by management.**

**Statement (2)**

**Auditor should consider whether management has appropriately accounted and disclosed the related party transactions in their financial statements as per applicable financial framework as it might affect his audit opinion.**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

9. **Statement(1)**

**Regarding related party relationships and transactions with them, auditor shall not obtain any written representation; rather obtain extra evidences independently as he cannot rely on written representations when it comes to related party transactions.**

**Statement (2)**

**As per SA-550, he should maintain documentation regarding name and nature of related party relationships.**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

10. **As per Accounting Standard 18, the facts to be disclosed in the financial statements by the auditor shall include-**

**a)** Related party name and nature of relationship

**b)** If there is a transaction between related parties, the nature of transaction, the price at which it has been made and amount of transaction outstanding at the balance sheet date.

**c)** Both a and b

**d)** None of these

11. **For identifying existence of related parties, apart from obtaining written representation from management and TCWG, the auditor should also consider-**

**a)** Key man insurance policies

**b)** Income tax returns

**c)** Internal auditor’s reports

**d)** all of these

12. **SA- \_\_\_\_\_\_\_\_\_\_\_ pertains to management’s responsibilities to examine whether related party transactions have been appropriately accounted for and disclosed in the financial statements.**

**a)** SA-240

**b)** SA-550

**c)** SA-560

**d)** None of these

**Subsequent Events**

Mcq

1. **SA- \_\_\_\_\_\_\_\_\_\_\_\_relates to auditor’s responsibilities regarding subsequent events**

**a)** SA-550

**b)** SA-560

**c)** SA-570

**d)** None of these

2. **Subsequent events as per SA 560 are-**

**a)** Events occurring between the date of financial statements and the date of auditor’s report

**b)** Facts that become known to the auditor after the date of auditor’s report

**c)** Both a and b

**d)** None of these

3. **The auditor shall obtain sufficient and appropriate evidence that all events after the balance sheet date but before or up to the date of \_\_\_\_\_\_\_\_\_\_ that require adjustment or disclosure in \_\_\_\_\_\_\_ have been identified.**

**a)** Board’s approval; Board report

**b)** Board’s approval; financial statements

**c)** Auditor’s report; Board report

**d)** Auditor’s report; financial statements

4. **Regarding subsequent events, auditor shall comply with the requirements given in SA-560. State which of the following is not correct in this regard?**

**a)** The auditor shall inquire the management and those charged with governance regarding the subsequent events.

**b)** Auditor should read the entity’s subsequent interim financial statements, if any

**c)** The auditor may inquire entity’s lawyer regarding the pending cases and outcomes therefrom.

**d)** Auditor need not consider whether subsequent event may have an impact on going concern assumption**.**

5. **Statement (1)**

**Generally, auditor has no obligation to perform any audit procedures regarding the financial statements after the date of auditor’s report.**

**Statement (2)**

**In case auditor comes to know about a fact after the date of auditor’s report, he should not consider the same.**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

6. **In case facts become known to the auditor after the date of audit report but before the date financial statements are issued, then auditor shall-**

**a)** Discuss with management and TCWG the matter whether there is need to amend financial statements and treatment in financial statements**.**

**b)** Should not ask the management and TCWG to amend the financial statements in any case because it may give rise to many complications.

**c)** He should ask the management and TCWG to inform about the situation to everyone in receipt of previously issued financial statements and amend the financial statements.

**d)** He need not provide a new report even if facts are such that had it been known to the auditor at the date of audit report, it might have affected his audit report.

7. **Statement (1)**

**If auditor comes to know about the facts which are of such nature that had those been known to the auditor at the date of audit report, it might have affected his audit report, and he asks the management and TCWG to amend the financial statements but management does not amend the financial statements, then, he should provide a new report.**

**Statement (2)**

**If he comes to know about the facts after the date financial statements are issued, then, he does not have any obligation because financial statements have already been issued to third parties. At the most he can provide a public notice.**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

8. **A limited company is having a pending case filed against it on 31th March, 2020. A decision has been received from the court on 14th April, 2020. i.e. after the balance sheet date.**

**a)** It is a subsequent event

**b)** It should be considered by the management while preparing the financial statements.

**c)** Auditor needs to check whether it has been dealt with in the financial statements as per applicable financial reporting framework.

**d)** All of these

9. **When after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of auditor’s report, may have caused the auditor to amend the auditor’s report, the auditor shall**

**a)** Discuss the matter with management and TCWG

**b)** Determine whether the financial statements need amendment

**c)** Inquire how management intends to address the matter in the financial statements

**d)** All of the above

**GOING CONCERN**

Mcq

1. **Statement (1)**

**Under the going concern assumption, an entity is viewed as continuing in business forever.**

**Statement (2)**

**General purpose financial statements are prepared on a going concern basis if management neither intends to liquidate the entity nor to cease the operations**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

2. **In case financial statements have not been prepared on a going concern basis,-**

**a)** The fact need not be appropriately disclosed

**b)** The auditor shall comply with SA-570

**c)** Both a and b

**d)** None of these

3. **Statement (1)**

**As per SA-570, the auditor need not consider whether there is material uncertainty about the entity’s ability to continue as a going concern because it is management’s responsibility to consider the same.**

**Statement (2)**

**The absence of any reference to going concern uncertainty in the auditor’s report may be viewed as a guarantee as to the entity’s ability to continue as a going concern.**

**a)** Only Statement (1) is true

**b)** Only Statement (2) is true

**c)** Both the statements are true

**d)** None of the Statements is true

4. **As per SA-570, the auditor shall**

**a)** Consider the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

**b)** Plan and perform his audit considering professional skepticism.

**c)** Remain alert throughout the audit

**d)** All of these

5. **The following type of indicators may give rise to a doubt on going concern assumption adopted by management:**

**a)** Financial indicators

**b)** Operating indicators

**c)** Other indicators

**d)** All of these

6. **If the management has prepared financial statements based on going concern assumption but auditor concludes that use of going concern basis is inappropriate, then auditor shall-**

**a)** Express a qualified opinion

**b)** Express an adverse opinion

**c)** Disclaim his opinion

**d)** Either option (a) or option (b)

7. **If auditor concludes that use of going concern basis of accounting is appropriate but a material uncertainty exists which is adequately disclosed in the financial statements, then auditor shall-**

**a)** Express a qualified opinion

**b)** Express an adverse opinion

**c)** Either option (a) and option (b)

**d)** None of these

8. **If going concern basis of accounting is appropriate, however, there is a material uncertainty which is not disclosed in the financial statements, then auditor shall express-**

**a)** Qualified opinion

**b)** Adverse opinion

**c)** (a) or (b)

**d)** Disclaimer of opinion

9. **The auditor’s report shall include a separate section under the heading “material uncertainty relating to going concern” in case-**

**a)** Adequate disclosure of a material uncertainty has been made in the financial statements

**b)** Adequate disclosure of material uncertainty is not made in the financial statements

**c)** Management may be unwilling to make or extend his assessment

**d)** All of these

10. **If auditor identifies events or conditions that may cast significant doubt on going concern, he shall communicate the same to-**

**a)** Management

**b)** TCWG

**c)** Option (a) and option (b) both

**d)** Either (a) or option (b)

11. **The matters relating to going concern may-**

**a)** Be a key audit matter as per SA 701

**b)** Should not be a key audit matter as per SA-701 because these are dealt only in SA-570

**c)** Key audit matters must not include going concern matters

**d)** None of these

12. **While performing audit procedures to obtain audit evidence for management’s use of going concern assumption, the auditor shall consider same time period as covered by management in its assessment, but such period shall not be less than**

**a)** 3 Months

**b)** 6 Months

**c)** 10 Months

**d)** 12 Months

13. **Which of the following is financial event or condition which may cast significant doubt on the entity’s ability to continue as going concern**

**a)** Loss of franchise

**b)** Shortage of supplies

**c)** Negative operating cash flows

**d)** Non-compliance with statutory requirement

14. **Which of the following is operating event or condition which may cast significant doubt on the entity’s ability to continue as going concern**

**a)** Loss of major market segment

**b)** Loss of key customer

**c)** Inability to pay creditors on due date

**d)** (a) and (b)

15. **The auditor found that entity has recurring losses and has negative net worth, these are indicators of-**

**a)** Operating nature

**b)** Financial nature

**c)** Other indicators

**d)** All of these

16. **If auditor concludes that management’s use of going concern basis of accounting is appropriate but material uncertainty exists which has been properly disclosed by management in financial statement, the auditor shall**

**a)** Introduce EOM para in his report in accordance with SA 706

**b)** Introduce separate section in his report under the heading ‘Material Uncertainty Related to Going Concern’

**c)** Introduce OM para in his report in accordance with SA 706

**d)** Qualify his opinion in accordance with SA 705

17. **In case of management’s unwillingness to make or extend its going concern assumption, the auditor shall**

**a)** Consider the implications for the auditor’s report

**b)** Withdraw from engagement

**c)** Introduce EOM para in his report in accordance with SA 706

**d)** Introduce OM para in his report in accordance with SA 706

18. **When any event or condition is identified by auditor which may cast significant doubt on the entity’s ability to continue as going concern, the auditor’s additional procedure shall include the following**

**a)** Communicating the facts to the regulatory auditory of the entity

**b)** Communicate the matter to the Central Government

**c)** Request written representation from management or TCWG regarding their future action and feasibility of these plan

**d)** All of the above

**SA 710**

**1. SA \_\_\_\_\_\_\_ relates to comparative information.**

**a)** 520

**b)** 705

**c) 710**

**d)** 720

**2. \_\_\_\_\_\_\_\_\_\_\_\_ financial statements include comparative information which are included for comparison with current financial statements but if audited are referred to in the auditor’s opinion----**

**a)** Comparative

**b)** Prior period

**c)** Corresponding

**d)** All of these

**3. \_\_\_\_\_\_\_\_\_\_ framework means comparative information is included as an integral part of current period financial statements---**

**a)** Corresponding figures

**b)** Comparative financial statements

**c)** Both option (a) and option (b)

**d)** Either option (a) or option (b)

**4. As per SA 710, the auditor shall also consider—**

**a)** SA 510

**b)** SA 560

**c)** SA 720

**d)** Both (a) and (b)

**5. In SA-710, if there is a doubt of material misstatement in comparative information, then auditor shall not-**

**a)** Apply professional skepticism

**b)** Perform additional audit procedures

**c)** Obtain sufficient appropriate evidences regarding existence of material misstatements

**d)** None of these

**6. If the prior year’s financial statements were audited by another auditor, then current year auditor shall as per SA 710, state in other matters paragraph---**

**a)** That last year financial statements are audited by predecessor auditor

**b)** Type of opinion expressed by him

**c)** Date of that report

**d)** All of these

**7. If last year financial statements are unaudited, then as per SA 710 the auditor shall state in \_\_\_\_\_\_ section of audit report that corresponding financial statements are unaudited---**

**a)** Auditor’s responsibility

**b)** Opinion

**c)** Emphasis of matter

**d)** Other matters

**8. Statement (1)**

**If client has disclosed comparative information as per corresponding figures framework, the auditor shall not refer to corresponding figures in any case.**

**Statement (2)**

**In the case of comparative financial statements, the audit opinion shall refer to each period for which financial statements are presented and on which opinion is expressed.**

**a)** Only statement 1 is true

b) Only statement 2 is true

**c)** Both the statements are true

**d)** None of the statement is true

**SA 706**

**1. Which of the following SA deals with auditor’s responsibility to communicate emphasis of matter and other matter paragraph in independent auditor’s report**

**a)** SA 700

**b)** SA 701

**c)** SA 705

**d)** SA 706

**2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgement, is of such importance that is fundamental to user’s understanding of the financial statements.**

a) Emphasis of Matters Paragraph

**b)** Other Matters Paragraph

**c)** Key Audit Matter

**d)** None of the above

**3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgement, is of such importance that is fundamental to user’s understanding of audit, the auditor’s responsibilities or the auditor’s report.**

**a)** Emphasis of Matters Paragraph

**b)** Other Matters Paragraph

**c)** Key Audit Matter

**d)** None of the above

**4. To disclose the fact that financial statements of the prior period have been audited by predecessor auditor, the auditor shall introduce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ paragraph in his report.**

**a)** Emphasis of Matter

**b)** Other Matter

**c)** Key Audit Matter

**d)** None of the above

**5. To disclose an early application by entity (where permitted) of a new accounting standards that has a pervasive effect on the financial statements in advance of its effective date, auditor shall introduce\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ paragraph in his report.**

**a)** Emphasis of Matter

**b)** Other Matter

**c)** Key Audit Matter

**d)** Basis for Modified Opinion

**6. Emphasis of matter paragraph shall in auditor’s report**

**a)** Immediately following opinion section

**b)** Immediately following Basis for opinion section

**c)** Immediately following management’s responsibility section

**d)** Immediately following auditor’s responsibility section

**SA 701**

**1. Which of the following SAs deals with auditor’s responsibility to communicate key audit matters in the auditor’s report**

**a)** SA 701

**b)** SA 705

**c)** SA 706

**d)** SA 700

**2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are those matters that in the auditor’s professional judgement, were of most significance in the audit of the financial statements of the current period.**

**a)** Significant Matters

**b)** Key Audit Matters

**c)** Noteworthy Audit Matters

**d)** Remarkable Audit Matters

**3. Key Audit Matters are selected from matters**

**a)** Communicated to members of engagement team

**b)** Communicated to management of the entity

**c)** Communicated to TCWG of the entity

**d)** Communicated to CG.

**4. In making determination of key audit matters, the auditor shall consider the following**

**a)** Areas of higher assessed risk of material misstatements or significant risk identified in accordance with SA 315

**b)** Significant auditor judgements relating to area in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having estimation uncertainty.

**c)** The effect on audit of significant events or transaction that occurred during the period.

**d)** All of the above

**5. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the audit report under the heading\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**a)** Audit Matters

**b)** Key Audit Matters

**c)** Any appropriate heading as per the auditor’s judgement

**d)** None of the above.

**6. Which of following statement is incorrect’**

**a)** Communicating key audit matters in the auditor’s report is not a separate opinion on individual matters.

**b)** SA 701 also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor’s report.

**c)** The purpose of communicating key audit matters to enhance the communicative value of the auditor’s report by providing greater transparency about the audit that has been performed.

**d)** Key audit matter is a substitute for expressing a modified opinion.

**7. The auditor shall describe each key audit matter in the auditor’s report unless**

**a)** Law or regulation precludes public disclosure about the matter

**b)** In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected outweigh the public interest benefits of such communication

**c)** (a) or (b)

**d)** None of these

**8. The auditor’s report shall not include a Key Audit Matter section in accordance with SA 701, in case of**

**a)** Disclaimer of Opinion

**b)** Adverse Opinion

**c)** Qualified Opinion

**d)** All of the above

**9. Which of the following sequence in audit report is correct**

**a)** Title, Opinion section , Basis For Opinion section, Addressee, Key Audit Matter section

**b)** Title, Addressee, Basis For Opinion section, Opinion section, Key Audit Matter section

**c)** Title, Addressee, Key Audit Matter section, Opinion section, Basis For Opinion section

**d)** Title, Addressee, Opinion section, Basis for opinion section, Key Audit Matter section**.**

**Forming an Opinion, SA 700 and 705**

**1. In order to form an opinion, the auditor shall take into account:**

**a)** Whether sufficient appropriate audit evidence has been obtained

**b)** Whether uncorrected misstatements are material, individually or in aggregate

**c)** Evaluation of accounting estimations

**d)** All of above

**2. In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained \_\_\_\_\_\_\_\_\_\_\_\_\_\_ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.**

**a)** Reasonable assurance

**b)** Absolute assurance

**c)** Limited assurance

**d)** None of the above

**3. Which of the following is a not a type of modified opinion**

**a)** Qualified opinion

**b)** Adverse opinion

**c)** Disclaimer of opinion

**d)** None of these

**4. The auditor shall express\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 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.**

**a)** Adverse

**b)** Qualified

**c)** Disclaimer

**d)** None of the above

**5. When auditor concludes that financial statements as a whole are free from material misstatements and he has no reservation for any material item of the financial statements, he shall express**

**a)** Qualified opinion

**b)** Unmodified opinion

**c)** Adverse opinion

**d)** Disclaimer of opinion

**6. When auditor concludes that financial statements are not free from material misstatements and effect of material misstatements is not pervasive, he shall express**

**a)** Unmodified opinion

**b)** Disclaimer of opinion

**c)** Qualified opinion

**d)** Adverse opinion

**7. If auditor is unable to obtain sufficient appropriate audit evidence with respect to any material item(s) of the financial statements and possible effect if material but not pervasive, he shall express**

**a)** Unmodified opinion

**b)** Adverse opinion

**c)** Disclaimer of opinion

**d)** Qualified opinion

**8. If auditor is unable to obtain sufficient appropriate audit evidence with respect to any material item(s) of the financial statements and possible effect if pervasive, he shall express**

**a)** Unmodified opinion

**b)** Adverse opinion

**c)** Disclaimer of opinion

**d)** Qualified opinion

**9. Which of the following SAs deals with auditor’s responsibilities for forming an opinion and reporting on financial statements**

**a)** SA 700

**b)** SA 701

**c)** SA 705

**d)** SA 706

**10. Which of the following is title of auditor’s report**

**a)** Auditor’s Report

**b)** Independent Auditor’s Report

**c)** Audit Report on the Financial Statements

**d)** Reporting on the Financial statements

**11. As per SA 700, which of the following is addressee of auditor’s report**

**a)** Those Charged With Governance of the Entity

**b)** Members of the Entity

**c)** It depends upon circumstances of the engagement

**d)** Central Government

**12. If auditor concludes an unmodified opinion, which heading will auditor use for opinion section**

**a) Opinion**

**b)** Unmodified Opinion

**c)** Unqualified Opinion

**d)** Reporting on True and Fair View

**13. To form an opinion, auditor conclusions include which of the following**

**a)** The auditor’s conclusions in accordance with SA 330

**b)** The auditor’s conclusions in accordance with SA 450

**c)** Whether financial statements are prepared in accordance with applicable FRF

**d)** All of the above

**14. Under which of the following section auditor shall mention in his report that he has conducted audit engagement in accordance with SAs issued by ICAI and has complied with code of ethics and relevant ethical requirements**

**a)** Opinion

**b)** SA and Code of Ethics

**c)** Compliance with Standards

**d)** Basis for Opinion

**15. Which of the following is not content of basis of opinion section**

**a)** Name of the entity

**b)** Statement that audit was conducted in accordance with SAs

**c)** Statement that auditor believes that audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.

**d)** Reference to the section of auditor’s report that describes the auditor’s responsibilities under the SAs.

**16. Under which of the following heading, auditor shall report those matters in his report which are required to be reported by him as his duties as per the law and regulation basis upon which audit has been conducted**

**a)** Opinion

**b)** Basis for Opinion

**c)** Reporting on the Audit of Financial Statements

**d)** Reporting on Other Legal and Regulatory Requirements

**17. The date in auditor’s report represent the date**

**a)** Balance Sheet Date

**b)** Date when financial statements are approved by management of the entity

**c)** Date when audit report is signed by auditor

**d)** Date when audit report is submitted to management of the entity.

**18. The place in auditor’s report represent**

**a)** Address of auditor

**b)** Name of city, where audit report has been signed

**c)** Name of city, where office of entity is situated

**d)** None of these

**19. If partnership firm is appointed as auditor, audit report shall be signed by**

**a)** Any partner of the firm

**b)** Any practicing chartered accountant partner of the firm

**c)** All the partners of the firm

**d)** Any partner or any CA employee of the firm.

**20. Which of the following is not mentioned along with signing in auditor’s report**

**a)** Membership number of individual/partner

**b)** Firm’s Registration Number

**c)** Date & Place

**d)** Time

**21. The opinion section of the auditor’s report shall:**

**a)** Identify the entity whose financial statements have been audited;

**b)** State that the financial statements have been audited;

**c)** Identify the title of each statement comprising the financial statements

**d)** All of the above

**22. Which of the following SAs deals with auditor’s additional responsibilities w.r.t modified opinion**

**a)** SA 700

**b)** SA 701

**c)** SA 705

**d)** SA 706

**23. When auditor modifies the opinion the opinion the auditor shall give reason of modified opinion in a section under the heading**

**a)** Basis for Opinion

**b)** ‘Basis for Qualified Opinion’ or ‘Basis for Adverse Opinion’ or ‘Basis for Disclaimer of Opinion’ as appropriate

**c)** Reason for Modified Opinion

**d)** None of these

**Practical Questions**

**1.** *Discuss*

*Branch auditor of a company should give photocopies of his working papers on demand by Company Auditor*

**Incorrect:** As per SA 230 on “Audit Documentation”, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

*2.Mr. X, a partner in X & Co., a firm of a Chartered Accountants, died on 31-3-2020 after completing routine audit work of XYZ Company Ltd. Mr. Y another partner of the firm of Chartered Accountants signed the financial statements of XYZ Company Ltd., without reviewing the finalization work done by the assistants.*

**Relying on Work Performed by Others:** SA 220, Quality Control for an Audit of Financial Statements, an engagement partner taking over an audit during the engagement may apply the review procedures such as the work has been performed in accordance with professional standards and regulatory and legal requirements; Significant matters have been raised for further consideration; appropriate consultations have taken place and the resulting conclusions have been documented and implemented; there is a need to revise the nature, timing and extent of work performed; the work performed supports the conclusions reached and is appropriately documented; the evidence obtained is sufficient and appropriate to support the auditor’s report; and the objectives of the engagement procedures have been achieved.

**Conclusion:** In the instant case, Mr. X, a partner of the firm had completed routine audit work and died on 31 March, 2020. Mr. Y another partner of the firm has signed the financial statement of XYZ Company Ltd. without reviewing the finalization work done by the assistants. Mr. Y will be fully responsible for negligence, he cannot take the shelter that Mr. X had done the work. Hence, Mr. Y has negligently performed his duties.

*3.R.K. & Company are the auditors of PQR Company Ltd. The Managing Director of the Company demands copies of the working papers from the auditors. Are the auditors bound to oblige the Managing Director?*

**Ownership and Custody of Working Papers:** As per SA-230 “Audit Documentation”,

the working papers are the property of the auditor, the auditor may, at his discretion make portion of or extracts from his working papers available to the client. In the instant case the managing director of the company has demanded copies of the working papers from the auditor. He has no right to obtain copies of the working papers from the auditor because they are the property of the auditor. However the auditor may at his discretion make portions of or extracts from the working paper to the managing director of PQR & Company Ltd.

**Conclusion:** The auditor is not bound to oblige the managing director by supplying copies of the audit working papers.

*4.Analytical procedures are unable to help the Auditor in determining the nature, timing and extent of other audit procedures at the planning stage.*

**True:** As per SA 520 “Analytical Procedures” states that the auditor shall 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 withthe auditor’s understanding of the entity

*5.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.

*6.M, Statutory Auditor of ABC Ltd wants to verify cash on hand as on 31st March, 2020. The Management informs Mr. M. that it is not possible to cooperate, as cashier has been hospitalised. Advise Mr. M. on how to deal with the situation*

**Limitation on the Scope of Audit:** The scope of audit may be limited for varied reasons, (i) the entity may impose restriction on scope of audit, (ii) the limitation may be imposed by circumstances.

When the audit is carried out under and as per statute, the auditor should not accept the assignment when his duties are curtailed by agreement, unless required by any Law. When audit is carried out in accordance with the entity’s terms voluntarily, the auditor may indicate his scope in his audit report.

Sometimes, the circumstances may impose restrictions on audit scope. For example, if the auditor is appointed after the year end, he may not be able to participate in inventory checking. Or sometimes, the records required may not be available so that the auditor may not be able to check details in the manner he liked. Such limitations in scope may warrant an auditor to express disclaimer of opinion or qualified opinion in his audit report depending upon the circumstances.

The non co-operation of ABC Limited will amount to limitation on scope of auditors.