

CHAPTER 3 AUDIT DOCUMENTATION AND AUDIT EVIDENCE

Q.no	Reference	Question	Answer
1	ICAI Module	The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker’s certificate in support of Fixed deposits whereas management provides only written representation on the matter. How Would you deal with this situation?	Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management’s responsibilities, or about specific assertions. Applying the above to the given problem, the auditor would further request the management to provide him with the Banker’s certificate in support of fixed deposits held by the company.
2	ICAI Module	Paramount Exports Ltd is a manufacturer exporter having its own production capacity and also gets the job work done through various job workers. The auditor of Paramount Exports Ltd. Considers that inventory held with job workers is material to the financial statements. Suggest the audit procedures in the given case.	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 performing one or both of the following: (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity. (b) Perform inspection or other audit procedures appropriate in the circumstances
3	ICAI Module	Pride India Ltd is a manufacturer of various FMCG (fast moving consumable goods) range of products. The company is having several cases of litigation pending in courts. The auditor wanted to identify litigation and claims resulting to risk of material misstatements. Suggest the auditor with reference to SAs	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, where applicable, others within the entity, including in-house legal counsel; (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and (c) Reviewing legal expense accounts. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity’s external legal counsel
4	ICAI Module	While conducting the audit of Jay Kay Ltd, the auditor K of KLM and Associates, Chartered	If management refuses to allow the auditor to send a confirmation request, the auditor shall: (a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity

		Accountants observes that there are large number of Trade payables and receivables standing in the books of accounts as on 31st March. The auditor wanted to send confirmation request to few trade receivables but the management refused the auditor to send confirmation request. How would the auditor proceed?	and reasonableness; (b) Evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. 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 also shall determine the implications for the auditor’s opinion in accordance with SA 705.
5	ICAI Module	When we find in the balance sheet, an item under current assets reading as “cash in hand - ₹ 8,000” the obvious assertions that would strike the mind are?	the obvious assertions that would strike the mind are the following: (i) The firm concerned had ₹ 8,000 in hand in valid notes and coins on the balance sheet day; (ii) That the cash was free and available for expenditure to the firm; and (iii) That the books of account show a cash balance of identical amount at the end of the day on which the balance sheet is drawn up
6	ICAI Module	Define audit documentation. Also give some examples	Audit documentation may be recorded on paper or on electronic or other media Example: ☑ Audit programmes. ☑ Analyses. ☑ Issues memoranda. ☑ Summaries of significant matters. ☑ Letters of confirmation and representation. ☑ Checklists. ☑ Correspondence (including e-mail) concerning significant matters. The auditor may include copies of the entity’s records.
7	ICAI Module	“Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits”. Explain	The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes- ☑ the significant matters identified during the audit and ☑ how they were addressed. Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits.
8	ICAI Module	“Although written representations provide necessary audit evidence yet they do not provide sufficient appropriate audit evidence on their	Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does

		own about any of the matters with which they deal". Discuss	not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.
9	ICAI Module	Discuss the objective of Auditor with respect to Opening balances – in conducting an initial audit engagement	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 Objective: (a) Opening balances contain misstatements that materially affect the current period's financial statements; and (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for
10	ICAI Module	Define Risk of material misstatement. Explain its components also	Risk of material misstatement may be defined as the risk that the financial statements are materially misstated prior to audit. This consists of two components described as follows at the assertion level (a) Inherent risk—The susceptibility of an assertion to a misstatement that could be material before consideration of any related controls. (b) Control risk—The risk that a misstatement that could occur in an assertion that could be material will not be prevented or detected and corrected on a timely basis by the entity's internal control. <u>Less evidence would be required in case assertions that have a lower risk of material misstatement. But on the other hand if assertions have a higher risk of material misstatement, more evidence would be required</u>
11	ICAI Module	"When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences" Explain	When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (a) The test of controls that have been performed provide an appropriate basis for reliance on the controls; (b) Additional test of controls are necessary; or (c) The potential risks of misstatement need to be addressed using substantive procedures.