

TEST SERIES – Audit Paper 3 (60 Marks – 2 hrs)

**Chapter 6 –AUDIT DOCUMENTATION,
Chapter 7 – COMPLETION AND REVIEW &
Chapter 8 – AUDIT REPORT**

Total there are 25 MCQ including Case Study, all of 1 Mark each

MCQ Based Questions

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) Audit Procedures record

2. As per SQC-1 “An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than _____ days after the date of the auditor’s report”.
 - (a) 30
 - (b) 60
 - (c) 90
 - (d) 45

3. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report. However, when, after the date of the auditor’s report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor’s report, may have caused the auditor to amend the auditor’s report, the auditor shall:
 - (a) Discuss the matter with management and, where appropriate, those charged with governance.
 - (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

4. _____ is sent by auditor to management and TCWG to communicate weakness in internal control system

- (a) Letter of weakness
- (b) Engagement letter
- (c) Internal control questionnaire
- (d) Written representation

5. 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 it is fundamental to the user's understanding of the financial statements.

- (a) Emphasis of Matter Paragraph
- (b) Other Matter Paragraph
- (c) Key Audit Matter
- (d) Management Responsibility Paragraph.

6. Responsibilities of Joint Auditors are governed by:

- (a) SA 200
- (b) SA 229
- (c) SA 299
- (d) SA 230

7. The date on auditor's report should not be__

- (a) the data of AGM
- (b) later than the date on which the accounts are approved in board's meeting
- (c) earlier than the date on which the accounts are approved by the management
- (d) Both (a) and (b)

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. 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.

10. 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

11. _____ 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)

12. Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020

- (a) Clause (xi)
- (b) Clause (xii)
- (c) Clause (xiii)
- (d) Clause (xiv)

13. Which of the following is not an example of subsequent event?

- (a) Event occurring between date of financial statements and date of auditor's report.
- (b) Event occurring on date of financial statements.
- (c) Event occurring after filing audit report with tax authorities. Had such an event been known earlier, auditor would have amended report.
- (d) Event occurring during course of performing audit procedures after date of financial statements.

14. Which of the following is not an example of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

- (a) Adverse key financial ratios
- (b) Inability to invest in modernisation of plant
- (c) Inability to pay creditors on time
- (d) Inability to pay salary of staff

15. Which of the following is not correct?

- (a) SA 230- Audit Documentation
- (b) SA 500- Audit Evidence
- (c) SA 505- Written Representation
- (d) SA 560- Subsequent Events

Case Study 1

- CA. Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.
- Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.
- Before concluding audit, he requests written representations from management regarding its responsibilities. However, it is noticed that such written representations provided by management use qualifying language.
- He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails.
- Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.

Based on above, answer the following questions:

1. As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?

- (a) The auditor should express an unmodified opinion.
- (b) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- (c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.
- (d) Such an issue does not affect auditor's opinion.

2. As regards going concern basis of accounting is concerned, which of the following statements is true?

- (a) A company showing net loss in its financial statements is essentially not a going concern.
- (b) Following going concern assumption of accounting is primary duty of auditor.
- (c) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.
- (d) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.

3. Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?

- (a) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report.
- (b) There is no obligation for an auditor to perform audit procedures after signing of a auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.
- (c) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events.
- (d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.

4. As regards use of qualifying language in written representations, which of the following statement is most appropriate?

- (a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
- (b) Written representations should be unconditional. Such a wording is not acceptable.
- (c) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances.
- (d) Qualifying language in written representations is compulsory.

5. As regards auditor's responsibility regarding matters communicated orally with those charged with governance, which of following is most appropriate?

- (a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.
- (b) Matters communicated orally need not be put into writing. It is sufficient for auditor to have communicated orally.
- (c) Matters communicated orally need not be put into writing. It is not practically feasible.
- (d) Matters communicated orally have to be documented by the auditor stating to whom these were communicated.

CASE STUDY 2

- **M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:**
 - **During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial statements and if auditor persists they may give the effect in the next financial year.**
 - **During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B**

asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr B.

- During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based on above, answer the following questions:

1. In case of M/s Persistent & Company, what would be an ideal Audit Opinion?

- (a) Unmodified
- (b) Qualified
- (c) Mention the fact in Emphasis of Matter Paragraph
- (d) Disclaimer

2. In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?

- (a) Qualified
- (b) Adverse
- (c) Disclaimer
- (d) Unmodified

3. According to you, what would be appropriate course to take in case of M/s Honest & Associates?

- (a) Issue Qualified Opinion
- (b) Issue Adverse Opinion
- (c) Mention the fact of change in method in Emphasis of Matter Paragraph
- (d) Issue Disclaimer of Opinion

4. When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do?

- (a) Issue Unmodified Opinion
- (b) Issue Qualified Opinion
- (c) Issue Disclaimer of Opinion
- (d) Mention it in Emphasis of Matter Paragraph

5. When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:

- (a) Modified Opinion (b) Qualified Opinion
- (c) Disclaimer of Opinion (d) Unmodified Opinion

State with reasons (in short) whether the following statements are correct or incorrect: 2 Marks Each

1. Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit.

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

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

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

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

Descriptive Questions: (Attempt any 5 out of 6) . All of 5 Marks Each

1. What are factors affecting form, content & extent of Audit Documentation ?

2. What are Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report

3. M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2021-22. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2022.

Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj.

4. What are factors to be kept in mind while determining Key Audit Matters

5. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances. Explain?

6. What are advantages of Joint Audit

MM VIRTUALS

ANSWERS to MCQs

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

ANSWER TO CASE STUDY 1

1	(c)
2	(c)
3	(d)
4	(a)
5	(a)

ANSWER TO CASE STUDY 2

1	(b)
2	(c)
3	(c)
4	(b)
5	(d)

Answers to TRUE & FALSE:

1. Incorrect: SA 230 issued by ICAI on Audit Documentation, and “Standard on Quality Control (SQC) 1, 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, 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. Incorrect: The auditor shall modify the opinion in the auditor’s report when:
(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

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

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

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

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

Answers to Descriptive Question:

(1.Ans)

- The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
 - (a) The nature, timing and extent of the audit procedures performed.
 - (b) The results of the audit procedures performed and the audit evidence obtained and
 - (c) Significant matters arising during the audit and the conclusions reached thereon and significant professional judgements made in reaching those conclusions.
- Further in documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
 - (a) The identifying characteristics of the specific items or matters tested.
 - (b) Who performed the audit work and the date such work was completed; and
 - (c) Who reviewed the audit work performed and the date and extent of such review.
- The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency

The form, content and extent of audit documentation depend on factors such as:

1. The size and complexity of the entity.
2. The nature of the audit procedures to be performed.
3. The identified risks of material misstatement.

4. The significance of the audit evidence obtained.
5. The nature and extent of exceptions identified.
6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
7. The audit methodology and tools used.

(2.Ans)

(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 and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's latest subsequent interim financial statements, if any. When, as a result of the procedures performed, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation

Meaning of "Date the financial statements are issued"

It reflects the date that the auditor's report and audited financial statements are made available to third parties. The date the financial statements are issued generally depends on the regulatory environment of the entity. In some circumstances, the date the financial statements are issued may be the date that they are filed with a regulatory authority. Since audited financial statements cannot be issued without an auditor's report, the date that the audited financial statements are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date the auditor's report is provided to the entity.

(3.Ans)

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the case Porex Ltd., CA Taj found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Such situations are not reflected in the financial

statements of the company despite having a material and pervasive impact on the financial statements. As such, CA Taj should give an adverse opinion.
Further, CA Taj should also consider the reporting responsibilities under CARO 2020 and section 143(12) of the Companies Act, 2013.

(4.Ans)

In making this determination, the auditor shall take into account the following:

(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.

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

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

(5.Ans)

1. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

(a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

(b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

2. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

3. **Prior Period Financial Statements Not Audited-** If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit

evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

-Prior Period Financial Statements Audited by a Predecessor Auditor

If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

(a) That the financial statements of the prior period were audited by the predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report.

(6.Ans)

1.Sharing of expertise.

2.Advantage of mutual consultation.

3.Lower workload.

4.Better quality of performance.

5.Improved service to the client.

6.In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.

7.Lower staff development costs.

8.Lower costs to carry out the work.

9.A sense of healthy competition towards a better performance.