



CA FINAL AUDIT



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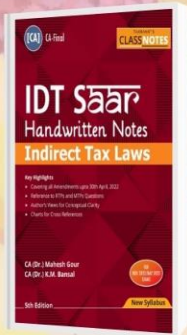
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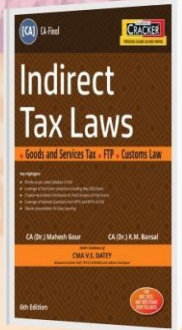
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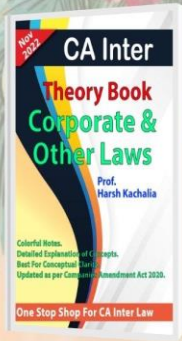
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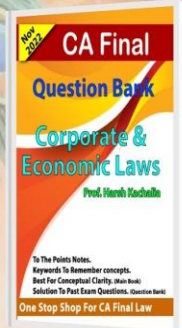
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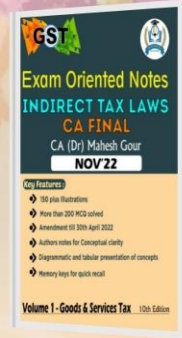
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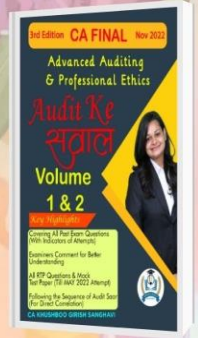
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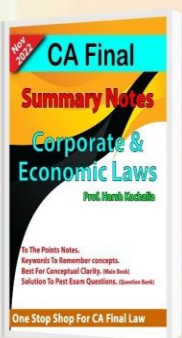
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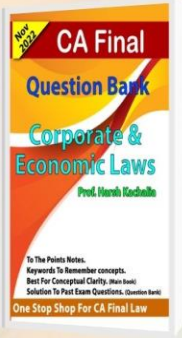
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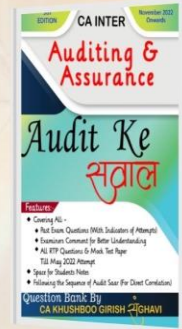
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CA FINAL MCQ – VOLUME 1

Advanced Auditing and Professional Ethics

- ❖ Covers MCQ of SA and CARO, 2020
- ❖ Including all tricky MCQ based on Pronounces
- ❖ Best Material for understanding concepts under SA & CARO, 2020

Compiled by Khushboo Sanghavi (M.com, ACA)

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8.	Audit of Non-Banking Financial Companies
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11.	Due Diligence, Investigation and Forensic Audit
12.	Peer Review and Quality Review
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SQC 1 - Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

1.	What is excluded from the definition of "Firm"?
	<ul style="list-style-type: none"> a) Sole practitioner b) Partnership c) Corporation d) Other entity of professional accountants
2.	Independence required by the Code is applicable to:
	<ul style="list-style-type: none"> a) Firm and Firm's personnel b) Experts contracted by the firm c) Network firm personnel d) All of the above
3.	What should be the frequency to obtain written confirmation of compliance with firm's independence policies and procedures?
	<ul style="list-style-type: none"> a) Half yearly b) Once in two years c) Yearly d) Once in three years
4.	What is be the maximum continuing period an engagement partner can serve on the listed entities?
	<ul style="list-style-type: none"> a) Five years b) Seven years c) Three years d) Two years
5.	What action should be taken by the sole practitioner involved in assurance engagement of a listed entity after the completion of seven years?
	<ul style="list-style-type: none"> a) Resign b) Change the independent engagement quality reviewer c) No action required d) Get the peer review done
6.	What consideration should be exercised before acceptance or re-acceptance of a client relationship or specific engagement?
	<ul style="list-style-type: none"> a) Business reputation of client's principal owners, key management, related parties and those charged with governance b) Reason for proposed appointment of the firm and non-reappointment of the previous firm c) Limitation on the scope of work and involvement, if any, in money laundering activities d) All of the above
7.	What is the maximum recommended time limit within which assembly of engagement files should be completed after the engagement reports have been finalized?
	<ul style="list-style-type: none"> a) 45 days b) 65 days c) 30 days d) 60 days
8.	What is the minimum period for which engagement documentation is to be retained?
	<ul style="list-style-type: none"> a) Five years b) Eight years c) Seven years d) Ten years
9.	Engagement documentation is the property of:
	<ul style="list-style-type: none"> a) Firm b) Company c) Client d) None of the above

Solutions

Sr.no.	Answers	Hint
1.	[c]	As per para 110 of Deletion point no. 1 of SQC - 1
2.	[d]	As per para 18 of SQC -1
3.	[c]	As per para 23 of SQC -1
4.	[b]	As per para 83 of SQC -1
5.	[d]	As per para 110 of Deletion point no. 4 of SQC - 1
6.	[d]	As per para 29 of SQC -1
7.	[d]	As per para 75 of SQC -1
8.	[c]	As per para 110 of Addition point no. 4 of SQC - 1
9.	[a]	As per para 83 of SQC -1

Student Notes: -

SA 200- Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

1.	The purpose of audit of financial statements in context of SA 200 is:
	<ul style="list-style-type: none"> a) Enhance the degree of confidence of intended users of financial statements; b) Compliance with regulatory requirements of Companies Act 2013, SEBI and other regulators; c) Prevent or detect the fraud or error; d) Enable management of the company to understand the financial position of the company.
2.	Professional judgement and professional skepticism shall be exercised by the auditor during
	<ul style="list-style-type: none"> a) While forming an opinion based on conclusion drawn b) While obtaining sufficient and appropriate audit evidence c) All of the above d) Identifying and assessing the risk of material misstatement
3.	Auditor's opinion on the financial statement provides
	<ul style="list-style-type: none"> <li style="width: 50%;">a) True and fair view <li style="width: 50%;">c) True and correct view <li style="width: 50%;">d) All of the above <li style="width: 50%;">b) List of frauds and misstatements
4.	The fair presentation financial reporting framework, under which the financial statements are prepared, refers to:
	<ul style="list-style-type: none"> a) Compliance with the requirements of the framework; b) Compliance with the requirements of the framework and explicitly acknowledges that for fair presentation, it may be necessary for management to provide disclosures, beyond or may depart from, the requirement of framework; c) Both (a) and (b) d) None of the above
5.	Which of the following statement is correct?
	<ul style="list-style-type: none"> a) Materiality is applied by the auditor only during the planning stage of an audit b) Auditor of the financial statement shall be independent of the audit only at the beginning of the audit c) Auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole d) All disclosures in the financial statements shall be as per guidance by auditor of the financial statements
6.	In an audit of financial statements, when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for the purposes of reporting then:
	<ul style="list-style-type: none"> a) Auditor shall resign if legally permitted; b) Auditor shall disclaim an opinion; c) Auditor shall highlight the circumstances to Central Government; d) Either (a) or (b)
7.	Risk of material misstatement in an audit of financial statements may exist at
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Overall financial statements level <li style="width: 50%;">b) Both (a) and (b) <li style="width: 50%;">c) Assertion level <li style="width: 50%;">d) Either (a) or (b)
8.	The inherent limitations of an audit arise from:
	<ul style="list-style-type: none"> a) The nature of financial reporting b) The nature of audit procedures c) The need for the audit to be conducted within a reasonable period of time and at reasonable cost d) All of the above

9.	Identify the correct sentence from the following, considering the audit of financial statements carried out by an Independent Auditor:
	<ul style="list-style-type: none"> a) An Audit of financial statements is an official investigation of auditee's financials statements b) An audit is not an official investigation into alleged wrong doing c) An Auditor is given with certain legal powers like power to search which may be necessary for concluding the audit d) None of the above
10.	In the event that the requirement of applicable laws and regulations differ from the requirements of SAs, an audit conducted in accordance with the law and regulation will:
	<ul style="list-style-type: none"> a) Not automatically comply with SA b) Will automatically comply with SA c) Be enough for an auditor to conclude and express the audit opinion d) Require an auditor to obtain legal advice
11.	Profession skepticism means:
	<ul style="list-style-type: none"> a) Being alert b) Questioning mind c) Both (a) and (b) d) None of the above
12.	Which of the following statement is incorrect?
	<ul style="list-style-type: none"> a) Reasonable assurance means absolute level of assurance b) Reasonable assurance gives high level of assurance c) Limited assurance is also known as negative assurance d) Application of Standards on Auditing is mandatory in the audit of financial statements
13.	Professional judgment is necessary, and in particular, for the decisions relating to:
	<ul style="list-style-type: none"> a) Accepting the audit engagement b) Materiality and audit risk c) Assessing the reasonableness of the estimates made by management in preparing the financial statements d) Communicating the matters with those charged with governance
14.	Ethical requirements relating to an audit of financial statements is specified under SA 200 and includes:
	<ul style="list-style-type: none"> a) Confidentiality and Objectivity b) Profitability c) Accuracy d) Integrity

Solutions		
Sr.no.	Answers	Hint
1.	[a]	As per para 3 of SA 200
2	[c]	As per para 7 of SA 200
3.	[a]	As per para 3 of SA 200
4.	[b]	As per para 13 of (a) of SA 200
5.	[c]	As per para 6 of SA 200
6.	[d]	As per para 12 of SA 200
7.	[b]	As per para A34 of SA 200
8.	[d]	As per para A45 of SA 200
9.	[b]	As per para A47 of SA 200
10	[a]	As per para A56 of SA 200
11.	[c]	As per para 14 point (l) of SA 200
12.	[a]	As per para 14 point (m) of SA 200
13.	[b & c]	As per para A23 of SA 200
14.	[a & d]	As per para A15 of SA 200

SA 210 - Agreeing the Terms of Audit Engagements

1.	When should the auditor agree with the management or those charged with governance on the basic premise on which audit is conducted?
	<ul style="list-style-type: none"> a) During the audit b) After the audit c) Before the audit d) None of the above
2.	What will be the course of action if the management does not acknowledge its responsibilities or agree to provide written representations for an audit?
	<ul style="list-style-type: none"> a) Auditor will be unable to obtain sufficient appropriate audit evidence b) Do not accept engagement unless required by Laws and regulations c) If auditor is required to accept engagement, explain to management the importance of these matters & impact on auditor's report d) All the above
3.	When is it appropriate to revise the terms of audit engagement or remind the existing terms to the entity?
	<ul style="list-style-type: none"> a) Any indication that the entity misunderstands objective and scope of the audit b) Any revised or special terms of the audit engagement c) A significant change in ownership, A significant change in nature or size of the entity's business and A change in legal or regulatory requirements d) All the above
4.	The auditor shall agree the terms of the audit engagement with:
	<ul style="list-style-type: none"> a) Management b) Those charged with governance c) Management or those charged with governance, as appropriate d) Audit committee
5.	The agreed terms of the audit engagement shall be recorded in:
	<ul style="list-style-type: none"> a) An audit engagement letter b) An audit engagement letter or other suitable form of written agreement c) Any suitable form of written agreement d) None of the above
6.	If law or regulation prescribes in sufficient detail the terms of the audit engagement:
	<ul style="list-style-type: none"> a) The auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities b) The auditor need not record them in a written agreement c) The auditor needs to record them in a written agreement d) None of the above
7.	A request from the entity for the auditor to change the terms of audit engagement may result from
	<ul style="list-style-type: none"> a) A change in circumstances affecting the need for the service b) A misunderstanding as to the nature of an audit as originally requested c) A restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances d) All of the above
8.	Circumstances that may warrant the revision in terms of engagement as per SA 210.
	<ul style="list-style-type: none"> a) Significant change in ownership b) Significant change in nature or size of the entity's business c) Change in legal or regulatory requirements d) All of above

9.	The audit engagement letter may make reference to:
	<ul style="list-style-type: none"> a) Elaboration of the scope of the audit, including reference to applicable legislation, regulations, Standards on Auditing, and ethical and other pronouncements of professional bodies b) The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with SA 701 c) The expectation that management will provide written representations d) All of the above
10.	What factors are considered by auditors for determining acceptability of Financial Reporting framework?
	<ul style="list-style-type: none"> a) The nature of the entity b) The nature and purpose of the financial statements c) Convenience and ease of the financial reporting framework d) Whether law or regulation prescribes the applicable financial reporting framework
11.	If the auditor is unable to agree with changed terms of audit engagement he shall:
	<ul style="list-style-type: none"> a) Withdraw if permitted under laws and regulations b) Determine for need to report to other parties such as those charged with governance, owners or regulators c) Issue a qualified opinion d) Finish the audit as per old terms of engagement
12.	The agreed terms of the audit engagement shall include:
	<ul style="list-style-type: none"> a) Responsibilities of the Auditor b) Objective and Scope of audit c) The responsibilities of management and identification of the applicable financial reporting framework d) All of the above

Solutions

Sr.no.	Answers	Hint
1.	[c]	As per para 4 of SA 210
2.	[d]	As per para A13 of SA 210
3.	[d]	As per para A29 of SA 210
4.	[c]	As per para 9 of SA 210
5.	[b]	As per para 10 of SA 210
6.	[a]	As per para 11 of SA 210
7.	[d]	As per para A30 of SA 210
8.	[d]	As per para A29 of SA 210
9.	[d]	As per para A23 of SA 210
10.	[a, b & d]	As per para A4 of SA 210
11.	[a & b]	As per para 17 of SA 210
12.	[d]	As per para 10 of SA 210

Student Notes: -

SA 220- Quality Control for an Audit of Financial Statements

1.	Appointment of engagement quality control reviewer is mandatory in case of audit of financial statements of:
	<ul style="list-style-type: none"> a) Any entity b) Any entity except One Person Company and Small Company c) Listed Entity d) None of these
2.	The engagement quality control reviewer shall perform an object evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
	<ul style="list-style-type: none"> a) Discussion of significant matters with engagement team b) Review of the financial statements and the proposed auditor's report c) Review of selected audit documentation relating to the significant judgements and the engagement team made and the conclusions it reached d) All of the above
3.	_____ is procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Monitoring <li style="width: 50%;">c) Investigation <li style="width: 50%;">b) Inspection <li style="width: 50%;">d) None of the above
4.	The engagement partner may identify a threat to independence regarding the audit engagement that _____ may not be able to eliminate or reduce to anacceptable level.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Safeguards <li style="width: 50%;">c) Necessary protection <li style="width: 50%;">b) Measures <li style="width: 50%;">d) All of the above
5.	The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm, and other network firms and whether _____ noted in that information may affect the audit engagement.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Material misstatements <li style="width: 50%;">c) Significant Risks <li style="width: 50%;">b) Deficiencies <li style="width: 50%;">d) None of the above
6.	The _____ of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Responsibility <li style="width: 50%;">c) Completion <li style="width: 50%;">b) Performance <li style="width: 50%;">d) All of the above
7.	Documentation of the engagement quality control review may be completed _____ the date of the auditor's report as part of the assembly of the final audit file.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) After <li style="width: 50%;">c) Before <li style="width: 50%;">b) Near <li style="width: 50%;">d) None of the above
8.	The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and _____.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Regulatory and legal requirements <li style="width: 50%;">c) Independence requirements <li style="width: 50%;">b) Relevant ethical requirements <li style="width: 50%;">d) All of the above

Solutions

Sr.no.	Answers	Hint
1.	[c]	As per para 19 of SA 220
2.	[d]	As per para 20 of SA 220
3.	[b]	As per para 7 point no (f) of SA 220
4.	[a]	As per para A6 of SA 220
5.	[b]	As per para 23 of SA 220
6.	[b]	As per para A27 of SA 220
7.	[a]	As per para A25 of SA 220
8.	[a]	As per para 14 of SA 220

Student Notes: -

SA 230 - Audit Documentation

1.	Which of the following statement is incorrect?
	<ul style="list-style-type: none"> a) SA 230 is not to be applied where other SAs prescribe the specific audit documentation b) SA 230 is to be adapted as necessary when applied to audits of other historical financial information
2.	Which of the following serves as a purpose of Audit documentation?
	<ul style="list-style-type: none"> a) Assisting the engagement team to plan and perform the audit. b) Assisting members of the engagement team responsible for supervision to discharge their review responsibilities c) Retaining a record of matters of continuing significance to future audits d) Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. e) All of the above
3.	The audit documentation shall include:
	<ul style="list-style-type: none"> a) Superseded drafts of working papers and financial statements b) Duplicates of documents c) Previous copies of documents corrected for typographical or other errors d) None of the above
4.	A summary of audit documentation that describes the significant matters identified during the audit and how they were addressed, or that includes cross references to other relevant supporting audit documentation is called as:
	<ul style="list-style-type: none"> a) Information memorandum b) Completion memorandum c) Planning memorandum d) All of the above
5.	SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. What is the appropriate time limit within which to complete the assembly of the final audit file after the date of the auditor's report?
	<ul style="list-style-type: none"> a) 30 days b) 45 days c) 60 days d) 90 days
6.	The audit documentation should be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
	<ul style="list-style-type: none"> 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; and c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. d) All of the above
7.	If the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document
	<ul style="list-style-type: none"> a) The circumstances encountered b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report c) When and by whom the resulting changes to audit documentation were made and reviewed d) All of the above
8.	Select the circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgment include where the matters and judgments are significant:
	<ul style="list-style-type: none"> a) The basis for the auditor's conclusion on the reasonableness of areas of subjective judgment b) The basis for the auditor's conclusions about the authenticity of a document when further investigation causes the auditor to believe that the document may not be authentic c) When SA 701 applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

	d) All of the above
9.	The audit documentation for the audit of a smaller entity is generally
	a) Less extensive than that for the audit of a large entity b) The same as to that of a large entity c) SA 230 is not applicable for a smaller entity d) None of the above
10.	The form, content and extent of audit documentation depend on factors such as:
	a) The size and complexity of the entity b) The experience of the auditor c) The nature of the audit procedures to be performed d) The medium used such as the paper or electronic format e) The identified risks of material misstatement f) The audit methodology and tools used
11.	The retention period for audit engagements ordinarily is no shorter than____- from the date of the auditor's report, or, if later, the date of the group auditor's report.
	a) Five years b) Seven years c) Ten years d) None of the above
12.	Audit documentation provides evidence that the audit complies with Standards on Auditing. However, it is neither necessary nor _____for the auditor to document every matter considered, or professional judgment made, in an audit.
	a) Expected b) Required c) Practicable d) All of the above
13.	An important factor in determining the form, content and extent of audit documentation of significant matters is the extent _____of in performing the work and evaluating the results.
	a) Risks identified b) Professional judgment exercised c) Audit evidence obtained d) All of the above
14.	The auditor shall prepare audit documentation on a_____basis.
	a) Regular b) Timely c) Both (a) and (b) d) None of the above
15.	If the auditor identified information that is___with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.
	a) Inconsistent b) Contradictory c) Both (a) and (b) d) None of the Above
16.	Experienced auditor is an individual who has_____audit experience and a reasonable understanding of audit processes.
	a) Practical b) Vast c) Either (a) or (b) d) None of the above
17.	After the assembly of the final audit file has been completed, the auditor shall not_____ audit documentation of any nature before the end of its retention period.
	a) delete or remove b) delete or discard c) discard or remove d) Either (a) or (c)

Solutions

Sr.no.	Answers	Hint
1.	[a]	As per para A6 of SA 230
2.	[e]	As per para 3 of SA 230
3.	[d]	As per para A3 of SA 230
4.	[b]	As per para A11 of SA 230

5.	[c]	As per para A21 of SA 230
6.	[d]	As per para 8 of SA 230
7.	[d]	As per para 13 of SA 230
8.	[d]	As per para A10 of SA 230
9.	[a]	As per para A16 of SA 230
10.	[a, c, e & f}	As per para A2 of SA 230
11.	[b]	As per para A23 of SA 230
12.	[c]	As per para A7 of SA 230
13.	[b]	As per para A1 of SA 230
14.	[b]	As per para 7 of SA 230
15.	[a]	As per para 11 of SA 230
16.	[a]	As per para 6 (c) of SA 230
17.	[b]	As per para 15 of SA 230

Student Notes: -

SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

1.	Which of the following misstatements are relevant for auditor?
	<ul style="list-style-type: none"> a) Misstatements resulting from fraudulent financial reporting b) Misstatements resulting from misappropriation of assets c) Both (a) & (b) d) None of the above
2.	Fraudulent financial reporting can be accomplished by the following
	<ul style="list-style-type: none"> a) Manipulation, falsification (including forgery), or alteration of accounting records b) Misrepresentation in or intentional omission from, the financial statements c) Intentional misapplication of accounting principles d) All of the above
3.	Primary responsibility for the prevention and detection of fraud rests with:
	<ul style="list-style-type: none"> a) Those charged with governance b) Management c) Both (a) & (b) d) None of the above
4.	Auditor's ability to detect a fraud depends on factors such as:
	<ul style="list-style-type: none"> a) Skillfulness of the perpetrator b) The frequency and extent of manipulation c) Degree of collusion involved d) All of the above
5.	Management is responsible for:
	<ul style="list-style-type: none"> a) Assessing risk of fraud b) Identification of Fraud c) Responding to Fraud d) All of the above
6.	Which characteristics of the entity have a significant influence on the consideration of relevant fraud risk factors?
	<ul style="list-style-type: none"> a) Size, complexity, and ownership b) Nature, time and extent of procedures c) Competency of management d) All of the above
7.	Responses to address the assessed risks of material misstatement due to fraud are required at the:
	<ul style="list-style-type: none"> a) Financial Statement level b) Assertion level c) Both (a) & (b) d) None of the above
8.	In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:
	<ul style="list-style-type: none"> a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals b) Evaluate selection and application of accounting policies c) Incorporate an element of unpredictability in the audit procedures d) All of the above
9.	Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:
	<ul style="list-style-type: none"> a) Test the appropriateness of journal entries b) Review accounting estimates c) Assess significant transactions that are outside the normal course of business d) All of the above
10.	When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor should:
	<ul style="list-style-type: none"> a) Modify audit opinion b) Evaluate the implications for the audit

11.	If, auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:
	<ul style="list-style-type: none"> a) Determine the professional and legal responsibilities applicable in the circumstances b) Consider whether it is appropriate to withdraw from the engagement c) If the auditor withdraws, discuss withdrawal and its reasons with the appropriate level of management and those charged with governance d) All of the above
12.	The written representations from management and, where applicable, those charged with governance shall include
	<ul style="list-style-type: none"> a) Acknowledgement of their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud b) Statement that they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud c) Statement that they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud d) All of the above
13.	The auditor's documentation of the understanding of the entity and its environment and the assessment of the risks of material misstatement shall include:
	<ul style="list-style-type: none"> a) Significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud b) Identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level c) Both (a) & (b) d) None of the above
14.	Those charged with governance exercise _____ of management's processes for identifying and responding to the risks of fraud.
	<ul style="list-style-type: none"> a) Oversight b) Review
15.	An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to __ fraud, the adequacy of internal control over risks of fraud, and the competency and integrity of management.
	<ul style="list-style-type: none"> a) Management b) Employees c) Third Party d) All of the above
16.	Determination of whether a fraud risk factor is present and whether it is to be considered in assessing the risks of material misstatement of the financial statements due to fraud requires the exercise of _____.
	<ul style="list-style-type: none"> a) Professional Judgement b) Power given to auditor in laws and regulations
17.	Risk of material misstatement due to fraud is always treated as _____.
	<ul style="list-style-type: none"> a) Significant Risk b) Higher Risk c) Inherent Risk d) None of the above
18.	The extent of the procedures applied reflects the _____ misstatement due to fraud.
	<ul style="list-style-type: none"> a) Assessment b) Significance
19.	Material misstatement of financial statements due to fraud often involves the manipulation of the _____ by recording inappropriate or unauthorized journal entries.
	<ul style="list-style-type: none"> a) Financial reporting process b) Internal reporting process
20.	If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters to the appropriate level of

	management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.	
	a) On a timely basis b) At the end of audit	c) Monthly basis d) Quarterly basis
21.	Where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to _____	
	a) Obtain legal advice b) Modify audit opinion	c) Communicate to regulatory authorities d)
22.	If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to _____.	
	a) A party outside the entity b) Regulatory and enforcement authorities	
23.	The auditor's professional duty to maintain the confidentiality of client information may _____ reporting fraud to a party outside the client entity.	
	a) Prohibit b) Preclude	

Solutions

Sr.no.	Answers	Hint
1.	[c]	As per para A1 of SA 240
2.	[d]	As per para A3 of SA 240
3.	[c]	As per para 4 of SA 240
4.	[d]	As per para 6 of SA 240
5.	[d]	As per para 6 of SA 240
6.	[a]	As per para A26 of SA 240
7.	[c]	As per para 25 of SA 240
8.	[d]	As per para 29 of SA 240
9.	[d]	As per para 32 of SA 240
10.	[b]	As per para 37 of SA 240
11.	[d]	As per para 38 of SA 240
12.	[d]	As per para 39 of SA 240
13.	[c]	As per para 44 of SA 240
14.	[a]	As per para A19 of SA 240
15.	[a]	As per para A20 of SA 240
16.	[a]	As per para A24 of SA 240
17.	[a]	As per para 27 of SA 240
18.	[a]	As per para A35 of SA 240
19.	[a]	As per para A41 of SA 240
20.	[a]	As per para 41 of SA 240
21.	[a]	As per para A62 of SA 240
22.	[a]	As per para 44 of SA 240
23.	[b]	As per para A64 of SA 240

SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements

1.	In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater because of the following reasons:
	<ul style="list-style-type: none"> a) Laws and regulations that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting b) Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations c) None of above d) All of the above
2.	Which audit procedures can help the auditor identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements?
	<ul style="list-style-type: none"> a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and Regulations. b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities c) All of the above
3.	If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall:
	<ul style="list-style-type: none"> a) Communicate the matter to the next higher level of authority at the entity b) Consider the need to obtain legal advice c) All of the above
4.	Select the policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
	<ul style="list-style-type: none"> a) Developing, publicising and following a code of conduct b) Ensuring employees are properly trained and understand the code of Conduct c) Engaging legal advisors to assist in monitoring legal requirements d) All of the above
5.	The implications of particular instances of non-compliance identified by the auditor will depend on:
	<ul style="list-style-type: none"> a) The relationship of the perpetration and concealment, if any, of the act to specific control activities b) The level of management or employees involved c) All of the above
6.	In case of larger entities the policies and procedures to assist in the prevention and detection of non-compliance with laws and regulations may be supplemented by assigning appropriate responsibilities to:
	<ul style="list-style-type: none"> a) An internal audit function b) An audit committee c) A compliance function d) All of the above
7.	Non-compliance may either be _____ or _____.
	<ul style="list-style-type: none"> a) Intentional, non-intentional b) Significant, non-significant
8.	It is _____ responsibility to ensure compliance with laws and regulations.
	<ul style="list-style-type: none"> a) Auditor's b) Management's
9.	If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall report in accordance with _____.

- a) SA 700(Revised)
- b) SA 705(Revised)

Solutions

Sr.no.	Answers	Hint
1.	[d]	As per para 2 of SA 250
2.	[c]	As per para 14 of SA 250
3.	[c]	As per para 24 of SA 250
4.	[d]	As per para A2 of SA 250
5.	[c]	As per para A17 of SA 250
6.	[d]	As per para A2 of SA 250
7.	[a]	As per para 11 of SA 250
8.	[b]	As per para 12 of SA 250
9.	[b]	As per para 26 of SA 250

Student Notes: -

SA 260(Revised) - Communication with Those Charged with Governance

1.	When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters:
	<ul style="list-style-type: none"> a) The respective responsibilities of the subgroup and the governing body b) The nature of the matter to be communicated c) Relevant legal or regulatory requirements d) Whether the subgroup has the authority to take action in relation to the information communicated e) All of the above
2.	One of the objectives of the auditor in communicating with those charged with governance is to provide the latter with timely observations, which are significant and relevant in overseeing the _____ process.
	<ul style="list-style-type: none"> a) Audit b) Financial reporting
3.	Auditor's evaluation of the two way communication with those charged with governance is based on observation of appropriateness and _____ of action taken by those charged with governance in response to matters raised by the auditor.
	<ul style="list-style-type: none"> a) Timeliness b) Adequacy
4.	In case of _____ communication with those charged with governance, the auditor shall document when and to whom communications were made.
	<ul style="list-style-type: none"> a) Oral b) Written
5.	The appropriate timing of communications will vary with the significance and nature of the matter, and the action expected to be taken by _____.
	<ul style="list-style-type: none"> a) Auditor b) Those charged with governance
6.	Auditor shall communicate with those charged with governance regarding auditor _____ in the case of listed entities.
	<ul style="list-style-type: none"> a) Independence b) Competence
7.	Where the auditor reaches the conclusion that the two way communication between the auditor and those charged with governance was inadequate for the purpose of audit, the auditor should evaluate its effect on auditor's assessment of risk of material misstatement and ability to obtain _____.
	<ul style="list-style-type: none"> a) Management representation b) Sufficient appropriate audit evidence
8.	Auditor shall communicate with those charged with governance the form, _____ and expected general content of communications.
	<ul style="list-style-type: none"> a) Nature b) Timing
9.	Effective two-way communication is important in assisting the auditor and those charged with governance in developing a constructive working relationship. This relationship is developed while maintaining the auditor's _____ and _____.
	<ul style="list-style-type: none"> a) Independence and objectivity b) Competence and objectivity
10.	_____ communication of specific matters required to be communicated by Standards on Auditing is an integral part of every audit.
	<ul style="list-style-type: none"> a) Timely b) Clear
11.	In case of complex potential conflicts between the auditor's obligations of

	confidentiality and obligations to communicate, the auditor may consider obtaining _____.
	a) Legal advice b) Written representation
12.	_____ has the executive responsibility for the conduct of the entity's operations.
	a) Management b) Those charged with governance
13.	_____ have the responsibility for overseeing the strategic direction of the entity and obligations related to the account ability of the entity.
	a) Management b) Those charged with governance
14.	The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the _____ identified by the auditor.
	a) Significant risks b) Material misstatements
15.	The auditor shall communicate in writing with those charged with governance regarding significant _____ from the audit if, in the auditor's professional judgment, oral communication would not be adequate.
	a) Findings b) Matters
16.	When governance is a _____ responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities
	a) Collective b) Joint
17.	Communicating _____ identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration.
	a) Significant Risks b) Key Audit Matters

Solutions

Sr.no.	Answers	Hint
1.	[e]	As per para A5 of SA 260
2.	[b]	As per para A27 of SA 260
3.	[a]	As per para A51 of SA 260
4.	[a]	As per para 19 of SA 260
5.	[b]	As per para A50 of SA 260
6.	[a]	As per para 17 of SA 260
7.	[b]	As per para 22 of SA 260
8.	[b]	As per para 18 of SA 260
9.	[a]	As per para 4 of SA 260
10.	[b]	As per para 6 of SA 260
11.	[a]	As per para 7 of SA 260
12.	[a]	As per para 10 of SA 260
13.	[b]	As per para 10 (a) of SA 260
14.	[a]	As per para 10 (a) of SA 260
15.	[a]	As per para 19 of SA 260
16.	[a]	As per para A2 of SA 260
17.	[a]	As per para A2 of SA 260

**SA 265 - Communicating Deficiencies in Internal Control to Those Charged
with Governance and Management**

1.	Scope of SA 265 includes
	<ul style="list-style-type: none"> a) Auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control identified by the auditor b) Obtaining an understanding of internal controls, designing and performing tests of controls c) Reporting on the effectiveness of the internal controls d) All of the above
2.	The auditor can identify deficiencies in internal control at:
	<ul style="list-style-type: none"> a) Planning Stage b) Execution Stage c) Reporting Stage d) Follow up Stage e) All of the above
3.	The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of:
	<ul style="list-style-type: none"> a) Fraud b) Material Misstatements c) Prevention and Detection d) Control
4.	Deficiency in internal control as per SA 265 exists when
	<ul style="list-style-type: none"> a) A control is ineffective b) A control is duplicate c) A control is missing d) (a) and (c) e) All of the above
5.	The significance of a deficiency or a combination of deficiencies in internal control depends on:
	<ul style="list-style-type: none"> a) Actual occurrence of a misstatement b) Likelihood that a misstatement could occur c) Both of the above d) None of the above
6.	The auditor shall communicate significant deficiencies in internal control identified during the audit to those charged with governance in:
	<ul style="list-style-type: none"> a) Writing b) Oral form only c) Writing or Oral d) Not required to communicate
7.	Which of the following statements is correct regarding reporting of other deficiencies in internal control other than significant deficiencies:
	<ul style="list-style-type: none"> a) Required to be communicated to those charged with governance always b) Required to be communicated to management always c) Required to be communicated to management, if in the auditor's professional judgment, they are of sufficient importance to merit management's attention d) Required to be communicated to both management and those charged with governance
8.	Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:
	<ul style="list-style-type: none"> I. Nature, size and complexity of the entity II. Nature of the significant deficiencies identified III. Estimated time required by management to resolve the deficiency IV. Fees charged from the client
	<ul style="list-style-type: none"> a) I and II b) I, II and III c) III and IV d) All of the above
9.	The auditor shall also, communicate the deficiencies in internal control to management at an appropriate level of responsibility:
	<ul style="list-style-type: none"> a) On a timely basis b) Whenever the management asks for it c) At the Conclusion Stage d) At the Planning Stage
10.	Which of the following statements is incorrect regarding the content of the written

	communication of the significant deficiencies in internal control as per SA 265:
	<p>a) The communication should include quantification of the significant deficiencies.</p> <p>b) The communication may also include suggestions for remedial action for significant deficiencies.</p> <p>c) The auditor should explain that the matters being reported are limited to those deficiencies that the auditor has identified and concluded to be of sufficient importance to merit being reported to those charged with governance.</p> <p>d) The auditor should explain that purpose of the audit was for the auditor to express an opinion on the financial statements.</p>
11.	The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the _____ are of sufficient importance to merit their respective attentions.
	<p>a) Management's terms and conditions</p> <p>b) Auditor's professional judgment</p> <p>c) Management's Control</p> <p>d) None of the above</p>
12.	Significant deficiency is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of _____ :
	<p>a) Management</p> <p>b) Those Charged with Governance</p> <p>c) Employees</p> <p>d) Internal Audit Team</p>
13.	This SA specifies which _____ the auditor is required to communication to those charged with governance and management.
	<p>a) Deficiencies</p> <p>b) Identified deficiencies</p> <p>c) Significant deficiencies</p> <p>d) All of the above</p>

Solutions

Sr.no.	Answers	Hint
1.	[a]	As per para 1 of SA 265
2.	[e]	As per para 2 of SA 265
3.	[b]	As per para 2 of SA 265
4.	[d]	As per para 2 of SA 265
5.	[c]	As per para A5 of SA 265
6.	[a]	As per para 9 of SA 265
7.	[c]	As per para 10 of SA 265
8.	[a]	As per para A15 of SA 265
9.	[a]	As per para 10 of SA 265
10	[a]	As per para 11 of SA 265
11.	[b]	As per para 5 of SA 265
12.	[b]	As per para 5 of SA 265
13.	[b]	As per para 2 of SA 265

Student Notes: -

SA 299(Revised) - Joint Audit of Financial Statements

1.	A, B & C are joint auditors of P Ltd. During audit, A comes to know of a matter related to area of work of B. Which of the following statement is correct:
	<ul style="list-style-type: none"> a) A is required to communicate this to both B & C b) A is not required to communicate this c) A is required to communicate this to B only d) A is required to communicate this to management
2.	A, B & C are joint auditors of P Ltd. There is disagreement among them regarding certain matters to be covered in audit report. Which of the following statement is correct:
	<ul style="list-style-type: none"> a) They should issue a common audit report b) They should issue a common audit report and discuss the disagreement with management c) They should issue separate audit report d) All of the above
3.	It is the responsibility of each joint auditor to determine:
	<ul style="list-style-type: none"> I. Nature, timing & extent of audit procedures II. Appropriateness of test checking/sampling III. Study and evaluate prevailing system of internal control in relation to work Allocated
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Only I <li style="width: 50%;">b) I & III <li style="width: 50%;">c) Both (a) and (b) <li style="width: 50%;">d) None of the above
4.	Where an entity has three joint auditors and all of them have disagreements and this leads to three different sets of opinion, then each of them needs to issue a separate audit report. Further, in their respective audit reports, each of them needs to include:
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Other Matter paragraph <li style="width: 50%;">b) Emphasis of Matter paragraph <li style="width: 50%;">c) Both of (a) & (b) <li style="width: 50%;">d) None of the above
5.	All the joint auditors shall be jointly and severally responsible for:
	<ul style="list-style-type: none"> I. The audit work which is not divided among the joint auditors and is carried out by all joint auditors II. Examining that the financial statements of the entity comply with the requirements of the relevant statutes III. Presentation and disclosure of the financial statements as required by the applicable financial reporting framework
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Only I <li style="width: 50%;">b) I or III <li style="width: 50%;">c) All of the above <li style="width: 50%;">d) II and III
6.	When the joint auditors expect to modify the opinion in the auditor's report, the joint auditors shall communicate with those charged with governance:
	<ul style="list-style-type: none"> a) The circumstances that led to the expected modification b) Proposed wording of the modification c) Only (a) d) Both (a) and (b)
7.	In developing the joint audit plan, the joint auditors shall identify division of__and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor.
	<ul style="list-style-type: none"> a) Audit areas b) Risk areas c) Significant areas d) All of the above
8.	The joint auditors shall discuss and document the nature, timing, and the extent 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 communicate to_____
	<ul style="list-style-type: none"> a) Those charged with governance b) Management c) Both (a) & (b) d) None of the above
9.	The___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.
	<ul style="list-style-type: none"> a) Documentation of b) Discussion about c) Both (a) & (b) d) None of the above
10.	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___prior to the completion of the audit.
	<ul style="list-style-type: none"> a) Writing b) Oral form only c) Writing or Oral d) All of the above

Solutions		
Sr.no.	Answers	Hint
1.	[a]	As per para 8 (c) of SA 299
2.	[c]	As per para 17 of SA 299
3.	[c]	As per para 10 of SA 299
4.	[a]	As per para 21 of SA 299
5.	[c]	As per para 14 of SA 299
6.	[d]	As per para 21 of SA 299
7.	[a]	As per para 8 of SA 299
8.	[a]	As per para 10 of SA 299
9.	[a]	As per para A2 of SA 299
10.	[a]	As per para 15 of SA 299

Student Notes: -

SA 300 - Planning an Audit of Financial Statements

1.	As per SA 300, the auditor shall undertake which of the following activities at the beginning of the current audit engagement:
	<ul style="list-style-type: none"> a) Performing procedures required by SA 220, "Quality Control for an Audit of Financial Statements" regarding the continuance of the client relationship and the specific audit engagement b) Evaluating compliance with ethical requirements, including independence, as required by SA 220 c) Neither (a) nor (b) d) Both (a) and (b)
2.	The auditor should develop an audit plan that includes a description of:
	<ul style="list-style-type: none"> a) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks" c) Other Planned audit procedures that are required to be carried out so that the engagement complies with SAs d) All of the above
3	As per SA 300, the auditor should document:
	<ul style="list-style-type: none"> a) The overall audit strategy b) The audit plan c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes d) All of the above
4.	Adequate planning benefits the audit of financial statements in several ways, including:
	<ul style="list-style-type: none"> a) Facilitating the direction and supervision of engagement team members and the review of their work b) Facilitating the supervision of engagement team members and the review of their work c) Facilitating the direction of engagement team members and the review of their work d) None of the above
5.	The nature and extent of planning activities will vary depending on:
	<ul style="list-style-type: none"> a) The size and complexity of the entity b) The key engagement team members' previous experience with the entity c) Changes in circumstances that occur during the audit engagement d) All of the above
6.	Planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as
	<ul style="list-style-type: none"> a) The involvement of experts b) The determination of materiality c) Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework d) All of the above
7	The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:
	<ul style="list-style-type: none"> a) The resources to deploy for specific audit areas b) The amount of resources to allocate to specific audit areas

	<ul style="list-style-type: none"> c) When these resources are to be deployed d) All of the above
8.	In what circumstances the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks?
	<ul style="list-style-type: none"> a) Result of unexpected events b) Changes in conditions c) Audit evidence obtained from the result of audit procedures d) All of the above
9.	The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, such as:
	<ul style="list-style-type: none"> a) The assessed risks of material misstatement b) The capabilities and competence of the individual team members performing the auditwork c) Both (a) and (b) d) Neither (a) nor (b)
10.	For initial audits, which of the following additional matters the auditor may consider in establishing the overall audit strategy and audit plan
	<ul style="list-style-type: none"> a) Unless prohibited by law or regulation, arrangement with the predecessor auditor to review his working papers b) The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances c) Neither (a) nor (b) d) Both (a) and (b)
11.	Which of the following activities the auditor should undertake prior to starting an initial audit?
	<ul style="list-style-type: none"> a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements c) Both (a) and (b) d) None of the above
12.	The _____ and the other key members of _____ should be involved in planning the audit.
	<ul style="list-style-type: none"> a) Directors; the management of the entity b) Engagement partner; the engagement team c) The audit committee; the management of the entity d) All of the above
13.	The auditor should establish an overall audit strategy that sets the scope, timing and _____ of the audit.
	<ul style="list-style-type: none"> a) Planning b) Extent c) Direction d) Risk
14.	The documentation of the overall audit strategy is a record of the decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.
	<ul style="list-style-type: none"> a) All b) Key c) Some of the d) None of the above

Solutions

Sr.no.	Answers	Hint
1.	[d]	As per para 5 of SA 300
2.	[d]	As per para 7 of SA 300
3.	[d]	As per para 11 of SA 300
4.	[a]	As per para A1 of SA 300
5.	[d]	As per para A2 of SA 300
6.	[d]	As per para A3 of SA 300
7.	[d]	As per para A9 of SA 300
8.	[d]	As per para A14 of SA 300
9.	[c]	As per para A15 of SA 300
10.	[d]	As per para A21 of SA 300
11.	[c]	As per para 12 of SA 300
12.	[b]	As per para A5 of SA 300
13.	[c]	As per para A15 of SA 300
14.	[b]	As per para A17 of SA 300

Student Notes: -

**SA 315 - Identifying and Assessing the Risks of Material Misstatement
Through Understanding the Entity and its Environment**

1.	<p>As per SA 315, the risk assessment procedures should include the following:</p> <ul style="list-style-type: none"> I. Analytical procedures II. Observation and inspection III. Substantive procedures IV. Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and other appropriate individuals within the entity who may have information that is likely to assist in identifying risks of material misstatement due to fraud or error
	<ul style="list-style-type: none"> a) Both I and II b) I, II and III c) I, II and IV d) None of the above
2.	<p>As per SA 315, the auditor should obtain an understanding of</p>
	<ul style="list-style-type: none"> a) Relevant industry factors b) Relevant industry and regulatory factors c) Relevant industry, regulatory, and other external factors d) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework
3.	<p>As per SA 315, the auditor should obtain an understanding of the nature of entity including:</p>
	<ul style="list-style-type: none"> a) Its operations b) Its ownership and governance structures c) The types of investments that the entity is making and plans to make, including investments in special-purpose entities d) All of the above
4.	<p>The auditor should obtain an understanding of whether the entity has a process for:</p>
	<ul style="list-style-type: none"> a) Identifying business risks relevant to financial reporting objectives b) Estimating the significance of the risks c) Assessing the likelihood of risks occurrence d) Deciding about actions to address the risks e) All of the above
5.	<p>The auditor should obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:</p>
	<ul style="list-style-type: none"> a) Communications between management and those charged with governance b) External communications, such as those with regulatory authorities c) Both a and b d) Neither a nor b
6.	<p>The areas for which the auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting, include:</p>
	<ul style="list-style-type: none"> a) The classes of transactions in the entity's operations that are significant to the financial statements b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements c) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures d) All of the above

7.	In exercising judgment as to which risks are significant risks, the auditor should consider:
	<ul style="list-style-type: none"> a) Whether the risk is a risk of fraud b) The complexity of transactions c) Whether the risk involves significant transactions with related parties d) All of the above
8.	The auditor's previous experience with the entity and audit procedures performed in previous audits may provide the auditor with information about such matters as:
	<ul style="list-style-type: none"> a) Past misstatements and whether they were corrected on a timely basis b) The nature of the entity and its environment, and the entity's internal control (including deficiencies in internal control) c) Both a and b d) None of the above
9.	Internal control is designed, implemented and maintained to address identified business risks that threaten the achievement of any of the entity's objectives that concern:
	<ul style="list-style-type: none"> a) The reliability of the entity's financial reporting b) The effectiveness and efficiency of its operations c) Its compliance with applicable laws and regulations d) Safeguarding of assets e) All of the above
10.	SA 315 helps the auditor to reduce the risk of material misstatement to an acceptably ___ level.
	<ul style="list-style-type: none"> a) High b) Moderate c) Low d) All of the above
11.	Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur are termed as ____.
	<ul style="list-style-type: none"> a) Risk assessment procedures b) Business risk c) Affirmations d) Assertions
12.	An ___ risk of material misstatement that, in the auditor's judgment, requires special audit consideration is known as.
	<ul style="list-style-type: none"> a) Identified and assessed, significant risk b) Identified and assessed, higher risk c) Assessed, significant risk d) Identified, higher risk
13.	As per SA 315, the auditor should obtain an understanding of the entity's objectives and strategies, and those related ___ that may result in risks of material misstatement.
	<ul style="list-style-type: none"> a) Risks b) Significant risks c) Business risks d) Highly significant risks
14.	The auditor's assessment of the risks of material misstatement at the ___ may change during the course of the audit as additional audit evidence is obtained.
	<ul style="list-style-type: none"> a) Document level b) Assumption level c) Assertion level d) Both (a) and (c)
15.	Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of ___ information throughout the audit.

	<ul style="list-style-type: none"> a) Gathering and updating b) Gathering and analysing c) Updating and analysing d) Gathering, updating and analysing
16.	Appropriate individuals within the internal audit function with whom inquiries are made are those who, in the auditor's judgment, have the appropriate
	<ul style="list-style-type: none"> a) Competence b) Experience and authority c) Ability d) Knowledge, experience and authority

Solutions		
Sr.no.	Answer	Hint
1.	[c]	As per para 6 of SA 315
2.	[d]	As per para 11 of SA 315
3.	[d]	As per para 11 of SA 315
4.	[e]	As per para 15 of SA 315
5.	[c]	As per para 19 of SA 315
6.	[d]	As per para 18 of SA 315
7.	[d]	As per para 28 of SA 315
8.	[c]	As per para A18 of SA 315
9.	[e]	As per para A50 of SA 315
10.	[c]	As per para 3 of SA 315
11.	[d]	As per para 4 of SA 315
12.	[a]	As per para 4 (e) of SA 315
13.	[c]	As per para 11 of SA 315
14.	[c]	As per para 31 of SA 315
15.	[d]	As per para A1 of SA 315
16.	[d]	As per para A1 of SA 315

Student Notes: -

SA 320 - Materiality in Planning and Performing an Audit

1.	SA 320 deals with:
	<ul style="list-style-type: none"> a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements b) How materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements c) Both of the above d) None of the above
2.	The amount of materiality initially determined needs to be revised as the audit progresses:
	<ul style="list-style-type: none"> a) If there is a delay in the audit b) In the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially
3.	Materiality is considered in the following phases of an audit
	<ul style="list-style-type: none"> a) Identifying and assessing the risks of material misstatement b) Determining the nature, timing and extent of further audit procedures c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report d) All of the above
4.	Factors that may affect the identification of an appropriate benchmark in determining Materiality for the financial statements as a whole include the following:
	<ul style="list-style-type: none"> a) The elements of the financial statements b) The entity's ownership structure and the way it is financed c) Both the above d) None of the above
5.	The audit documentation shall include the following:
	<ul style="list-style-type: none"> a) Materiality for the financial statements as a whole b) If applicable, the materiality levels for particular classes of transactions, account balances or disclosures c) Performance materiality d) All of the above
6.	If an entity is financed solely by debt rather than equity, users may put more emphasis on:
	<ul style="list-style-type: none"> a) Entity's earnings before tax b) Entity's earnings after tax c) Assets, and claims on them d) None of the above
7.	Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality
	<ul style="list-style-type: none"> a) Should be proportionately reduced or increased to an amount corresponding to twelve months b) Relates to the financial statements prepared for that financial reporting period c) Any of the above

	d) None of the above
8.	Which of the following statements is correct
	<ul style="list-style-type: none"> a) Performance materiality once determined, cannot be changed till conclusion of the audit b) Performance materiality cannot be more than materiality for financial statements as a whole c) Performance materiality can only be set at financial statements level and not at classes of transactions, account balances and disclosures level d) None of the above
9.	Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include:
	<ul style="list-style-type: none"> a) Disclosure requirements of law, regulations or the applicable financial reporting framework b) Key disclosures in relation to the industry in which the entity operates c) Both the above d) None of the above
10.	Audit risk is a function of:
	<ul style="list-style-type: none"> a) Audit risk and detection risk b) Risks of material misstatement and detection risk c) Control risk and detection risk d) Inherent risk and detection risk
11.	In relation to the chosen benchmark in determining materiality for the financial statements as a whole, relevant financial data ordinarily includes:
	<ul style="list-style-type: none"> a) Prior periods' financial results and financial position b) The period-to-date financial results and financial position c) Both the above d) None of the above
12.	Which of the following statements is incorrect?
	<ul style="list-style-type: none"> a) Materiality and audit risk are considered throughout the audit. b) Misstatements are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. c) The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. d) SA 320 states that it is mandatory for the auditor to take five percent of profit before tax from continuing operations as materiality for a profit oriented entity in a manufacturing industry and one percent of total revenue for a not-for profit entity. Higher or lower percentages are not allowed.
13.	Performance materiality means the amount or amounts set by the auditor at _____ the amount of materiality level for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
	<ul style="list-style-type: none"> a) More than b) Less than c) Equal to d) All of the above
14.	Determining a percentage to be applied to a chosen benchmark for materiality involves the exercise of ____.
	<ul style="list-style-type: none"> a) Professional skepticism b) Professional judgement

- c) Independence
- d) None of the above

Solutions

Sr.no.	Answer	Hint
1.	[a]	As per para 1 of SA 320
2.	[b]	As per para 12 of SA 320
3.	[d]	As per para A1 of SA 320
4.	[c]	As per para 2 of SA 320
5.	[d]	As per para A8 of SA 320
6.	[c]	As per para A2 of SA 320
7.	[b]	As per para A5 of SA 320
8.	[b]	As per para 9 of SA 320
9.	[c]	As per para A10 of SA 320
10.	[b]	As per para A1 of SA 320
11.	[c]	As per para A4 of SA 320
12.	[d]	As per para A6 of SA 320
13.	[b]	As per para 9 of SA 320
14.	[b]	As per para A6 of SA 320

Student Notes: -

SA 330 - The Auditor's Responses to Assessed Risks

1.	<p>SA 330 deals with:</p> <ul style="list-style-type: none"> a) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor b) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements c) The auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations d) None of the above
2.	<p>An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level is</p> <ul style="list-style-type: none"> a) Substantive procedure b) Test of controls c) Test of details d) None of the above
3.	<p>An audit procedure designed to detect material misstatements at the assertion level is:</p> <ul style="list-style-type: none"> a) Test of controls b) Substantive procedure c) Both the above d) None of the above
4.	<p>In designing the further audit procedures to be performed, the auditor should consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each -</p> <ul style="list-style-type: none"> a) Class of transactions b) Account balance c) Disclosure d) All the above
5.	<p>In designing the further audit procedures to be performed, which of the following are to be considered by the auditor.</p> <ul style="list-style-type: none"> a) Inherent risk b) Control risk c) Both the above d) None of the above
6.	<p>While performing test of controls, which of the following have to be considered for other audit procedures to be performed by the auditor in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls:</p> <ul style="list-style-type: none"> a) How the controls were applied at relevant times during the period under audit b) The consistency with which they were applied c) By whom or by what means they were applied d) All the above
7.	<p>The auditor has to test controls</p> <ul style="list-style-type: none"> a) For the particular time for which the auditor intends to rely on those controls b) Throughout the period for which the auditor intends to rely on those controls c) Any or both of the above based on reporting requirement d) None of the above
8.	<p>Which of the following is required to be performed by auditor while using audit evidence about the operating effectiveness of controls, obtained during an interim period?</p> <ul style="list-style-type: none"> a) Obtain audit evidence about significant changes to those controls subsequent to the interim period b) Determine the additional audit evidence to be obtained for the remaining period c) Both the above d) None of the above
9.	<p>Which of the following is relevant in determining whether it is appropriate to use, in current period, the audit evidence about the operating effectiveness of controls obtained in previous audits?</p> <ul style="list-style-type: none"> a) The effectiveness of general IT-controls b) The length of the time period that has elapsed after the previous period testing of controls c) Both the above

	d) None of the above
10.	Which of the following procedures are necessary to be performed in current period, if the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, for establishing the continuing relevance of that evidence to assess whether significant changes in those controls have occurred subsequent to the previous audit
	a) Inquiry b) Observation or inspection c) Inquiry combined with observation or Inspection d) None of the above
11.	When the auditor plans to rely on controls over a risk which the auditor has determined to be a significant risk, the auditor -
	a) Can use the audit evidence about the operating effectiveness of those controls obtained in previous audits and the controls need not be tested for operative effectiveness in the current period b) Shall test those controls in the current period c) Has an option for any of (a) and (b) above d) Can test those controls once in every third audit
12.	Select the correct statement from the following:
	a) When evaluating the operating effectiveness of relevant controls, the auditor has also to evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively b) It can always be concluded that if there are no misstatements detected by substantive procedures, the controls related to the assertion being tested are effective c) Both (a) and (b) d) None of the above
13.	When deviations from controls upon which the auditor intends to rely are detected, which of the following are not relevant for the auditor to determine the further audit procedures:
	a) Specific inquiries to understand the deviations and their potential consequences b) Whether additional tests of controls are necessary c) Whether the potential risks of misstatement need to be addressed using substantive procedures d) Whether the deviations from controls were remediated after the period end on which the auditor is reporting
14.	When the approach to a significant risk consists only of substantive procedures, those procedures shall include:
	a) Variance analysis only b) Analytical procedures only c) Test of details d) None of the above

Solutions		
Sr.no.	Answer	Hint
1.	[a]	As per para 1 of SA 330
2.	[b]	As per para 4 (b) of SA 330
3.	[b]	As per para 4 (a) of SA 330
4.	[d]	As per para 7 of SA 330
5.	[c]	As per para 7 of SA 330
6.	[d]	As per para 10 of SA 330
7.	[c]	As per para 11 of SA 330
8.	[c]	As per para 12 of SA 330
9.	[c]	As per para 13 of SA 330
10.	[c]	As per para 14 of SA 330
11.	[b]	As per para 15 of SA 330
12.	[a]	As per para 16 of SA 330

13.	[d]	As per para 17 of SA 330
14.	[c]	As per para A23 of SA 330

Student Notes: -

SA 402 - Audit Considerations Relating to an Entity Using a Service Organization

1.	<p>SA 402 deals with</p> <ul style="list-style-type: none"> a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements b) The user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations c) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor d) none of the above
2.	<p>SA 402 does not apply to:</p> <ul style="list-style-type: none"> a) Services provided by financial institutions that are limited to processing, for an entity's account held at the financial institution, transactions that are specifically authorised by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker b) The audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders c) Both the above d) None of the above
3.	<p>A subservice organisation is defined as</p> <ul style="list-style-type: none"> a) A third-party organisation (or segment of a third party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting b) A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting c) An entity that uses a service organisation and whose financial statements are being audited d) None of the above
4.	<p>The user auditor shall refer to the work of a service auditor in the user auditor's report in following circumstance/s:</p> <ul style="list-style-type: none"> a) Where it is a requirement by law or regulation to refer to the work of a service auditor in the user auditor's report b) If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion c) Both the above d) None of the above
5.	<p>If the user auditor is unable to obtain a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit to provide a basis for the identification and assessment of risks of material misstatement from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:</p> <ul style="list-style-type: none"> I. Obtaining a Type 1 or Type 2 report, if available. II. Contacting the service organisation, through the user entity, to obtain specific information. III. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation. IV. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
	<ul style="list-style-type: none"> a) Only I & II b) Only IV

	c) All of the above	d) I or II or III
6.	In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, the user auditor shall be satisfied as to the:	
	a) service auditor's professional competence and independence from the service organisation b) adequacy of the standards under which the said report was issued c) Both (a) and (b) d) None of the above	
7.	SA 402 defines a user auditor as an auditor who audits and reports	
	a) On the financial statements of a subservice organisation b) On the financial statements of a user entity c) On the financial statements of a service organisation d) None of the above	
8.	_____ user entity controls are the controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.	
	a) Supplementary b) Complementary	
9.	Obtaining confirmation of balances and transactions from the service organisation _____ considered by the user auditor in determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity.	
	a) may be b) may not be	
10.	The user auditor makes inquiries of the ___ management regarding whether the service organisation has reported any matters relating to fraud, non-compliance with laws and regulations or uncorrected misstatements attributable to the service organisation's management or employees and evaluates whether any matters reported by the service organisation affect the nature, timing and extent of the user auditor's further audit procedures.	
	a) User entity's b) Service organisation's	
11.	A service auditor is defined as an auditor who, at the request of the _____, provides an assurance report on the controls of a service organisation.	
	a) User entity b) Service organisation	

Solutions		
Sr.no.	Answer	Hint
1.	[b]	As per para 1 of SA 402
2.	[c]	As per para 5 of SA 402
3.	[b]	As per para 8 of SA 402
4.	[c]	As per para 22 of SA 402
5.	[c]	As per para 12 of SA 402
6.	[c]	As per para 13 of SA 402
7.	[b]	As per para 18 of SA 402
8.	[b]	As per para A36 of SA 402
9.	[a]	As per para A26 of SA 402
10.	[a]	As per para A19 of SA 402
11.	[b]	As per para 8 (d) of SA 402

SA 450 - Evaluation of Misstatements Identified During the Audit

1.	What is uncorrected misstatements?
	<ul style="list-style-type: none"> a) Misstatements that auditor has identified but not agreed by management hence not rectified. b) Misstatements that management has identified and reported to auditors but not rectified. c) Misstatements that internal auditor has identified but not rectified by management. d) Misstatements that auditor has accumulated during the audit and not rectified
2.	Auditor should revise audit strategy and audit plan if:
	<ul style="list-style-type: none"> a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 c) Both (a) and (b) d) None of the above
3.	If auditor's reassessment of materiality based on actual financial results, results in lower materiality, auditor should:
	<ul style="list-style-type: none"> a) Express adverse opinion directly b) Re-consider the performance materiality and nature, timing and extent of further audit procedures to base the audit opinion c) Resign from the audit d) Obtain management representation letter for uncorrected misstatements
4.	The auditor's documentation of uncorrected misstatements may take into account
	<ul style="list-style-type: none"> a) The consideration of the aggregate effect of uncorrected misstatements b) The evaluation of whether the materiality level or levels for particular classes of transactions, account balances or disclosures, if any, have been exceeded c) The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants) d) All the Above
5.	What is factual misstatement?
	<ul style="list-style-type: none"> a) Differences arising in judgment of management and that of auditor b) Auditor's best estimate of misstatements in the population c) Misstatements about which there is no doubt d) None of the above
6.	Misstatements may result from:
	<ul style="list-style-type: none"> a) An inaccuracy in gathering or processing data from which the financial statements are prepared b) An omission of an amount or disclosure c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate e) All the above
7.	Misstatements can be in the nature of
	<ul style="list-style-type: none"> a) Factual misstatements b) Judgmental misstatements c) Projected misstatements d) All the above

8.	The auditor should determine the materiality of uncorrected misstatements with respect to:
	<ul style="list-style-type: none"> a) Individual misstatements b) Misstatements in the aggregate c) Need not determine as misstatements are uncorrected d) Both (a) and (b)
9.	The audit documentation should include:
	<ul style="list-style-type: none"> a) The amount below which misstatements would be regarded as clearly trivial b) All misstatements accumulated during the audit and whether they have been corrected c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion d) All the above
10.	Auditor should not accumulate misstatements which are _____
	<ul style="list-style-type: none"> a) Immaterial b) Clearly Trivial c) Not significant d) None. All misstatements should be accumulated
11.	Auditor should obtain written representation from those charged with governance on _____.
	<ul style="list-style-type: none"> a) Corrected misstatements b) Uncorrected misstatements c) Both a and b d) None of the above

Solutions

Sr.no.	Answer	Hint
1.	[d]	As per para 4 of SA 450
2.	[c]	As per para 6 of SA 450
3.	[b]	As per para A12 of SA 450
4.	[d]	As per para A25 of SA 450
5.	[c]	As per para 3 of SA 450
6.	[e]	As per para A1 of SA 450
7.	[d]	As per para A3 of SA 450
8.	[d]	As per para 11 of SA 450
9.	[d]	As per para 15 of SA 450
10.	[b]	As per para A2 of SA 450
11.	[b]	As per para A24 of SA 450

Student Notes –

SA 500 - Audit Evidence

1.	SA 500 is applicable on
	<ul style="list-style-type: none"> a) All the audit evidence obtained during the course of the audit b) The audit evidence obtained in relation to a particular topic c) Specific procedures to obtain audit evidence d) All of the above
2.	Inspection of tangible assets may provide reliable audit evidence regarding
	<ul style="list-style-type: none"> a) Existence b) Valuation c) Completeness d) None of the above
3.	Inspection involves:
	<ul style="list-style-type: none"> a) Looking at a process or procedure being performed by others b) Examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset c) Both (a) and (b) d) None of the above
4.	What is analytical procedure?
	<ul style="list-style-type: none"> a) Evaluations of financial information made by a study of plausible relationships among both financial and non-financial data b) Investigation of identified fluctuations and relationships that are inconsistent with other relevant information c) Both (a) and (b) d) None of the above
5.	Audit evidence comprises:
	<ul style="list-style-type: none"> a) Information that supports and corroborates management's assertions. b) Both information that supports and corroborates management's assertions, and any information that contradicts such assertions. c) Any information that contradicts management's assertions d) None of the above
6.	Information from sources independent of the entity that the auditor may use as audit evidence may include:
	<ul style="list-style-type: none"> a) Confirmations from third parties b) Comparable data about competitors c) Analysts reports d) All of the above
7.	Sufficiency and appropriateness of audit evidence refers to
	<ul style="list-style-type: none"> a) Sources of audit evidence b) Internal and External evidence c) Two broad classification of audit evidence d) Quantity and Quality of audit evidence
8.	Management's expert refers to an individual or organization, whose work is used by the entity to assist the entity in preparation of financial statements and:
	<ul style="list-style-type: none"> a) Who possess expertise in the field of accounting and auditing b) Who possess expertise in a field other than the field of accounting and auditing c) Both of the above d) None of the above
9.	If an individual or organization provides merely price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to:
	<ul style="list-style-type: none"> a) Specific requirements of SA 500 regarding use of a management's expert by the entity. b) Requirements of SA 500 regarding assessment of relevance and reliability of audit evidence c) Either (a) or (b) d) None of the above

10.	Which among the following is not an essential requirements of Management's Expert?
	a) Capability b) Capacity c) Objectivity d) Competence
11.	Arrange the following in the order of reliability (from higher to lower)
	a) External Evidence collected by management and made available to auditors b) Internal Evidence when internal controls are tested to be effective c) Internal Evidence when internal controls are tested to be ineffective b) External Evidence directly collected by auditors
12.	Inspection of documents related to the collection of receivables after the period end provide evidence regarding to
	a) Existence b) Cut off c) Valuation d) Completeness
13.	Select among the following, procedures used by auditor in obtaining audit evidences:
	a) Computation b) Documentation c) Physical verification d) Analytical procedures
14.	_____ assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.
	a) Limited b) Reasonable c) Complete d) Substantive
15.	Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing_____ and_____
	a) Test of controls; physical verification b) Test of details; risk assessment procedures c) Risk assessment procedures; further audit procedures d) Test of control; analytical review
16.	Recalculation consists of checking the _____ records.
	a) Mathematical valuation b) Accuracy c) Valuation d) Mathematical accuracy
17.	_____ involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.
	a) Recalculation b) Reperformance c) Analytical procedure d) Inquiry
18.	The information used by auditor in arriving at conclusions on which auditor's opinion is based is called_____.
	a) Audit Evidence b) Vouchers c) Auditor's Report d) Substantive procedures

Solutions		
Sr.no.	Answer	Hint
1.	[a]	As per para 2 of SA 500
2.	[a]	As per para A16 of SA 500
3.	[b]	As per para A14 of SA 500
4.	[c]	As per para A21 of SA 500
5.	[b]	As per para A1 of SA 500
6.	[d]	As per para A9 of SA 500

7.	[d]	As per para 5 (e) of SA 500
8.	[b]	As per para 5 (d) of SA 500
9.	[b]	As per para A35 of SA 500
10.	[b]	As per para A37 of SA 500
11.	[d,a,b,c]	As per para A31 of SA 500
12.	[a & c]	As per para A27 of SA 500
13.	[a, c & d]	As per para A2 of SA 500
14.	[b]	As per para A3 of SA 500
15.	[c]	As per para A10 of SA 500
16.	[d]	As per para A19 of SA 500
17.	[b]	As per para A20 of SA 500
18.	[a]	As per para 5 (c) of SA 500

Student Notes: -

SA 501 - Audit Evidence - Specific Considerations for Selected Items

1.	If attendance at physical inventory counting is impracticable and sufficient appropriate audit evidence regarding the existence and condition of inventory could not be obtained by performing alternative audit procedures, the auditor shall:
	<ul style="list-style-type: none"> a) Rely on management and obtain management representation letters. b) Rely on Internal Auditor's report c) Modify the opinion in the auditor's report in accordance with SA 705(Revised) d) All of the above
2.	When inventory under the custody and control of a third party is material to the financial statements, which audit procedure shall be performed by the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory:
	<ul style="list-style-type: none"> 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 c) Both (a) and (b) d) None of the above
3.	Which audit procedure shall be performed to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory lying with the third party in case there is doubt on integrity and objectivity of the third party:
	<ul style="list-style-type: none"> a) Communication with the third party b) Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded c) Modify the auditor's report d) All of the above
4.	When is it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims:
	<ul style="list-style-type: none"> a) When the matter is a significant risk b) When the matter is complex c) When there is disagreement between management and the entity's external legal counsel d) All of the above
5.	What is the suggested frequency of physical inventory count given in SA 501?
	<ul style="list-style-type: none"> a) At least twice in a year b) At least once in a year c) As per the wish of management d) None of the above
6.	Which are the major factors to be considered for planning attendance at physical inventory counting?
	<ul style="list-style-type: none"> a) Nature and location of Inventory b) Stages of completion of Inventory c) Risk of material misstatement related to the inventory d) Nature of internal control related to Inventory e) All of the above
7.	The auditor's inventory observation test counts are traced to the client's inventory listing to test for which of the following financial statement assertions?
	<ul style="list-style-type: none"> a) Completeness b) Rights and obligations c) Allocation and valuation d) Understandability and classification
8.	SA 501 requires auditor to perform following audit procedures in relation to Litigation and Claims?
	<ul style="list-style-type: none"> a) To inquire the management and others within the entity b) Review minutes of meeting of Those charged with governance and correspondence between the entity and external legal counsel

	<ul style="list-style-type: none"> c) Review legal expenses accounts d) All of the above
9.	If risk of material misstatement in litigation and claims is identified, what an auditor needs to do?
	<ul style="list-style-type: none"> a) To communicate to Those charged with governance b) To communicate to Those charged with governance and management c) To communicate directly with entity's external legal counsel d) None of these
10.	Attendance at physical inventory counting involves:
	<ul style="list-style-type: none"> I. Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts II. Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count III. Obtaining audit evidence as to the reliability of management's count procedures
	<ul style="list-style-type: none"> a) I and II b) II and III c) I, II and III d) I and III
11.	In some cases, the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand. This may indicate that:
	<ul style="list-style-type: none"> a) Substantive testing procedures are not performed correctly b) Controls over changes in inventory are not operating effectively c) Physical count has not been performed correctly d) Controls over changes in inventory are operating effectively
12.	What an auditor needs to do, if he is unable to attend the physical Inventory counting?
	<ul style="list-style-type: none"> a) Make or observe count on some other date b) Perform audit procedures on intervening transactions c) Rely on management and obtain management representation letters d) Rely on Internal Auditors report
13.	SA 501 deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with _____, _____ and other relevant SAs.
	<ul style="list-style-type: none"> a) SA 330, SA 510 b) SA 330, SA 500 c) SA 500, SA 520 d) SA 500, SA 510
14.	When inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the _____
	<ul style="list-style-type: none"> a) Existence and condition of inventory b) Accuracy and condition of inventory c) Valuation and condition of inventory d) Presentation and condition of inventory
15.	The auditor shall request management to provide written representations that all known _____ whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.
	<ul style="list-style-type: none"> a) Actual claims b) Possible litigation c) Actual or possible litigation and claims d) Actual litigation

Solutions

Sr.no.	Answer	Hint
1.	[c]	As per para 7 of SA 501
2.	[c]	As per para 8 of SA 501

3.	[b]	As per para A16 of SA 501
4.	[d]	As per para A24 of SA 501
5.	[b]	As per para A1 of SA 501
6.	[e]	As per para A3 of SA 501
7.	[a]	As per para A7 of SA 501
8.	[d]	As per para 9 of SA 501
9.	[c]	As per para A10 of SA 501
10.	[c]	As per para A2 of SA 501
11.	[b]	As per para A10 of SA 501
12.	[a & b]	As per para 6 of SA 501
13.	[b]	As per para 1 of SA 501
14.	[a]	As per para 3 of SA 501
15.	[c]	As per para 12 of SA 501

Student Notes: -

SA 505 - External Confirmations

1.	<p>Auditor may categorise the results of individual external confirmation requests into:</p> <ul style="list-style-type: none"> I. A non-response II. A response indicating an exception III. A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception; or IV. _____ <p>Fill in the blanks with correct option</p>
	<ul style="list-style-type: none"> a) A non-response deemed unreliable b) A response deemed unreliable c) A non-response deemed reliable d) A response deemed reliable
2.	<p>Which of the following statement is not true?</p> <ul style="list-style-type: none"> I. Audit evidence is more reliable when it is obtained from independent sources outside the entity. II. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. III. Audit evidence is not reliable when it exists in documentary form, whether paper, electronic or other medium.
	<ul style="list-style-type: none"> a) I and II b) II and III c) All of the above d) III only
3.	<p>Factors to consider when designing confirmation requests include:</p> <ul style="list-style-type: none"> I. The assertions being addressed. II. The layout and presentation of the confirmation request. III. The method of communication (for example, in paper form, or by electronic or other medium). Prior experience on the audit or similar engagements
	<ul style="list-style-type: none"> a) I and II b) All of the above c) II and IV d) I and III
4.	<p>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:</p>
	<ul style="list-style-type: none"> a) Positive confirmation request b) Negative confirmation request c) Both (a) and (b) d) Neither (a) nor (b)
5.	<p>Auditor shall follow below mentioned procedures, if management refuses to allow the auditor to send a confirmation request:</p> <ul style="list-style-type: none"> I. Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness II. 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. <p>Perform alternative audit procedures designed to obtain relevant and reliable audit evidence</p>
	<ul style="list-style-type: none"> a) All of the above b) I and II only c) I and III only d) None of the above
6.	<p>When can an auditor rely on negative confirmation request?</p> <ul style="list-style-type: none"> I. The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion. II. The population of items subject to negative confirmation procedures

	<p>comprises a large number of small, homogeneous, account balances, transactions or conditions.</p> <p>III. A very low exception rate is expected.</p> <p>IV. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.</p>
	<p>a) All of the above c) I, II and III</p> <p>b) I, II and IV d) None of the above</p>
7.	Arrange the following steps to be taken for obtaining external confirmation from third party in correct order.
	<p>a) Sending the requests, including follow-up requests when applicable, to the confirming party.</p> <p>b) Selecting the appropriate confirming party.</p> <p>c) Determining the information to be confirmed or requested.</p> <p>d) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor</p>
8.	SA 505 deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of _____.
	<p>a) SA 330 and SA 500 b) SA 700 and SA 705 c) SA 200 and SA 230 d) SA 520 and SA 560</p>
9.	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 called as _____.
	<p>a) Positive confirmation request b) Negative confirmation request c) Moderate confirmation request d) None of the above</p>
10.	A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called as _____.
	<p>a) No response b) Non- response c) Denial of response d) None of above</p>
11.	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 is called as ____.
	<p>a) Internal confirmation b) Direct confirmation c) Indirect confirmation d) External confirmation</p>
12.	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 called as _____.
	<p>a) Exception b) Inclusion c) Exclusion d) None of the above</p>
13.	The auditor may send an additional confirmation request when a reply to a previous request has not been received within a reasonable time. It is known as _____.
	<p>a) Follow-Up on Confirmation Requests b) Additional request</p>

	<ul style="list-style-type: none"> c) Either (a) or (b) d) None of the above
14.	The types of External Confirmations Request covered by SA 505 are ___ and ___.
	<ul style="list-style-type: none"> a) Positive Confirmation Request b) Direct Confirmation c) Indirect Confirmation d) Negative Confirmation Request
15.	The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing _____ audit procedures is necessary.
	<ul style="list-style-type: none"> a) Further b) Additional c) Either (a) or (b) d) None of the above

Solutions		
Sr.no.	Answer	Hint
1.	[b]	As per para A24 of SA 505
2.	[d]	As per para 5 of SA 505
3.	[b]	As per para A4 of SA 505
4.	[a]	As per para 6 (b) of SA 505
5.	[a]	As per para 8 of SA 505
6.	[a]	As per para 15 of SA 505
7.	[c, b, d & a]	As per para 7 of SA 505
8.	[a]	As per para 1 of SA 505
9.	[b]	As per para 6 (c) of SA 505
10.	[b]	As per para 6 (d) of SA 505
11.	[d]	As per para 6 (a) of SA 505
12.	[a]	As per para 6 (e) of SA 505
13.	[a]	As per para A7 of SA 505
14.	[a & d]	As per para 6 of SA 505
15.	[a]	As per para 16 of SA 505

Student Notes:

SA 510 - Initial Audit Engagements - Opening Balances

1.	<p>The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by performing following procedures:</p> <ol style="list-style-type: none"> I. Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss. II. Determining whether the opening balances reflect the application of appropriate accounting policies. III. Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements. IV. Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances <p>Choose the correct option</p>				
	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;">a) All of the Above</td> <td style="width: 50%; border: none;">b) I, II and IV</td> </tr> <tr> <td style="border: none;">c) II, III and IV</td> <td style="border: none;">d) I, III and IV</td> </tr> </table>	a) All of the Above	b) I, II and IV	c) II, III and IV	d) I, III and IV
a) All of the Above	b) I, II and IV				
c) II, III and IV	d) I, III and IV				
2.	<p>The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances will depend on:</p>				
	<ol style="list-style-type: none"> a) The accounting policies followed by the entity b) The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial statements c) The significance of the opening balances relative to the current period's financial statements d) Modified opinion on prior period's financial statement by predecessor auditor e) All of the above 				
3.	<p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances and impact of which is material and pervasive, the auditor shall express:</p>				
	<ol style="list-style-type: none"> a) Qualified Opinion or Disclaimer of Opinion b) Qualified Opinion c) Qualified Opinion or Adverse Opinion d) Disclaimer of Opinion 				
4.	<p>If the auditor concludes that accounting policies not consistently applied and impact of which is material but not pervasive, the auditor shall express:</p>				
	<ol style="list-style-type: none"> a) Qualified Opinion or Disclaimer of Opinion b) Qualified Opinion c) Qualified Opinion or Adverse Opinion d) Disclaimer of Opinion 				
5.	<p>Arrange audit procedures in sequence when the auditor obtains audit evidence that the opening balances contain misstatements</p>				
	<ol style="list-style-type: none"> a) Conclude misstatement exist in current year financial statements b) Communicate with management and those charged with governance c) Perform additional audit procedures to determine effect on current year financial statements d) None of the above 				
6.	<p>Some audit evidence about opening balances may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their:</p>				
	<ol style="list-style-type: none"> a) Existence at the beginning of the period b) Accuracy at the beginning of the period 				

	<ul style="list-style-type: none"> c) Completeness at the beginning of the period d) Valuation at the beginning of the period
7.	An engagement in which either the financial statements for the prior period were not audited or the financial statements for the prior period were audited by a predecessor auditor is known as_____.
	<ul style="list-style-type: none"> a) Initial audit engagement b) First audit engagement c) Subsequent audit engagement d) Primary audit engagement
8.	_____ are those account balances that exist at the beginning of the period and are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period and also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
	<ul style="list-style-type: none"> a) Opening balances b) Closing balances c) Account balances d) None of the above
9.	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 is known as_____.
	<ul style="list-style-type: none"> a) Predecessor auditor b) New Auditor c) Outgoing auditor d) Retiring auditor
10.	If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such__audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.
	<ul style="list-style-type: none"> a) Further b) Additional c) Either (a) or (b) d) None of the above
11.	The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the ----- financial statements.
	<ul style="list-style-type: none"> a) Previous Period's b) Current Period's c) Either (a) or (b) d) None of the above

Solutions

Sr. no.	Answer	Hint
1.	[a]	As per para 6 of SA 510
2.	[e]	As per para A1 of SA 510
3.	[d]	As per para A5 of SA 510
4.	[b]	As per para 11 of SA 510
5.	[c, a & b]	As per para 7 of SA 510
6.	[a, c & d]	As per para A3 of SA 510
7.	[a]	As per para 1 of SA 510
8.	[a]	As per para 1 of SA 510
9.	[a]	As per para 4 (c) of SA 510

10.	[b]	As per para 7 of SA 510
11.	[b]	As per para 11 of SA 510

Student Notes: - _____

SA 520 - Analytical Procedures

1.	In an entity where auditor finds that controls over sales order processing are weak, for assertions related to receivables, the auditor may place more reliance on
	<ul style="list-style-type: none"> a) Tests of details b) Substantive analytical procedures c) Either (a) or (b) d) None of the above
2.	Analysis by computation of ratios includes
	<ul style="list-style-type: none"> a) Analysing account fluctuations by comparing current year to prior year information and,also, to information derived over several years. b) The study of relationships between financial statement amounts. c) Both (a) and (b) d) None of the above
3.	Factors to be considered by auditor while performing analytical procedures are
	<ul style="list-style-type: none"> a) Determine suitability of particular substantive analytical procedure for given assertion b) Evaluate reliability of data c) Develop expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify misstatement d) All of the above
4.	Analysing account fluctuations by comparing current year to prior year information and also to information derived over several years is called:
	<ul style="list-style-type: none"> a) Analysis of Trends b) Analysis of Ratios a) Either (a) or (b) b) None of the above
5.	Which of the following is not an analytical procedure?
	<ul style="list-style-type: none"> a) Comparison with prior period information b) Analysis of significant ratios and trends c) Analysis of relationships between financial and non-financial data d) None of the above
6.	If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:
	<ul style="list-style-type: none"> I. Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; II. Performing other audit procedures as necessary in the circumstances. <p>Choose the correct Option:</p>
	<ul style="list-style-type: none"> a) I only b) II only c) All of the above d) None of the above
7.	Analytical procedures include the consideration of comparisons of the entity's financial information with:
	<ul style="list-style-type: none"> I. Comparable information for prior periods. II. Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation. III. Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

	Choose the correct Option:
	<ul style="list-style-type: none"> a) I, II and III b) II and III only c) I and II only d) None of Above
8.	Substantive analytical procedures may be more effective when applied to: I. Financial information on individual sections of an operation II. Financial statements of components of a diversified entity III. Financial statements of the entity as a whole. Choose the correct Option:
	<ul style="list-style-type: none"> a) I and II b) I, II and III c) I and III d) II and III
9.	Factors determining reliability of data: I. Source of information available II. Comparability of information available III. Nature & relevance of information available IV. Controls over preparation of information Choose the correct Option:
	<ul style="list-style-type: none"> a) I, III and IV b) II, III and IV c) I, II and III d) All of the above
10.	The auditor's _____ at the assertion level may be tests of details, substantive analytical procedures, or a combination of both.
	<ul style="list-style-type: none"> a) Test of control b) Analytical procedure c) Substantive procedure d) All of the above
11.	Substantive analytical procedures are more suitable to _____ of transactions tending to be predictable over time.
	<ul style="list-style-type: none"> a) Large Volume b) Less Volume c) Both (a) and (b) d) None of the above
12.	The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the _____.
	<ul style="list-style-type: none"> a) Management b) Entity c) Both (a) and (b) d) None of the above
13.	The application of _____ analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.
	<ul style="list-style-type: none"> a) Planned b) Substantive c) Either (a) or (b) d) None of the above

Solutions		
Sr.no.	Answer	Hint
1.	[a]	As per para A9 of SA 520
2.	[b]	As per para A21 of Appendix of SA 520
3.	[d]	As per para 5 of SA 520
4.	[a]	As per para A21 of Appendix (Trends point) of SA 520

5.	[d]	As per para A1 of SA 520
6.	[c]	As per para 7 of SA 520
7.	[a]	As per para A1 of SA 520
8.	[a]	As per para A15 of SA 520
9.	[d]	As per para 5 (b) of SA 520
10.	[c]	As per para A4 of SA 520
11.	[a]	As per para A6 of SA 520
12.	[b]	As per para A5 of SA 520
13.	[a]	As per para A6 of SA 520

Student Notes: -

SA 530 - Audit Sampling

1	_____ approach to sampling has the following characteristics: Random selection of the sample items; and The use of probability theory to evaluate sample results, including measurement of sampling risk.
	<ul style="list-style-type: none"> a) Statistical sampling b) Random sampling c) Stratified sampling d) Haphazard sampling
2.	If auditor is unable to apply the designed audit procedures or alternative procedures to the selected item, auditor shall treat that item as _____ in case of tests of controls.
	<ul style="list-style-type: none"> a) Deviation b) Misstatement c) Both (a) and (b) d) None of the above
3.	If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a _____ item.
	<ul style="list-style-type: none"> a) Replacement b) Substitute c) Both (a) and (b) d) None of the above
4.	Inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation are examples of _____.
	<ul style="list-style-type: none"> a) Sampling Risk b) Non-sampling Risk c) Tolerable misstatement d) Intolerable misstatement
5.	If auditor is unable to apply the designed audit procedures or alternative procedures to the selected item, auditor shall treat that item as _____ in case of tests of details.
	<ul style="list-style-type: none"> a) Deviation b) Misstatement c) Both (a) and (b) d) None of the above
6.	When designing audit sample, auditor is required to consider the _____ of population.
	<ul style="list-style-type: none"> a) Objective b) Characteristics c) Both (a) and (b) d) None of the above
7.	To design audit sample & determine sample size, for test of controls, the auditor makes an assessment of _____.
	<ul style="list-style-type: none"> a) Expected rate of deviation b) Expected misstatement c) Both (a) and (b) d) None of the above
8.	An increase in the auditor's assessment of the risk of material misstatement will _____ sample size.
	<ul style="list-style-type: none"> a) Increase b) Decrease c) Both (a) and (b) d) None of the above

9.	The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value) is _____.
	<ul style="list-style-type: none"> a) Stratification b) Value-weighted selection c) Both (a) and (b) d) None of the above
10.	The greater the level of assurance that the auditor desires that the results of the sample are in fact indicative of the actual incidence of deviation in the population, the _____ the sample size needs to be.
	<ul style="list-style-type: none"> a) Smaller b) Larger c) Both (a) and (b) d) None of the above
11.	The more assurance the auditor intends to obtain from the operating effectiveness of controls, the _____ the auditor's assessment of the risk of material misstatement will be, and _____ the sample size will need to be.
	<ul style="list-style-type: none"> a) Lower, Smaller b) Lower, Larger c) Greater, Smaller d) Greater, Larger
12.	Haphazard selection of sample is _____ when using statistical sampling.
	<ul style="list-style-type: none"> a) Appropriate b) Not appropriate c) Both (a) and (b) d) None of the above
13.	Sampling risk can lead to two types of erroneous conclusions one of them is when in case of test of controls, controls appear to be more effective than they actually are which affects _____ and is more likely to lead to an inappropriate audit opinion.
	<ul style="list-style-type: none"> a) Audit efficiency b) Audit effectiveness c) Audit quality d) None of the above
14.	Sampling risk can lead to two types of erroneous conclusions one of them is when in case of test of details it appears that material misstatements exist when in fact it does not which affects _____.
	<ul style="list-style-type: none"> a) Audit efficiency b) Audit effectiveness c) Audit quality d) All of the above
15.	When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the _____ will be drawn.
	<ul style="list-style-type: none"> a) Evidence b) Sample c) Conclusion d) All of the above

Solutions

Sr.no.	Answer	Hint
1.	[a]	As per para 5 of SA 530
2.	[a]	As per para 11 of SA 530
3.	[a]	As per para A14 of SA 530

4.	[b]	As per para 5 of SA 530
5.	[b]	As per para 11 of SA 530
6.	[b]	As per para A4 of SA 530
7.	[a]	As per para A7 of SA 530
8.	[a]	As per para A21 of SA 530
9.	[a]	As per para 5 (h) of SA 530
10.	[b]	As per para A7 of SA 530
11.	[b]	As per para 1 of Appendix of SA 530
12.	[b]	As per Appendix 4 SA 530
13.	[b]	As per para 5 (c) of SA 530
14.	[a]	As per para 5 (c) of SA 530
15.	[b]	As per para 6 of SA 530

Student Notes: -

**SA 540 - Auditing Accounting Estimates, Including Fair Value
Accounting Estimates, and Related Disclosures**

1.	Factors on which management makes the accounting estimates, and an understanding of the data on which they are based, include
	<ul style="list-style-type: none"> a) Relevant controls b) Whether management has used an expert c) The assumptions underlying the accounting estimates d) All of the above
2.	Auditor's range means amount or range of amounts derived from audit evidence:
	<ul style="list-style-type: none"> a) For evaluating management's point estimate b) For helping the management make the estimate c) For helping the management develop a range for the estimate d) All of the above
3.	Which of the following is not an example of accounting estimates
	<ul style="list-style-type: none"> a) Allowance for doubtful accounts b) Depreciation method c) Interest on fixed deposits d) Warranty obligations
4.	Which of the following is not an example of fair value accounting estimates:
	<ul style="list-style-type: none"> a) Share Based Payment b) Foreign Exchange Difference c) Property or equipment held for disposal d) Complex financial instruments, which are not traded in an active and open market
5.	<p>In responding to the assessed risks of material misstatement, the auditor while taking account of the nature of the accounting estimate shall:</p> <ul style="list-style-type: none"> I. Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate. II. Test how management made the accounting estimate and the data on which it is based. III. Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures. IV. Develop a point estimate or a range to evaluate management's point estimate. <p>Choose the correct option:</p>
	<ul style="list-style-type: none"> a) II & III Only b) I & IV Only c) Any one of the above d) All of the above
6.	<p>In testing how management made the accounting estimate and the data on which it is based, the auditor shall evaluate whether:</p> <ul style="list-style-type: none"> I. The method of measurement used is appropriate in the circumstances II. The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework. <p>Choose the correct option:</p>
	<ul style="list-style-type: none"> a) Either I or II b) All of the above c) None of the above d) Both I and II
7.	<p>Management's identification of transactions, events and conditions that give rise to the need for accounting estimates is likely to be based on:</p> <ul style="list-style-type: none"> I. Management's knowledge of the entity's business and the industry in which it operates. II. Management's knowledge of the implementation of business strategies in the current period. III. Where applicable, management's cumulative experience of preparing the entity's financial statements in prior periods. <p>Choose the correct option</p>

	<p>a) Any one or more of the above c) All of the above</p>	<p>b) None of the above c) Either I or III</p>
8.	<p>In auditing accounting estimates that give rise to significant risks, the auditor's further substantive procedures are focused on the evaluation of:</p> <p>I. How management has assessed the effect of estimation uncertainty on the accounting estimate, and the effect such uncertainty may have on the appropriateness of the recognition of the accounting estimate in the financial statements</p> <p>II. The adequacy of related disclosures</p> <p>III. The adequacy of internal controls</p> <p>Choose the correct option:</p>	
	<p>a) I & II Only c) All of the Above</p>	<p>b) None of the Above d) Either I or III</p>
9.	<p>The audit documentation shall include_____.</p>	
	<p>a) Management's point estimate b) Indicators of possible management bias c) Either (a) or (b) d) None of the above</p>	
10.	<p>A difference between the outcome of an accounting estimate and the amount originally recognized or disclosed in the financial statements does not necessarily represent of the financial statements.</p>	
	<p>a) Error b) Fraud c) Misstatement d) Fault</p>	
11.	<p>The auditor shall obtain_____from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.</p>	
	<p>a) Written Representations b) Oral Confirmation c) Either (a) or (b) d) None of the above</p>	
12.	<p>Some accounting estimates involve relatively low estimation uncertainty and may give rise to_____risks of material misstatements.</p>	
	<p>a) Higher b) Lower c) Either (a) or (b) d) None of the above</p>	
13.	<p>The audit documentation shall include the basis for the auditor's conclusions about the _____of accounting estimates and their disclosure that give rise to significant risks.</p>	
	<p>a) Reasonableness b) Correctness c) Either (a) or (b) d) None of the above</p>	
14.	<p>Fair value accounting estimates where the model used to measure the accounting estimate is well-known or generally accepted, provided that the assumptions or inputs to the model are observable, will have_____estimation uncertainty.</p>	
	<p>a) Higher b) Lower c) Either (a) or (b) d) None of the above</p>	
15.	<p>The below are examples of cases with_____estimation uncertainty: Accounting estimates relating to the outcome of litigation. Fair value accounting estimates for derivative financial instruments not publicly traded.</p>	
	<p>a) Higher b) Lower</p>	

	<ul style="list-style-type: none"> c) Either (a) or (b) d) None of the above
16.	Where there is intention to mislead by the management, management bias is _____ in nature.
	<ul style="list-style-type: none"> a) Fraudulent b) Inherent c) Either (a) or (b) d) None of the above
17.	The measurement objective of accounting estimates can vary depending on the applicable financial reporting framework and the _____ being reported.
	<ul style="list-style-type: none"> a) Underlying transaction b) Financial item c) Either (a) or (b) d) None of the above
18.	In some cases, estimation uncertainty associated with an accounting estimate may be so _____ that the recognition criteria in the applicable financial reporting framework are not met and the accounting estimate cannot be made.
	<ul style="list-style-type: none"> a) High b) Great c) Either (a) or (b) d) None of the above
19.	The susceptibility of an accounting estimate to management bias increases with the _____ involved in making it.
	<ul style="list-style-type: none"> a) Subjectivity b) Complexity c) Either (a) or (b) d) None of the above

Solutions

Sr.no.	Answer	Hint
1.	[d]	As per para 8 (c) of SA 540
2.	[a]	As per para 7 of SA 540
3.	[c]	As per para 8 of SA 540
4.	[b]	As per para 23 of SA 540
5.	[d]	As per para 13 of SA 540
6.	[b]	As per para 13 of SA 540
7.	[a]	As per para A17 of SA 540
8.	[a]	As per para A102 of SA 540
9.	[b]	As per para 21 of SA 540
10.	[c]	As per para 4 of SA 540
11.	[a]	As per para 22 of SA 540
12.	[b]	As per para A2 of SA 540
13.	[a]	As per para 23 of SA 540
14.	[b]	As per para A2 of SA 540
15.	[a]	As per para A3 of SA 540
16.	[a]	As per para A10 of SA 540
17.	[b]	As per para 3 of SA 540
18.	[b]	As per para A4 of SA 540
19.	[a]	As per para A9 of SA 540

SA 550 - Related Parties

1.	If auditor identifies the previously unidentified or undisclosed related parties or related party transactions then:
	<ul style="list-style-type: none"> a) Promptly communicate relevant information to other members of engagement team b) Perform appropriate substantive audit procedures relating to newly identified related parties or significant related party transactions c) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor d) All of the above
2.	The auditor shall inquire of management and perform appropriate risk assessment procedures to obtain understanding whether management has established controls to:
	<ul style="list-style-type: none"> a) Identify, account for and disclose related party relationships and transactions in accordance with the applicable financial reporting framework b) Authorize and approve significant transactions and arrangements with related parties c) Authorize and approve significant transactions and arrangements outside normal course of business. d) All of the above
3.	Domination of management by a single person or small group of persons without compensating controls is:
	<ul style="list-style-type: none"> a) Best in practice b) More controls at top level c) Fraud risk factor d) None of the above
4.	Management's support for assertion that related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction may include:
	<ul style="list-style-type: none"> a) Comparing terms of related party transaction to those of identical or similar transactions with one or more unrelated parties or to known market terms b) Engaging an external expert to determine market value & to confirm market terms and conditions c) Both (a) and (b) d) None of the above
5.	The auditor should inquire of management regarding:
	<ul style="list-style-type: none"> a) Identity of the entity's related parties and nature of relationship between the entity and these related parties b) Transactions entered into with the related parties c) Both of the above d) None of the above
6.	The auditor should inspect the following for indications of existence of related party relationships or transactions:
	<ul style="list-style-type: none"> a) Bank, legal and third party confirmations b) Minutes of meetings of shareholders and of those charged with governance c) Both of the above d) None of the above
7.	On getting to know of related party information, the auditor should:
	<ul style="list-style-type: none"> a) Share the relevant information with other members of engagement team b) Ignore the related party information if it is not included in the financial statements c) Share the information with the auditor of the related party d) All of the above
8.	Where the auditor identifies arrangements or information suggesting related party relationships or transactions not disclosed by management, the auditor should:

	<ul style="list-style-type: none"> a) Determine the existence of those relationships or transactions and perform audit procedures b) Communicate the relevant information to other members of the engagement team c) Reconsider the risk that other related parties or significant related party relationships may exist, and evaluate the implications for the audit for non disclosure by management d) All of the above
9.	The responsibility for substantiating an assertion that a related party transaction was conducted on arm's length basis is that of:
	<ul style="list-style-type: none"> a) Management b) Auditor c) Both (a) and (b) d) None of the above
10.	Disclosures of related party transactions may not be understandable if:
	<ul style="list-style-type: none"> a) Business rationale and effects of transactions on financial statements are unclear or misstated b) Key terms, conditions or other important elements of transactions necessary for understanding them are not appropriately disclosed c) Both (a) and (b) d) None of the above
11.	If the applicable financial reporting framework establishes related party requirements, the auditor is required to:
	<ul style="list-style-type: none"> a) Request management to identify all the transactions with newly identified related parties for further evaluation b) Obtain the list and go with the disclosure provided by the management c) Inquire reasons for failure of entity's controls to identify or disclose related party relationships and transactions d) All of the above
12	Auditor is required to obtain an understanding of related party relationships and transactions to:
	<ul style="list-style-type: none"> a) To improve the business relationship with the related parties b) Recognize fraud risk factors c) Conclude whether financial statements achieve true and fair presentation (in case of fair presentation frameworks) or are not misleading (in case of compliance framework) d) All of the above

Solutions		
Sr.no.	Answer	Hint
1.	[d]	As per para 22 of SA 550
2.	[d]	As per para 14 of SA 550
3.	[c]	As per para 19 of SA 550
4.	[c]	As per para A43 of SA 550
5.	[c]	As per para 13 of SA 550
6.	[c]	As per para 15 of SA 550
7.	[a]	As per para 17 of SA 550
8.	[d]	As per para 21 of SA 550
9.	[a]	As per para A43 of SA 550
10.	[c]	As per para A47 of SA 550
11.	[a & c]	As per para 22 (b) of SA 550
12.	[b & c]	As per para 9 of SA 550

SA 560 - Subsequent Events

1.	<p>Subsequent events are the events:</p> <ul style="list-style-type: none"> a) Occurring between the date of the financial statements and the date of the auditor's report b) Facts that become known to the auditor after the date of the auditor's report. c) Both (a) and (b) d) Only (a)
2.	<p>Which of the following procedures shall form part of the subsequent events testing procedures:</p> <ul style="list-style-type: none"> a) Understanding of management's procedures for identification of subsequent events b) Inquiring of management for occurrence of any subsequent events which might affect the financial statements c) Reading minutes of meetings held post the date of the financial statements d) All of the above
3.	<p>When the auditor becomes aware of some facts which had he known at the date of the auditor's report, may have caused him to amend his report, the auditor shall</p> <ul style="list-style-type: none"> a) Discuss the matter with management and, where appropriate, those charged with governance b) Determine whether the financial statements need amendment c) If the financial statements require amendment, enquire how management intends to address the matter in the financial statements d) All of the above
4.	<p>Which of the following is the date of approval of the financial statements:</p> <ul style="list-style-type: none"> a) The date the auditor dates the report on the financial statements b) The date that the auditor's report and audited financial statements are made available to third parties c) The date on which the recognised authority have asserted that they have taken responsibility for the financial statements d) None of the above
5.	<p>When the management amends the financial statements, which were already issued, what audit procedures is the auditor required to perform?</p> <ul style="list-style-type: none"> a) Carry out the audit procedures necessary to gain sufficient appropriate audit evidence over the event. b) Extend the audit procedures to the date of the new auditor's report. c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements. d) Auditor is not required to perform any procedures once the financial statements are issued, even if those are subsequently amended
6.	<p>Which of the following statements are correct about performing audit procedures to identify subsequent event:</p> <ul style="list-style-type: none"> a) The procedures are to be performed for the period between the date of financial statements & date of auditor's report or as near as practicable. b) Obtain written representation from the management that events have been adjusted or disclosed as per applicable financial reporting framework. c) Perform additional procedures on matters which have already yielded satisfactory conclusions. d) The auditor has to perform procedures in respect of all the facts which would have an impact on the auditor's report.
7.	<p>Which of the following statements is incorrect about date of auditor's report:</p> <ul style="list-style-type: none"> a) The date of the auditor's report cannot be before the date on which sufficient appropriate audit evidence has been obtained. b) Date of auditor's report is the date of the end of the last period covered by the financial statements.

	<p>c) Date of auditor's report can be earlier than the date of approval of financial statements.</p> <p>d) Date of auditor's report is the date the auditor dates the report on the financial statements in accordance with SA 700(Revised)</p>
8.	Arrange the following events in chronological order of their occurrence:
	<p>a) Financial statements and the auditor's report are issued to third parties.</p> <p>b) Auditor's report is signed and issued to the entity.</p> <p>c) Financial statements are prepared by the management.</p> <p>d) Approval of financial statements by the entity's management</p>
9.	The 'date of the financial statements' as per SA 560 is the date of the end of the _____ covered by the financial statements.
	<p>a) latest period</p> <p>b) earliest period</p> <p>c) Either (a) or (b)</p> <p>d) None of the above</p>
10.	The 'date of the auditor's report' as per SA 560 is the date the auditor dates the report on the financial statements in accordance with _____.
	<p>a) SA 700(Revised)</p> <p>b) SA 705(Revised)</p> <p>c) Either (a) or (b)</p> <p>d) None of the above</p>
11.	The 'date the financial statements are issued' as per SA 560 is the date that the auditor's report and audited financial statements are made available to _____.
	<p>a) Board of Directors</p> <p>b) Third parties</p> <p>c) Either (a) or (b)</p> <p>d) None of the above</p>
12.	When an additional date is included in the auditor's report to inform users that the auditor's procedures subsequent to the original auditor's report date were restricted only to the subsequent amendment of the financial statements, it is called _____.
	<p>a) Dual dating</p> <p>b) Duplicate dating</p> <p>c) Either (a) or (b)</p> <p>d) None of the above</p>

Solutions		
Sr.no.	Answer	Hint
1.	[c]	As per para 4 of SA 560
2.	[d]	As per para 4 of SA 560
3.	[d]	As per para 10 of SA 560
4.	[c]	As per para A2 of SA 560
5.	[a, b, c]	As per para 11 of SA 560
6.	[a, b, d]	As per para 7 of SA 560
7.	[b, c]	As per para 5 of SA 560
8.	[c, d, b, a]	As per para 5 of SA 560
9.	[a]	As per para 5 (a) of SA 560
10.	[a]	As per para 5 (c) of SA 560
11.	[b]	As per para 5 (d) of SA 560
12.	[a]	As per para A13 of SA 560

SA 570(Revised)- Going Concern

1.	In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment. Such period shall be:
	<ul style="list-style-type: none"> a) Less than twelve months from the date of financial statements b) More than twelve months from the date of financial statements c) At least twelve months from the date of financial statements d) Equal to twelve months from the date of financial statement
2.	Which of the following factors are relevant to the judgement involved in management's assessment of the entity's ability to continue as a going concern?
	<ul style="list-style-type: none"> a) The degree of uncertainty associated with the outcome of an event or condition b) The size and complexity of the entity and the nature and condition of its business c) Judgment about the future is based on information available at the time at which the judgment is made d) All of the above
3.	The auditor's responsibilities in relation to assessment of going concern basis of accounting are to
	<ul style="list-style-type: none"> a) Obtain sufficient appropriate audit evidence regarding appropriateness of use of going concern basis of accounting in the preparation of the financial statements b) Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, based on the evidence obtained c) Conclude on whether a material uncertainty exists about the entity's ability to continue as a going concern d) All of the above
4.	When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
	<ul style="list-style-type: none"> a) Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern b) Request management to make its assessment of entity's ability to continue as a going concern c) Evaluate management's plans for future actions, and the data and assumptions underlying the cash flow projections d) All of the above
5.	When the management's use of the going concern basis of accounting is appropriate but a material uncertainty exists, the auditor shall determine whether the financial statements:
	<ul style="list-style-type: none"> a) Disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern b) Disclose management's plans to deal with these events or conditions that may cast significant doubt on the entity's ability to continue as a going concern c) Disclose that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern d) All of the above
6.	If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall:
	<ul style="list-style-type: none"> a) Express an adverse opinion

	<ul style="list-style-type: none"> b) Express a qualified opinion c) Express a disclaimer of opinion d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter
7.	If the use of going concern basis of accounting in the preparation of financial statements is considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall:
	<ul style="list-style-type: none"> a) Express an adverse opinion b) Express a qualified opinion c) Express a disclaimer of opinion d) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter
8.	If the use of going concern basis of accounting in the preparation of financial statements is considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall
	<ul style="list-style-type: none"> a) Express an adverse opinion or a qualified opinion as per SA 705(Revised). b) Express a disclaimer of opinion. c) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter. d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter.
9.	Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:
	<ul style="list-style-type: none"> a) Net liability or net current liability position. b) Cancellation of company's production license due to change on government policies. c) Non-declaration of dividend to equity shareholders. d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
10.	The "Material Uncertainty Related to Going Concern" section included in the auditor's report should:
	<ul style="list-style-type: none"> a) Draw attention to the note in the financial statements that discloses the material uncertainty b) State that those events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern c) State that the auditor's opinion is not modified in respect of the matter d) All of the above
11.	The procedure for the audit of a smaller entity is generally:
	<ul style="list-style-type: none"> a) Evaluating owner-manager's ability to meet the obligation under support arrangement b) Discuss medium and long-term financing of the entity with management c) Both (a) and (b) above d) SA 570(Revised) is not applicable for a smaller entity
12.	While performing analysis of the cash flow forecast prepared by the entity, the auditor should:
	<ul style="list-style-type: none"> a) Evaluate reliability of underlying data generated to prepare the forecast b) Determine whether there is adequate support for assumptions underlying forecast c) Both (a) and (b) above

	d) Only (b) above
13.	Where management's assumptions include continued support by third parties and such support is important to an entity's ability to continue as a going concern, the auditor's procedures should
	<ul style="list-style-type: none"> a) Consider requesting written confirmation from those third parties b) Obtain evidence of their ability to provide such support c) Both (a) and (b) above d) Only (b) above
14.	When the use of the going concern basis of accounting is_, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
	<ul style="list-style-type: none"> a) Appropriate b) Inappropriate c) Either (a) or (b) d) None of the above
15.	When performing risk assessment procedures as required by SA 315, the auditor shall consider whether_____exist that may cast significant doubt on the entity's ability to continue as a going concern.
	<ul style="list-style-type: none"> a) Conditions b) Transactions c) Either (a) or (b) d) None of the above
16.	A material uncertainty exists when the_____of its potential impact and ___of occurrence is such that it requires appropriate disclosure of the nature and implications of the uncertainty necessary for the fair presentation of the financial statements.
	<ul style="list-style-type: none"> a) Magnitude; likelihood b) Level; implication c) Intensity; frequency d) All of the above
17.	If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the_____for the auditor's report.
	<ul style="list-style-type: none"> a) Consequences b) Implications c) Either (a) or (b) d) None of the above
18.	If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express_____.
	<ul style="list-style-type: none"> a) An unmodified opinion b) A modified opinion c) Either (a) or (b) d) None of the above
19.	The auditor shall remain_____throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
	<ul style="list-style-type: none"> a) Alert b) Vigilant c) Either (a) or (b) d) None of the above
20.	When the management is required, or elects to prepare the financial statements on another basis (e.g., liquidation basis), the auditor shall express _____highlighting alternative basis provided disclosure is adequate.
	<ul style="list-style-type: none"> a) Unmodified opinion along with emphasis of matter paragraph b) Qualified or adverse opinion

- c) Either (a) or (b)
d) None of the above

Solutions

Sr.no.	Answer	Hint
1.	[c]	As per para 13 of SA 570
2.	[d]	As per para 5 of SA 570
3.	[d]	As per para 9 of SA 570
4.	[d]	As per para 16 of SA 570
5.	[d]	As per para 19 of SA 570
6.	[a]	As per para 21 of SA 570
7.	[d]	As per para 22 of SA 570
8.	[a]	As per para 23 of SA 570
9.	[c]	As per para A3 of SA 570
10.	[d]	As per para 22 of SA 570
11.	[c]	As per para A12 of SA 570
12.	[c]	As per para 16 (c) of SA 570
13.	[c]	As per para 16 of SA 570
14.	[a]	As per para 2 of SA 570
15.	[a]	Refer para 10 of SA 570
16.	[a]	Refer para A23 of SA 570
17.	[b]	Refer para 24 of SA 570
18.	[a]	Refer para 22 of SA 570
19.	[a]	Refer para 11 of SA 570
20.	[a]	Refer para 22 of SA 570

Student Notes: -

SA 580- Written Representations

1.	Written Representations about management's responsibilities include`
	<ul style="list-style-type: none"> a) Preparation of financial statements in accordance with the applicable financial reporting framework b) Information provided and completeness of transactions c) Description of management's responsibilities in the written representations d) All of the above
2.	Written representation should be obtained from the management with regard to:
	<ul style="list-style-type: none"> a) Preparation of the financial statements b) Information provided to the auditor and completeness of transactions c) Description of management's responsibilities d) Both (a) and (b) e) None of the above
3.	Written representation should be in the form of:
	<ul style="list-style-type: none"> a) A letter b) A presentation c) An email d) All of the above
4.	Where the written representations obtained are not consistent with other audit evidence:
	<ul style="list-style-type: none"> a) The auditor should perform additional audit procedures b) The auditor should obtain updated written representation to make it consistent with the audit evidence c) The auditor should discard the audit evidence d) All of the above
5.	Written representations should be requested from:
	<ul style="list-style-type: none"> a) CEO and CFO or other equivalent person in entities b) CCO and CEO or other equivalent person in entities c) CCO and CFO or other equivalent person in entities d) All of the above
6.	<p>Written representations:</p> <ul style="list-style-type: none"> I. A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. II. Include financial statements, the assertion therein, or supporting books and records. <p>Choose the incorrect option:</p>
	<ul style="list-style-type: none"> a) Only I b) Only II c) Both I and II d) None of I and I
7.	Which of the following statement is incorrect?
	<ul style="list-style-type: none"> a) Auditor's responsibility is to obtain written representations from management and, where appropriate those charged with the governance b) Written representations are sufficient appropriate audit evidence c) Both of the above d) None of the above
8.	Arrange the following audit procedures in proper order, in case of requested written representations not provided:
	<ul style="list-style-type: none"> a) Take appropriate actions including determining possible effect on audit opinion. b) Re-evaluate integrity of management. c) Discuss matter with management. d) Evaluate effect on reliability of representations (oral or written) and audit evidence
9.	The auditor shall ____ if management does not provide written representations on their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor.

	<ul style="list-style-type: none"> a) Disclaim an opinion b) express adverse opinion c) Either (a) or (b) d) None of the above
10.	If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more ___ may exist.
	<ul style="list-style-type: none"> a) Significant issues b) Significant risks c) Either (a) or (b) d) None of the above

Solutions		
Sr.no.	Answer	Hint
1.	[d]	As per para 5 of SA 580
2.	[d]	As per para 5 of SA 580
3.	[a]	As per para 14 of SA 580
4.	[a]	As per para 2 of SA 580
5.	[a]	As per para A2 of SA 580
6.	[b]	As per para 6 of SA 580
7.	[b]	As per para A26 of SA 580
8.	[c, b, d, a]	As per para 18 of SA 580
9.	[a]	As per para 19 of SA 580
10.	[a]	As per para A1 of SA 580

Student Notes: -

	d) All of the above
8.	As per SA 600, component means
	<ul style="list-style-type: none"> a) A division, branch, subsidiary, joint venture, associated enterprises or other entity b) A division or a branch c) Subsidiary, joint venture or associated enterprises d) Subsidiaries
9.	When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:
	<ul style="list-style-type: none"> a) Advise the other auditor of the use that is to be made of the other auditor's work b) Inform the other auditor of matters such as areas requiring special consideration c) Procedures for the identification of inter-component transactions that may require disclosure d) Advise the other auditor of the significant accounting, auditing and reporting requirements e) All of above
10.	When the principal auditor concludes, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a _____.
	<ul style="list-style-type: none"> a) Qualified opinion b) Unqualified opinion c) Disclaimer of opinion d) Qualified or Disclaimer of Opinion
11.	The principal auditor should obtain __, that the work of other auditor is adequate for his purposes.
	<ul style="list-style-type: none"> a) Written representation b) Audit evidence c) Sufficient appropriate audit evidence d) Declaration
12.	If the principal auditor requires the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties, the other auditor ___ respond to such questionnaire.
	<ul style="list-style-type: none"> a) Should b) May c) Both (a) and (b) d) None of the above
13.	The principal auditor should __ the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.
	<ul style="list-style-type: none"> a) Advise b) Communicate c) Discuss d) All of the above
14.	The other auditor, knowing the context in which his work is to be used by the principal auditor, should _____ with the principal auditor.
	<ul style="list-style-type: none"> a) Coordinate b) Cooperate c) Discuss d) All of the above
15.	When the principal auditor uses the work of another auditor, the principal auditor should _____ how the work of the other auditor will affect the audit.
	<ul style="list-style-type: none"> a) Consider b) Determine c) Discuss

d) All of the above

Solutions

Sr.no.	Answer	Hint
1.	[c]	As per para 16 of SA 600
2.	[c]	As per para 3 of SA 600
3.	[a]	As per para 2 of SA 600
4.	[d]	As per para 18 of SA 600
5.	[a]	As per para 23 of SA 600
6.	[d]	As per para 9 of SA 600
7.	[a]	As per para 4 of SA 600
8.	[a]	As per para 8 of SA 600
9.	[e]	As per para 12 of SA 600
10.	[d]	As per para 22 of SA 600
11.	[c]	As per para 12 of SA 600
12.	[a]	As per para 21 of SA 600
13.	[a]	As per para 20 of SA 600
14.	[a]	As per para 20 of SA 600
15.	[b]	As per para 5 of SA 600

Student Notes: -

SA 610(Revised) - Using the Work of Internal Auditors

1.	<p>If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:</p> <ul style="list-style-type: none"> I. The evaluation of: <ul style="list-style-type: none"> i. Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; ii. The level of competence of the function; iii. Whether the function applies a systematic and disciplined approach, including quality control. II. The nature and extent of the work used and the basis for that decision III. The audit procedures performed by the external auditor to evaluate the adequacy of the work used.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) I & II <li style="width: 50%;">b) II & III <li style="width: 50%;">c) I & III <li style="width: 50%;">d) All of the Above
2.	<p>If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:</p> <ul style="list-style-type: none"> I. The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance; II. The basis for the decision regarding the nature and extent of the work performed by the internal auditors; III. Who reviewed the work performed and the date and extent of that review in accordance with SA 230.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) I & II <li style="width: 50%;">b) II & III <li style="width: 50%;">c) I & III <li style="width: 50%;">d) All of the Above
3.	<p>Internal Audit Function includes:-</p> <ul style="list-style-type: none"> I. Activities relating to Governance II. Activities Relating to Risk Management III. Activities Relating to Internal Control
	<ul style="list-style-type: none"> <li style="width: 50%;">a) I & II <li style="width: 50%;">b) II & III <li style="width: 50%;">c) I & III <li style="width: 50%;">d) All of the Above
4.	<p>Activities Relating to Internal Control include:-</p> <ul style="list-style-type: none"> I. Evaluation of internal control. II. Examination of financial and operating information. III. Review of operating activities. IV. Review of compliance with laws and regulations.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) I & III <li style="width: 50%;">b) II & IV <li style="width: 50%;">c) III & IV <li style="width: 50%;">d) II & III <li style="width: 50%;">e) All of the Above
5.	<p>The external auditor shall not use the work of the internal audit function if the external auditor determines that:</p> <ul style="list-style-type: none"> I. The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors; II. The function lacks sufficient competence; III. The function does not apply a systematic and disciplined approach, including quality control.
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Any of the above is true <li style="width: 50%;">b) I and II are true <li style="width: 50%;">c) II and III are true <li style="width: 50%;">d) I and III are true
6.	<p>What makes the coordination effective between an external auditor and an internal auditor?</p> <ul style="list-style-type: none"> I. Discussions take place at appropriate intervals; II. The external auditor has access to relevant internal audit reports and

	<p>V. Whether that expert is subject to the auditor's firm's quality control policies and procedures.</p> <p>Choose the correct option:</p>
	<p>a) I, II, III only c) I, III, V only</p> <p>b) II & IV only d) All of the above</p>
7.	<p>Expertise in a field other than accounting or auditing may include expertise in relation to matters such as:</p> <p>I. The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.</p> <p>II. The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.</p> <p>III. The estimation of oil and gas reserves.</p> <p>IV. The valuation of environmental liabilities, and site clean-up costs.</p> <p>V. The interpretation of contracts, laws and regulations.</p> <p>VI. The analysis of complex or unusual tax compliance issues.</p> <p>Choose the correct option</p>
	<p>a) II, IV & VI only c) None of the above</p> <p>b) I, III & V only d) All of the above</p>
8.	<p>Reference to auditor's expert in the auditor's report _____ the responsibility of the auditor for the opinion.</p>
	<p>a) Reduces b) Increases c) Does not reduce d) None of the above</p>
9.	<p>An auditor's expert may be either a _____ or auditor's _____.</p>
	<p>a) Management's expert, external expert b) Auditor's internal expert, external expert c) Management's expert, internal expert d) All of the above</p>
10.	<p>The auditor shall not refer to the work of auditor's expert in an auditor's report containing an unmodified opinion unless required by _____.</p>
	<p>a) Management b) Law or regulation c) Audit committee d) Board of directors</p>
11.	<p>If the auditor determines that the work of the auditor's expert is not adequate for his purposes, the auditor shall agree with that expert on the nature and extent of _____ work to be performed by that expert.</p>
	<p>a) Additional b) Further c) Both (a) and (b) d) None of the above</p>
12.	<p>In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be _____ even where this involves a specialised area of accounting or auditing.</p>
	<p>a) Straightforward b) Simple c) Both (a) and (b) d) None of the above</p>

Solutions

Sr.no.	Answer	Hint
1.	[c]	As per para 11 of SA 620
2.	[b]	As per para A2 of SA 620
3.	[c]	As per para 9 of SA 620
4.	[b]	As per para A20 (b) of SA 620
5.	[d]	As per para 40 of SA 620
6.	[d]	As per para 8 of SA 620
7.	[d]	As per para A1 of SA 620
8.	[c]	As per para 14 of SA 620
9.	[b]	As per para 6 of SA 620
10.	[b]	As per para 14 of SA 620
11.	[b]	As per para 13 of SA 620
12.	[a]	As per para A2 of SA 620

Student Notes: -

SA 700(Revised) - Forming an Opinion and Reporting on Financial Statements

1.	Under which section in the auditor's report is the introductory paragraph stating, 'we have audited the financial statements of _____', is to be included?
	<ul style="list-style-type: none"> a) Auditor's responsibilities for the audit of the Financial Statements paragraph b) Basis for Opinion paragraph c) Responsibilities of Management for the Financial Statements paragraph d) Opinion paragraph
2.	The elements of an audit report as stated in SA 700(Revised) apply to:
	<ul style="list-style-type: none"> a) General purpose financial statements b) Special purpose financial statements c) Single financial statement d) All of the above
3.	Does the requirement of SA 700(Revised) apply for the review engagements of financial statements/financial results for the period commencing on or after 1 April 2018?
	<ul style="list-style-type: none"> a) Yes, auditor should comply with requirements of SA 700 for all engagements including review engagements. b) No, auditor should comply with the requirements of review standards SRE 2400 or SRE 2410 as may be applicable. SA 700(Revised) does not apply to review engagements c) Both (a) and (b) d) None of the above
4.	Audit report on general purpose financial statements of a company is addressed to:
	<ul style="list-style-type: none"> a) Those charged with governance b) Management c) Board of Directors d) Members of the company
5.	Responsibility for the preparation of the financial statements as per applicable financial reporting framework is required to be disclosed under which of the following sections in the auditor's report?
	<ul style="list-style-type: none"> a) Under basis for opinion paragraph b) Under opinion paragraph since the opinion is to be on the financial statements c) Under auditor's responsibility paragraph since auditor is responsible for auditing the financial statements d) Under management's responsibility paragraph since management is responsible for the preparation of the financial statements as per applicable financial reporting framework
6.	The management's responsibility paragraph includes a statement that management is responsible for design, implementation and maintenance of internal financial controls and that they were operating effectively. Should this paragraph be amended if the internal financial controls are not operating effectively?
	<ul style="list-style-type: none"> a) Auditor should modify the management's responsibility paragraph appropriately. b) Management's responsibility paragraph is not required to be amended. The auditors' opinion on internal financial controls should be modified appropriately c) Either (a) or (b) d) None of the above
7.	What is the significance of the date of the auditor's report?
	<ul style="list-style-type: none"> a) There is no significance of date of auditor's report and it is not mandatory that the report should be dated. b) Date of the auditor's report informs the user of the auditor's report that the auditor has considered subsequent events up to that date in making his audit report and has obtained sufficient appropriate audit evidence to support his opinion. c) Either (a) or (b)

	d) None of the above
8.	Can an auditor sign the auditor's report at a place other than the place where the registered office of the entity is situated?
	<ul style="list-style-type: none"> a) No, place of signature should be the same location where the registered office of the entity is situated. b) Yes, an auditor can sign at a place which is different from the registered office of the entity and ordinarily, location as per SA 700 (Revised) is the place where audit report is signed. c) Both (a) and (b) d) None of the above
9.	Can an auditor in India conduct an audit in accordance with International Standards on Auditing (ISA) in addition to Standards on Auditing (SA) issued by ICAI?
	<ul style="list-style-type: none"> a) No, auditor cannot conduct an audit under both SA and ISA. b) Yes, auditor's report may refer to Standards on Auditing in addition to the International Standards on Auditing provided (i) there is no conflict between ISA and SA that would lead to different opinion or not include an emphasis of matter or other matter paragraph where particularly required by SA; and (ii) each of the elements set out in paragraph 49(a)-(n) of SA 700(Revised) are included in such report. c) Either (a) or (b) d) None of the above
10.	What terms can be used to express an unmodified opinion on financial statements prepared in accordance with a fair presentation framework?
	<ul style="list-style-type: none"> a) Present fairly, in all material respects b) With the foregoing explanation c) Give a true and fair view d) Subject to
11.	In which of the following circumstances, an auditor cannot give an unmodified opinion?
	<ul style="list-style-type: none"> a) When the auditor reaches a conclusion that the financial statements taken as a whole are not free from material misstatement b) When due to non-availability of sufficient appropriate audit evidence, the auditor does not have the ability to conclude that the financial statements, taken as a whole, are free from material misstatement c) When the accompanying financial statements give a true and fair view in accordance with the applicable financial reporting framework d) When the financial statements are prepared using International Financial Reporting Standards (IFRS)
12.	SA 700(Revised) introduces some new elements of audit report as compared to the pre-revised standard. These include:
	<ul style="list-style-type: none"> a) Going concern b) Key audit matters c) Other matter d) Auditor's responsibility for the audit of the financial statement
13.	As per SA 700(Revised), which of the following are correct?
	<ul style="list-style-type: none"> a) The first section of the audit report should be the opinion paragraph b) Basis for opinion paragraph should be placed after the opinion paragraph c) Report on other legal and regulatory requirements is the last section of the audit report to be included after the auditor's responsibilities paragraph d) In case of modified opinion, basis for modification paragraph should be placed before the opinion paragraph
14.	Which of the following statements are correct in case of financial statements prepared in accordance with fair presentation framework:
	<ul style="list-style-type: none"> a) Fair presentation framework acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically

	<p>required by the framework.</p> <p>b) Fair presentation framework acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework and such departures are expected to be necessary only in extremely rare circumstances.</p> <p>c) When expressing an unmodified opinion, the auditor should state that the accompanying financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>d) The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework</p>
15.	The description of the auditor’s responsibility for the audit of financial statements can be included:
	<p>a) In the auditor’s report</p> <p>b) In an appendix to the auditor’s report, in which case the auditor’s report shall include a reference to the location of the appendix</p> <p>c) By a specific reference within the auditor’s report to the location of such a description on a website of an appropriate authority, where law, regulation or the applicable auditing standards expressly permit the auditor to do so</p> <p>d) In the engagement letter and in such case the audit report should refer to the engagement letter</p>
16.	Which of the following statements are correct in respect of supplementary information that is not required by the applicable financial reporting framework but is provided voluntarily by the management or required by a law or regulation and the management (or law/regulation) requires such information not to be subjected to audit?
	<p>a) Such information should be covered by the auditor’s opinion</p> <p>b) It is not required to differentiate such information from the audited financial statements</p> <p>c) Auditor should evaluate whether such information is presented in such a way that sufficiently and clearly differentiates it from audited financial statements</p> <p>d) If such information is not differentiated from audited financial statements, auditor should explain in his report that such information is unaudited</p>
17.	Which of the following information is inter-alia required to be included in the auditor’s responsibility section in the auditor’s report?
	<p>a) Statement that the preparation of the financial statements as per applicable reporting framework is responsibility of management</p> <p>b) The objectives of the auditor</p> <p>c) Statement that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists</p> <p>d) Statement about auditor being independent as per relevant ethical requirements</p>
18.	Which of the following aspects are required to be included in the basis for opinion section in the auditor’s report?
	<p>a) Statement that the audit was conducted in accordance with Standards on Auditing</p> <p>b) Statement that the financial statements have been audited</p> <p>c) Statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit</p> <p>d) Statement whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion</p>
19.	How can an auditor describe materiality with respect to misstatements due to fraud or errors under the section of auditor’s responsibility?
	<p>a) Auditor may describe that misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic</p>

	<p>decisions of users taken on the basis of these financial statements</p> <p>b) Auditor may provide a definition or description of materiality in accordance with the applicable financial reporting framework</p> <p>c) There is no concept of materiality as auditor has to provide reasonable assurance and accordingly no reference should be made to materiality</p> <p>d) Either of the option (a) or (b) above</p>
20.	Which of the following statements are correct in case of financial statements prepared in accordance with compliance framework:
	<p>a) It acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework</p> <p>b) It acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework and such departures are expected to be necessary only in extremely rare circumstances</p> <p>c) Auditor is not required to evaluate whether financial statements achieve fair presentation</p> <p>d) The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (a) or (b) above</p>

Solutions		
Sr.no.	Answer	Hint
1.	[d]	As per Appendix 4 of SA 700
2.	[d]	As per para 3 of SA 700
3.	[b]	As per para A10 of SA 700
4.	[d]	As per para 4 of SA 700
5.	[d]	As per para 34 of SA 700
6.	[b]	As per para 39 of SA 700
7.	[b]	As per para 48 of SA 700
8.	[b]	As per para 47 of SA 700
9.	[b]	As per para 51 of SA 700
10.	[a & c]	As per para A18 of SA 700
11.	[a & b]	As per para 17 of SA 700
12.	[a & b]	As per para 29 & 30 of SA 700
13.	[a, b & c]	As per para 43 of SA 700
14.	[a, b & d]	As per para 7 of SA 700
15.	[a, b & c]	As per para 41 of SA 700
16.	[c & d]	As per para 53 of SA 700
17.	[b & c]	As per para 6 of SA 700
18.	[a, c & d]	As per para 28 of SA 700
19.	[a, b & d]	As per para 11 of SA 700
20.	[c & d]	As per para 7 of SA 700

Student Notes: -

SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

1.	Communicating key audit matters in the auditor's report is:
	<ul style="list-style-type: none"> a) Not a substitute for the disclosures in financial statements required by the applicable financial reporting framework. b) Not a substitute for the disclosures necessary to achieve fair presentation. c) Substitute for including an Emphasis of Matter paragraph. d) Not a substitute for the auditor expressing a modified opinion
2.	Description of each key audit matter in the "key audit matters section" needs to cover following aspects:
	<ul style="list-style-type: none"> a) Reference to related disclosures, if any, in the financial statements. b) Explanation on the matter given by management. c) How the matter was addressed in the audit. d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.
3.	Purpose of communicating key audit matters is to ___ communicative value of the auditor's report.
	<ul style="list-style-type: none"> a) Increase b) Enhance c) Both (a) and (b) d) None of the above
4.	Communicating key audit matters may also assist intended users in understanding the entity and areas of significant judgment in the audited financial statements.
	<ul style="list-style-type: none"> a) Management b) Auditor c) Both (a) and (b) d) None of the above
5.	Auditor shall describe each key audit matter using an appropriate ___ in the key audit matters section.
	<ul style="list-style-type: none"> a) Heading b) Subheading c) Both (a) and (b) d) None of the above
6.	Auditor shall describe each key audit matter in the auditor's report unless law or regulation ___ public disclosure about the matter.
	<ul style="list-style-type: none"> a) Precludes b) Prohibits c) Both (a) and (b) d) None of the above
7.	The ___ language in key audit matters section shall state that key audit matters are those matters that in the auditor's professional judgment were of most significance in the audit of the financial statements of the current period.
	<ul style="list-style-type: none"> a) Opening b) Introductory c) Both (a) and (b) d) None of the above
8.	Auditor's decision making process in determining key audit matters is designed to select a ___ number of matters from the matters communicated with those charged with governance.
	<ul style="list-style-type: none"> a) Smaller b) Limited

	<ul style="list-style-type: none"> c) Both (a) and (b) d) None of the above
9.	Areas of significant auditor attention often relate to areas of _____ and significant management judgment in the financial statements and therefore often involve difficult or complex auditor judgments.
	<ul style="list-style-type: none"> a) Subjectivity b) Complexity c) Both (a) and (b) d) None of the above
10.	Auditor may develop a _____ view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters.
	<ul style="list-style-type: none"> a) Initial b) Preliminary c) Both (a) and (b) d) None of the above
11.	The _____ of presentation of individual matters within the key audit matter section is a material of professional judgment.
	<ul style="list-style-type: none"> a) Order b) Sequence c) Both (a) and (b) d) None of the above
12.	Management or those charged with governance may decide to include _____ disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report.
	<ul style="list-style-type: none"> a) New or improved b) New or enhanced c) New or additional d) None of the above

Solutions		
Sr.no.	Answer	Hint
1.	[c]	As per para A8 of SA 701
2.	[b]	As per para 13 of SA 701
3.	[b]	As per para 2 of SA 701
4.	[a]	As per para 2 of SA 701
5.	[b]	As per para 11 of SA 701
6.	[a]	As per para 14 of SA 701
7.	[b]	As per para A33 of SA 701
8.	[a]	As per para A9 of SA 701
9.	[b]	As per para A14 of SA 701
10.	[b]	As per para A16 of SA 701
11.	[a]	As per para A32 of SA 701
12.	[b]	As per para A37 of SA 701

Student Notes: -

SA 705(Revised) - Modifications to the Opinion in the Independent Auditor's Report

1.	The decision regarding the appropriateness of the type of modified opinion depends upon:
	<ul style="list-style-type: none"> a) The nature of the matter giving rise to the modification - whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements c) Both (a) and (b) d) None of the above
2.	Can a misstatement be considered to have a pervasive effect if the impact of misstatement is confined to specific elements, accounts or items of the financial statements representing a substantial proportion of the financial statements? For example, consider a situation when the misstatement is only in valuing inventory of a major raw material at cost instead of at net realisable value and when clear evidence is available that the fair value of the material was substantially lower than cost and the selling price of the finished product is pegged to current raw material prices, and the difference in valuation, if booked, could wipe out a substantial portion of the profit before tax of the entity.
	<ul style="list-style-type: none"> a) Yes. If a material misstatement/possible misstatement pertains to an amount(s) in the financial statements and is confined to specific components, accounts or items of the financial statements, it is pervasive if it represents or could represent a substantial portion of the financial statements. b) No. A material misstatement/possible misstatement is pervasive when it pertains to an amount(s) in the financial statements and is not confined to specific components, accounts or items of the financial statements c) Either (a) or (b) d) None of the above
3.	Can the auditor express a modified opinion in case of inability to obtain sufficient appropriate audit evidence from circumstances beyond the control of the entity?
	<ul style="list-style-type: none"> a) Yes. Limitation on scope of audit may arise from circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work or limitations imposed by management b) No. Circumstances beyond the control of the entity do not represent a limitation on scope of audit c) Both (a) and (b) d) None of the above
4.	What is the appropriate nature of opinion in case 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?
	<ul style="list-style-type: none"> a) Unmodified opinion b) Qualified opinion c) Adverse opinion d) Disclaimer of opinion
5.	What is the appropriate nature of opinion in case the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive?
	<ul style="list-style-type: none"> a) Unmodified opinion b) Qualified opinion c) Adverse opinion d) Disclaimer of opinion
6.	What is the appropriate nature of opinion in case the auditor having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in the

	aggregate, are material but not pervasive to the financial statements?
	<ul style="list-style-type: none"> a) Unmodified opinion b) Qualified opinion c) Adverse opinion d) Disclaimer of opinion
7.	What is the appropriate nature of opinion in case the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive?
	<ul style="list-style-type: none"> a) Unmodified opinion b) Qualified opinion c) Adverse opinion d) Disclaimer of opinion
8.	While expressing a qualified opinion, which of the following phrases is appropriate to use
	<ul style="list-style-type: none"> a) 'Except for' b) 'Subject to' c) 'Read with the above' d) Any of the above
9.	If an auditor concludes that his overall opinion on financial statements is either a disclaimer or adverse opinion, can the auditor give in the same report an unmodified opinion in respect of a single financial statement or specific account or element or item of a financial statement?
	<ul style="list-style-type: none"> a) Yes b) No c) Either (a) or (b) d) None of the above
10.	One of the elements of the audit report on the financial statements as per SA 700(Revised) is the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. Should this statement be included in case of disclaimer of audit opinion
	<ul style="list-style-type: none"> a) Yes, the statement should be included b) The description should be amended to state that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements c) No, the statement should not be included d) Depends on the matter(s) giving rise to disclaimer of opinion
11.	Material misstatement of the financial statements may arise in relation to
	<ul style="list-style-type: none"> a) The appropriateness of the selected accounting policies b) The application of the selected accounting policies c) The appropriateness or adequacy of disclosures in the financial statements d) All of the above
12.	When the auditor disclaims an opinion on the financial statements, can Key Audit Matters be stated in the auditor's report of an entity for the audit of which SA 701 applies?
	<ul style="list-style-type: none"> a) Yes. Key Audit Matters should be reported in all cases including when the auditor disclaims an audit opinion b) No. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report should not include Key Audit Matters c) Both (a) and (b) d) None of the above
13.	An auditor has disclaimed the audit opinion or has given an adverse opinion on overall financial statements. The auditor is aware of another matter that would have required a modification to the opinion. Shall the auditor describe and give effects of that other matter in the Basis for Opinion section?
	<ul style="list-style-type: none"> a) Yes b) No c) Both (a) and (b) d) None of the above
14.	If a modified opinion is expected, the communication by the auditor with those charged with governance should include:
	<ul style="list-style-type: none"> a) The circumstances that led to the expected modification b) The wording of the modification.

	<ul style="list-style-type: none"> c) Both (a) and (b) d) Either of (a) or b)
15.	While reporting on the Consolidated Financial Statements, what is the responsibility of the principal auditor with respect to observations of component auditors?
	<ul style="list-style-type: none"> a) Principal auditor should mandatorily reproduce all the comments (Qualification/ Emphasis of Matter / Other Matter) of component auditors b) Principal auditor should mandatorily reproduce all Qualifications of component auditors but is not required to reproduce Emphasis of Matter/ Other Matter of component auditors c) Principal auditor is not required to consider the comments of component auditors d) Principal auditor should consider the observations of component auditors as per the requirements of SA 600
16.	What is the appropriate heading for the Opinion section, if the auditor modifies the audit opinion?
	<ul style="list-style-type: none"> a) 'Opinion' b) 'Modified opinion' c) 'Qualified Opinion', 'Adverse Opinion', or 'Disclaimer of Opinion', as appropriate d) Either (a) or (b) above
17.	The auditor has modified the opinion as a result of an inability to obtain sufficient appropriate audit evidence. Should the auditor include the reasons for that inability in the Basis for Opinion section?
	<ul style="list-style-type: none"> a) Yes b) No c) Either (a) or (b) d) None of the above
18.	What should be the appropriate heading for the Basis for Opinion section, if the auditor modifies the audit opinion?
	<ul style="list-style-type: none"> a) 'Basis for Opinion' b) 'Basis for Modified opinion' c) 'Basis for Qualified Opinion', 'Basis for Adverse Opinion', or 'Basis for Disclaimer of Opinion', as appropriate d) Either of option 2 or option 3 above
19.	In case of disclaimer of opinion on the financial statements, should the auditor include Other Information section in accordance with SA 720(Revised) in the auditor's report?
	<ul style="list-style-type: none"> a) Yes, Other Information section should be included in all cases including when the auditor disclaims an audit opinion b) No, unless required by law or regulation c) Both (a) and (b) d) None of the above
20.	Material misstatement(s) or possible misstatement(s) would be considered to be pervasive, if in the auditor's judgment such material misstatement(s) or possible misstatement(s):
	<ul style="list-style-type: none"> a) Is not confined to specific elements, accounts or items of the financial statements b) If so confined, represent or could represent a substantial proportion of the financial statements c) In relation to disclosures, are fundamental to users' understanding of the financial statements d) Any of the above
21.	What are the circumstances requiring modification of audit opinion?
	<ul style="list-style-type: none"> a) The auditor concludes that the financial statements as a whole are not free from material misstatement. 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. c) The auditor concludes that the financial statements as a whole are free from material misstatement but considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of

the financial statements.

- d) The auditor concludes that the financial statements as a whole are free from material misstatement but considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit.

Solutions

Sr.no.	Answer	Hint
1.	[c]	As per para 2 of SA 705
2.	[a]	As per para 4 of SA 705
3.	[a]	As per para 11 of SA 705
4.	[c]	As per para 8 of SA 705
5.	[d]	As per para 9 of SA 705
6.	[b]	As per para 7 (a) of SA 705
7.	[b]	As per para 7 (b) of SA 705
8.	[a]	As per para 17 of SA 705
9.	[b]	As per para 15 of SA 705
10.	[b]	As per para 28 of SA 705
11.	[d]	As per para A3 of SA 705
12.	[b]	As per para 29 of SA 705
13.	[a]	As per para 27 of SA 705
14.	[c]	As per para 30 of SA 705
15.	[d]	As per illustration 2 of SA 705
16.	[c]	As per para 16 of SA 705
17.	[a]	As per para 2 of SA 705
18.	[c]	As per para 16 of SA 705
19.	[b]	As per para 29 of SA 705
20.	[d]	As per para 5 (a) of SA 705
21.	[a & b]	As per para 4 of SA 705

Student Notes: -

SA 706(Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

1.	Emphasis of Matter paragraph can be given by an auditor for
	<ul style="list-style-type: none"> a) Expressing a qualified opinion or adverse opinion or disclaiming an opinion b) Disclosures in financial statements that are required by the applicable financial reporting framework c) Key Audit Matters d) Matter disclosed in financial statements which is fundamental to the user's understanding of the financial statements
2.	If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in auditor's report, auditor should communicate this expectation to those charged with governance and provide them with the proposed wording
	<ul style="list-style-type: none"> a) Yes b) No c) Depends on the discretion of the auditor d) Yes but proposed wording should not be shared
3.	When an auditor includes an Emphasis of matter paragraph in auditor's report, he should:
	<ul style="list-style-type: none"> a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter" b) Include in the paragraph a clear reference to the matter being emphasized and where relevant disclosures that fully describe the matter can be found in the financial statements c) Indicate that auditor's opinion is not modified in respect of the matter emphasized d) All of above
4.	What should be the placement of an Emphasis of Matter paragraph in situation where the auditor's report also includes Key Audit Matters section?
	<ul style="list-style-type: none"> a) Emphasis of Matter paragraph should be presented before the Key Audit Matters section b) Emphasis of Matter paragraph should be presented after the Key Audit Matters section c) Emphasis of Matter paragraph may be presented before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph d) Auditor cannot include an Emphasis of Matter paragraph when Key Audit Matters section is also included in the auditor's report
5.	Emphasis of Matter paragraph is required to be included within a separate section of auditor's report with the heading "Emphasis of Matter".
	<ul style="list-style-type: none"> a) Yes b) No c) Optional d) Yes for audit reports of listed entities
6.	Other Matter Paragraph is required to be included within a separate section of auditor's report with the heading "Other Matter" or other appropriate heading
	<ul style="list-style-type: none"> a) Yes b) No c) Optional d) Yes for audit reports of listed entities
7.	If the financial statements are prepared in accordance with a special purpose framework, can the auditor include an 'other matter paragraph' in the auditor's report.
	<ul style="list-style-type: none"> a) Yes b) No c) Optional d) Yes for audit reports of listed entities
8.	Prior period financial statements were audited by a predecessor auditor and the existing auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures. How should the existing auditor highlight this fact

	in his audit report for the current year?
	<ul style="list-style-type: none"> a) The auditor should include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements b) The auditor should include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities relating to corresponding figures c) Both (a) and (b) d) None of the above
9.	Is the auditor required to include Emphasis of Matter Paragraph in the auditor's report when the financial statements are prepared in accordance with a special purpose framework?
	<ul style="list-style-type: none"> a) The auditor should include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework b) It is advisable but not necessary for the auditor to include an Emphasis of Matter when financial statements are prepared in accordance with special purpose framework c) The auditor should not include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework d) The auditor should include an Other Matter paragraph when financial statements are prepared in accordance with special purpose framework
10.	Is the auditor required to include Emphasis of Matter Paragraph (where considered appropriate) in the auditor's report when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation?
	<ul style="list-style-type: none"> a) Yes, the auditor is required to include an Emphasis of Matter Paragraph in such situations b) No, auditor is not required to include an Emphasis of Matter in such situations c) It is advisable but not necessary d) A separate reporting should be made to the regulator for this matter
11.	Is it advisable for an auditor to highlight all significant matters and transactions that affect the financial statements as emphasis of matter paragraphs?
	<ul style="list-style-type: none"> a) Yes, it is advisable to highlight all the significant matters and transactions as emphasis of matter paragraphs b) No, widespread use of emphasis of paragraphs may diminish effectiveness of the auditor's communication about such matters c) Either (a) or (b) d) None of the above
12.	Should matters described in Emphasis of Matter paragraph also be reported as Key Audit Matters?
	<ul style="list-style-type: none"> a) Auditor should consider all emphasis of matters paragraphs as key audit matters b) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the key audit matter section should cross refer to the emphasis of matter paragraph c) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the emphasis of matter paragraph should cross refer to the key audit matter section d) If matters that are determined to be key audit matters are also, in the auditor's judgment, fundamental to users' understanding of the financial statements, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements

13.	What is the difference between “Other Matter” paragraph and Emphasis of Matter paragraph?
	<ul style="list-style-type: none"> a) Emphasis of Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. Whereas Other Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor’s judgment is relevant to user’s understanding of the audit or auditor’s responsibility or auditor’s report. b) Other Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements whereas Emphasis of Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor’s judgment it is necessary to bring them to the users’ attention. c) There is no difference between Emphasis of Matter paragraph and Other Matter paragraph and both can be used interchangeably d) All of the above
14.	Emphasis of Matter paragraph can be used if an auditor has a disagreement with the management about the recognition, measurement, disclosure or presentation of a transaction or event reflected in the financial statements:
	<ul style="list-style-type: none"> a) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter b) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter provided that the matter is appropriately disclosed by the management in the financial statements c) SA 706(Revised) does not apply in such situations and auditor should consider the requirements of SA 705(Revised) in this regard d) Either of the approach in Option (b) or Option (c) is acceptable
15.	Other Matter paragraph may be issued:
	<ul style="list-style-type: none"> a) To enhance users’ understanding of an audit b) If it is relevant to users’ understanding of the auditor’s responsibilities or the auditor’s report c) Either of the above circumstances d) None of the above circumstances
16.	In the following circumstances, identify whether auditor is required to include Other Matter Paragraph in the auditor’s report:
	<ul style="list-style-type: none"> a) 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 b) The statement that the nature, timing and extent of the audit procedures performed comply with auditing standards c) The auditor has identified significant deficiency in internal control d) A matter that is required to be presented in the financial statements
17.	Can an auditor include an Other Matter paragraph for the following matters?
	<ul style="list-style-type: none"> a) Any matter that is required to be presented or disclosed in the financial statements b) Any information that the auditor is prohibited from providing by law, regulation or other professional Standards c) Information that is required to be provided by management d) None of the above
18.	When an Other Matter paragraph is included to draw users’ attention to a matter relating to Other Reporting Responsibilities in the auditor’s report
	<ul style="list-style-type: none"> a) It should be included in the Report on Other Legal and Regulatory

	<p>Requirements section</p> <p>b) It may be included in the Report on Other Legal and Regulatory Requirements</p> <p>c) Both (a) and (b)</p> <p>d) None of the above</p>
19.	<p>In cases where the auditor's report is intended for specific users and thus a restriction on distribution and use is included in the auditor's report, can the auditor include an Emphasis of Matter paragraph?</p>
	<p>a) Yes, auditor may include an Emphasis of Matter paragraph because such matter is fundamental to users' understanding of the financial statements</p> <p>b) No, the auditor may consider necessary to include an Other Matter paragraph as the matter relates to auditor's report and is not related to disclosure in the financial statements</p> <p>c) Both (a) and (b)</p> <p>d) None of the above</p>
20.	<p>While reporting on the consolidated financial statements of a company, an auditor has relied on the work of component auditor for a significant component. How should the matter be reported in the auditor's report on the consolidated financial statements of the company?</p>
	<p>a) The auditor should include an Emphasis of Matter paragraph to alert the users about placing reliance on the work of component auditor</p> <p>b) The auditor should include an Other Matter paragraph to alert the users about placing reliance on the work of component auditor</p> <p>c) Either of the above</p> <p>d) There is no requirement for the parent auditor to state reliance on the component auditor in the audit report on consolidated financial statements</p>
21.	<p>There is material uncertainty regarding the entity's ability to continue as going concern and adequate disclosures are made in financial statements. In such a situation, the matter should be reported as –</p>
	<p>a) Other Matter Paragraph</p> <p>b) Emphasis of Matter Paragraph</p> <p>c) No implication on report</p> <p>d) SA 706(Revised) does not apply in such a situation and the reporting should be done as per requirements of SA 570(Revised), Going Concern</p>
22.	<p>In which of the following situations an auditor may include an Other Matter paragraph in the auditor's report?</p>
	<p>a) Two sets of general purpose financial statements are prepared by the company (one under Indian Accounting Standards and other under IFRS) and the two frameworks are acceptable in their respective circumstances. If included, the Other Matter paragraph refers to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements</p> <p>b) Preparation of consolidated financial statements and separate financial statements of a same entity for same reporting period under same accounting framework</p> <p>c) Either (a) or (b)</p> <p>d) None of the above</p>
23.	<p>Consider a situation where the auditor is unable (for example due to legal requirements) to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive. How can the auditor report this including why it is not possible for the auditor to withdraw from the engagement?</p>
	<p>a) The auditor may include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements</p>

- b) The auditor may include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities
- c) Both (a) and (b)
- d) None of the above

Solutions

Sr.no.	Answer	Hint
1.	[d]	As per para 7 of SA 706
2.	[a]	As per para 4 of SA 706
3.	[d]	As per para 9 of SA 706
4.	[d]	As per para 8 of SA 706
5.	[a]	As per para 9 of SA 706
6.	[a]	As per para 11 of SA 706
7.	[b]	As per para A4 of SA 706
8.	[b]	As per para 1 of SA 706
9.	[a]	As per para A4 of SA 706
10.	[a]	As per para A4 of SA 706
11.	[b]	As per para A6 of SA 706
12.	[d]	As per para A2 of SA 706
13.	[a]	As per para A16 of SA 706
14.	[c]	As per para 8 of SA 706
15.	[c]	As per para 6 of SA 706
16.	[a]	As per para 10 of SA 706
17.	[d]	As per para 10 of SA 706
18.	[b]	As per para A16 of SA 706
19.	[b]	As per para A14 of SA 706
20.	[b]	As per para A8 of SA 706
21.	[d]	As per para 3 of SA 706
22.	[a]	As per para A13 of SA 706
23.	[b]	As per para 6 of SA 706

Student Notes: -

