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# ADVANCED AUDITING, ASSURANCE & PROFESSIONAL ETHICS

## MCQ's Book

for CA FINAL (New Syllabus 2023)

*Applicable for May 2024 and onwards Examinations*

### Key Highlights

- Update with all Relevant Amendments
- Reference to RTPs and MTPs Questions
- Author's views for Conceptual Clarity
- Charts for Cross References

**2<sup>nd</sup>  
Edition  
2024**



**CA Khushboo G. Sanghavi**

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### CA KHUSHBOO GIRISH SANGHAVI

Khushboo G. Sanghavi is member of ICAI & visiting faculty of WIRC of ICAI having practical knowledge in the field of Auditing & Assurance. She is also a Proficient orator and speaker, has been teaching at CA Final& Intermediate level since more than 10 years.

She, being from audit background, brings real life examples to classroom to help students understand intricacies conceptually.

She is the proprietress of **Khushboo Girish Sanghavi and Co.** & is the Co-founder & Director of “Eduveda Edtech Pvt Ltd.” which provides online video lectures using 3D animation to retain and reproduce maximum. Currently, more than 25,000 students have benefited her lectures over **YouTube** and has more than 60,000 subscribers on the channel.

Being a speaker, she has been part of many regional & national conferences organized by ICAI and author of many other books for the students of CA field. She has also taken many motivational seminars for various institutions, trusts and colleges.

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**CHAPTER 1. QUALITY CONTROL**

This Chapter Includes MCQ'S Of

- A) SQC 1
- B) SA 220

**A) 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"> <li>a) Sole practitioner</li> <li>b) Partnership</li> <li>c) Corporation</li> <li>d) Other entity of professional accountants</li> </ul>
2.	Independence required by the Code is applicable to:
	<ul style="list-style-type: none"> <li>a) Firm and Firm's personnel</li> <li>b) Experts contracted by the firm</li> <li>c) Network firm personnel</li> <li>d) All of the above</li> </ul>
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"> <li>a) Half yearly</li> <li>b) Once in two years</li> <li>c) Yearly</li> <li>d) Once in three years</li> </ul>
4.	What is be the maximum continuing period an engagement partner can serve on the listed entities?
	<ul style="list-style-type: none"> <li>a) Five years</li> <li>b) Seven years</li> <li>c) Three years</li> <li>d) Two years</li> </ul>
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"> <li>a) Resign</li> <li>b) Change the independent engagement quality reviewer</li> <li>c) No action required</li> <li>d) Get the peer review done</li> </ul>
6.	What consideration should be exercised before acceptance or re-acceptance of a client relationship or specific engagement?
	<ul style="list-style-type: none"> <li>a) Business reputation of client's principal owners, key management, related parties and those charged with governance</li> <li>b) Reason for proposed appointment of the firm and non-reappointment of the previous firm</li> <li>c) Limitation on the scope of work and involvement, if any, in money laundering activities</li> <li>d) All of the above</li> </ul>
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"> <li>a) 45 days</li> <li>b) 65 days</li> <li>c) 30 days</li> <li>d) 60 days</li> </ul>

8.	What is the minimum period for which engagement documentation is to be retained?	
	a) Five years	b) Eight years
	c) Seven years	d) Ten years
9.	Engagement documentation is the property of:	
	a) Firm	b) Company
	c) Client	d) None of the above

### Solutions

Sr.no.	Answers	Hint
1.	[c]	Refer para 110 of Deletion point no. 1 of SQC - 1
2.	[d]	Refer para 18 of SQC -1
3.	[c]	Refer para 23 of SQC -1
4.	[b]	Refer para 27 of SQC -1
5.	[d]	Refer para 110 of Deletion point no. 4 of SQC - 1
6.	[d]	Refer para 29 of SQC -1
7.	[d]	Refer para 75 of SQC -1
8.	[c]	Refer para 83 of Addition point no. 4 of SQC - 1
9.	[a]	Refer para 85 of SQC -1

### B] SA 220- Quality Control for an Audit of Financial Statements

1.	<p><b>Appointment of engagement quality control reviewer is mandatory in case of audit of financial statements of:</b></p> <p>a) Any entity b) Any entity except One Person Company and Small Company c) Listed Entity d) None of these</p>
2.	<p><b>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:</b></p> <p>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</p>
3.	<p><b>_____ Is procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.</b></p> <p>a) Monitoring b) Inspection c) Investigation d) None of the above</p>
4.	<p><b>The engagement partner may identify a threat to independence regarding the audit engagement that may not be able to eliminate or reduce to an acceptable level.</b></p>

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	a) Safeguards b) Measures	c) Necessary protection 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.	
	a) Material misstatements b) Deficiencies	c) Significant Risks 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.	
	a) Responsibility b) Performance	c) Completion 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.	
	a) After b) Near	c) Before 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 _____.	
	a) Regulatory and legal requirements b) Relevant ethical requirements	c) Independence requirements d) All of the above

## Solutions

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

Note:



## CHAPTER 2. GENERAL AUDITING PRINCIPLES & AUDITOR RESPONSIBILITIES

This Chapter Includes MCQ'S Of

- A] SA 240
- B] SA 250
- C] SA 260
- D] SA 299
- E] SA 402

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

<b>1.</b>	<b>Which of the following misstatements are relevant for auditor?</b>
	<ul style="list-style-type: none"> <li>a) Misstatements resulting from fraudulent financial reporting</li> <li>b) Misstatements resulting from misappropriation of assets</li> <li>c) Both (a) &amp; (b)</li> <li>d) None of the above</li> </ul>
<b>2.</b>	<b>Fraudulent financial reporting can be accomplished by the following</b>
	<ul style="list-style-type: none"> <li>a) Manipulation, falsification (including forgery), or alteration of accounting records</li> <li>b) Misrepresentation in or intentional omission from, the financial statements</li> <li>c) Intentional misapplication of accounting principles</li> <li>d) All of the above</li> </ul>
<b>3.</b>	<b>Primary responsibility for the prevention and detection of fraud rests with:</b>
	<ul style="list-style-type: none"> <li>a) Those charged with governance</li> <li>b) Management</li> <li>c) Both (a) &amp; (b)</li> <li>d) None of the above</li> </ul>
<b>4.</b>	<b>Auditor's ability to detect a fraud depends on factors such as:</b>
	<ul style="list-style-type: none"> <li>a) Skillfulness of the perpetrator</li> <li>b) The frequency and extent of manipulation</li> <li>c) Degree of collusion involved</li> <li>d) All of the above</li> </ul>
<b>5.</b>	<b>Management is responsible for:</b>
	<ul style="list-style-type: none"> <li>a) Assessing risk of fraud</li> <li>b) Identification of Fraud</li> <li>c) Responding to Fraud</li> <li>d) All of the above</li> </ul>
<b>6.</b>	<b>Which characteristics of the entity have a significant influence on the consideration of relevant fraud risk factors?</b>
	<ul style="list-style-type: none"> <li>a) Size, complexity, and ownership</li> <li>b) Nature, time and extent of procedures</li> <li>c) Competency of management</li> <li>d) All of the above</li> </ul>
<b>7.</b>	<b>Responses to address the assessed risks of material misstatement due to fraud are required at the:</b>
	<ul style="list-style-type: none"> <li>a) Financial Statement level</li> <li>b) Assertion level</li> <li>c) Both (a) &amp; (b)</li> <li>d) None of the above</li> </ul>
<b>8.</b>	<b>In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:</b>

## General Auditing Principles & Auditor Responsibilities

	<ul style="list-style-type: none"> <li>a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals</li> <li>b) Evaluate selection and application of accounting policies</li> <li>c) Incorporate an element of unpredictability in the audit procedures</li> <li>d) All of the above</li> </ul>
9.	<b>Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:</b>
	<ul style="list-style-type: none"> <li>a) Test the appropriateness of journal entries</li> <li>b) Review accounting estimates</li> <li>c) Assess significant transactions that are outside the normal course of business</li> <li>d) All of the above</li> </ul>
10.	<b>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:</b>
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Modify audit opinion</li> <li style="width: 50%;">c) Both (a) &amp; (b)</li> <li style="width: 50%;">b) Evaluate the implications for the audit</li> <li style="width: 50%;">d) None of the above</li> </ul>
11.	<b>If, auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:</b>
	<ul style="list-style-type: none"> <li>a) Determine the professional and legal responsibilities applicable in the circumstances</li> <li>b) Consider whether it is appropriate to withdraw from the engagement</li> <li>c) If the auditor withdraws, discuss withdrawal and its reasons with the appropriate level of management and those charged with governance</li> <li>d) All of the above</li> </ul>
12.	<b>The written representations from management and, where applicable, those charged with governance shall include</b>
	<ul style="list-style-type: none"> <li>a) Acknowledgement of their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud</li> <li>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</li> <li>c) Statement that they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud</li> <li>d) All of the above</li> </ul>
13.	<b>The auditor's documentation of the understanding of the entity and its environment and the assessment of the risks of material misstatement shall include:</b>
	<ul style="list-style-type: none"> <li>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</li> <li>b) Identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level</li> <li>c) Both (a) &amp; (b)</li> <li>d) None of the above</li> </ul>
14.	<b>Those charged with governance exercise _____ of management's processes for identifying and responding to the risks of fraud.</b>
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Oversight</li> <li style="width: 50%;">c) Supervision</li> <li style="width: 50%;">b) Review</li> <li style="width: 50%;">d) Direction</li> </ul>
15.	<b>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.</b>
	<ul style="list-style-type: none"> <li style="width: 50%;">a) Third Party</li> <li style="width: 50%;">c) Management</li> <li style="width: 50%;">b) Employees</li> <li style="width: 50%;">d) All of the above</li> </ul>

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 _____.
	a) Power given to auditor in laws and regulations b) Skepticism c) Professional competence d) Professional Judgement
17.	Risk of material misstatement due to fraud is always treated as _____.
	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.
	a) Significance b) Assessment c) Level d) Nature
19.	Material misstatement of financial statements due to fraud often involves the manipulation of the _____ by recording inappropriate or unauthorized journal entries.
	a) Financial reporting framework b) Internal reporting process c) Financial reporting process d) Internal control 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) Modify audit opinion b) Obtain legal advice c) Communicate to regulatory authorities d) Stay Silent
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 c) Both (a) & (b) d) None of the above
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 c) Include d) Restrict

## Solutions

Sr.no.	Answers	Hint
1.	[c]	Refer para A1 of SA 240
2.	[d]	Refer para A3 of SA 240
3.	[c]	Refer para 4 of SA 240
4.	[d]	Refer para 6 of SA 240

## General Auditing Principles & Auditor Responsibilities

	<p>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</p>
2.	<p>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.</p>
	<p>a) Audit                      b) Financial reporting                      c) Internal control                      d) Manufacturing</p>
3.	<p>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.</p>
	<p>a) Timeliness                      b) Adequacy                      c) Effectively                      d) None of the above</p>
4.	<p>In case of _____ communication with those charged with governance, the auditor shall document when and to whom communications were made.</p>
	<p>a) Oral                      b) Written                      c) Visual                      d) Both (a) &amp; (b)</p>
5.	<p>The appropriate timing of communications will vary with the significance and nature of the matter, and the action expected to be taken by _____.</p>
	<p>a) Auditor                      b) Those charged with governance                      c) Management                      d) Legal Authority</p>
6.	<p>Auditor shall communicate with those charged with governance regarding auditor _____ in the case of listed entities.</p>
	<p>a) Independence                      b) Competence                      c) Integrity                      d) Objectivity                      e) All of the above</p>
7.	<p>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 _____.</p>
	<p>a) Management representation                      b) Sufficient appropriate audit evidence                      c) Letter of appointment                      d) All of the above</p>
8.	<p>Auditor shall communicate with those charged with governance the form, _____ and expected general content of communications.</p>
	<p>a) Nature                      b) Timing                      c) Extent                      d) All of the above</p>
9.	<p>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 _____.</p>
	<p>a) Independence and objectivity                      b) Competence and objectivity                      c) Professional Behaviour                      d) Both (a) &amp; (b)</p>
10.	<p>_____ communication of specific matters required to be communicated by Standards on Auditing is an integral part of every audit.</p>
	<p>a) Timely                      b) Clear                      c) Easy to understand                      d) Direct</p>

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 c) Expert opinion d) Both (b) & (c)
12.	_____ has the executive responsibility for the conduct of the entity's operations.
	a) Management b) Those charged with governance c) Executives d) All of the above
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 c) Directors d) Shareholders
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 c) Financial Leakages d) Both (a) & (b)
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 c) Risk d) Item
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 c) Complementary d) Both (a) & (b)
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 c) Internal Control deficiency d) None of the above

## Solutions

Sr.no.	Answers	Hint
1.	[e]	Refer para A5 of SA 260
2.	[b]	Refer para A27 of SA 260
3.	[a]	Refer para A51 of SA 260
4.	[a]	Refer para 19 of SA 260
5.	[b]	Refer para A50 of SA 260
6.	[a]	Refer para 17 of SA 260
7.	[b]	Refer para 22 of SA 260
8.	[b]	Refer para 18 of SA 260
9.	[a]	Refer para 4 of SA 260
10.	[b]	Refer para 6 of SA 260
11.	[a]	Refer para 7 of SA 260
12.	[a]	Refer para 10 of SA 260

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13.	[b]	Refer para 10 (a) of SA 260
14.	[a]	Refer para 10 (a) of SA 260
15.	[a]	Refer para 19 of SA 260
16.	[a]	Refer para A2 of SA 260
17.	[a]	Refer para A2 of SA 260

### D] 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"> <li>a) A is required to communicate this to both B &amp; C</li> <li>b) A is not required to communicate this</li> <li>c) A is required to communicate this to B only</li> <li>d) A is required to communicate this to management</li> </ul>
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"> <li>a) They should issue a common audit report</li> <li>b) They should issue a common audit report and discuss the disagreement with management</li> <li>c) They should issue separate audit report</li> <li>d) All of the above</li> </ul>
3.	It is the responsibility of each joint auditor to determine:
	<ul style="list-style-type: none"> <li>I. Nature, timing &amp; extent of audit procedures</li> <li>II. Appropriateness of test checking/sampling</li> <li>III. Study and evaluate prevailing system of internal control in relation to work Allocated</li> </ul>
	<ul style="list-style-type: none"> <li>a) Only I</li> <li>b) I &amp; III</li> <li>c) Both (a) and (b)</li> <li>d) None of the above</li> </ul>
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>a) Other Matter paragraph</li> <li>b) Emphasis of Matter paragraph</li> <li>c) Both of (a) &amp; (b)</li> <li>d) None of the above</li> </ul>
5.	All the joint auditors shall be jointly and severally responsible for:
	<ul style="list-style-type: none"> <li>I. The audit work which is not divided among the joint auditors and is carried out by all joint auditors</li> <li>II. Examining that the financial statements of the entity comply with the requirements of the relevant statutes</li> <li>III. Presentation and disclosure of the financial statements as required by the applicable financial reporting framework</li> </ul>
	<ul style="list-style-type: none"> <li>a) Only I</li> <li>b) I or III</li> <li>c) All of the above</li> <li>d) II and III</li> </ul>
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"> <li>a) The circumstances that led to the expected modification</li> <li>b) Proposed wording of the modification</li> </ul>

	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.
	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 _____
	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.
	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.
	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

# General Auditing Principles & Auditor Responsibilities

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

1.	SA 402 deals with
	<ul style="list-style-type: none"> <li>a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements</li> <li>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</li> <li>c) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor</li> <li>d) none of the above</li> </ul>
2.	SA 402 does not apply to:
	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>c) Both the above</li> <li>d) None of the above</li> </ul>
3.	A subservice organisation is defined as
	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>c) An entity that uses a service organisation and whose financial statements are being audited</li> <li>d) None of the above</li> </ul>
4.	The user auditor shall refer to the work of a service auditor in the user auditor's report in following circumstance/s:
	<ul style="list-style-type: none"> <li>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</li> <li>b) If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion</li> <li>c) Both the above</li> <li>d) None of the above</li> </ul>
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"> <li>I. Obtaining a Type 1 or Type 2 report, if available.</li> <li>II. Contacting the service organisation, through the user entity, to obtain specific information.</li> <li>III. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation.</li> <li>IV. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.</li> </ul>
	<ul style="list-style-type: none"> <li>a) Only I &amp; II</li> <li>b) Only IV</li> <li>c) All of the above</li> <li>d) I or II or III</li> </ul>
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:



	<p>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</p>
<b>7.</b>	<b>SA 402 defines a user auditor as an auditor who audits and reports</b>
	<p>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</p>
<b>8.</b>	<b>_____ 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.</b>
	<p>a) Supplementary                  b) Complementary                  c) Relevant                  d) Both (a) &amp; (b)</p>
<b>9.</b>	<b>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.</b>
	<p>a) may be                  b) may not be                  c) None of the above</p>
<b>10.</b>	<b>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.</b>
	<p>a) User entity's                  b) Service organisation's                  c) Sub-service organization                  d) Both (a) &amp; (b)</p>
<b>11.</b>	<b>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.</b>
	<p>a) User entity                  b) Service organization                  c) Auditor of user entity                  d) Both (a) &amp; (b)</p>

## 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

**CHAPTER 3. AUDIT PLANNING, STRATEGY & EXECUTION**

This Chapter Includes MCQ'S Of

- A] SA 300
- B] SA 600
- C] SA 610
- D] SA 620
- E] SA 540

**A] SA 300 - Planning an Audit of Financial Statements**

<b>1.</b>	<b>As per SA 300, the auditor shall undertake which of the following activities at the beginning of the current audit engagement:</b>
	<ul style="list-style-type: none"> <li>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</li> <li>b) Evaluating compliance with ethical requirements, including independence, as required by SA 220</li> <li>c) Neither (a) nor (b)</li> <li>d) Both (a) and (b)</li> </ul>
<b>2.</b>	<b>The auditor should develop an audit plan that includes a description of:</b>
	<ul style="list-style-type: none"> <li>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"</li> <li>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"</li> <li>c) Other Planned audit procedures that are required to be carried out so that the engagement complies with SAs</li> <li>d) All of the above</li> </ul>
<b>3</b>	<b>As per SA 300, the auditor should document:</b>
	<ul style="list-style-type: none"> <li>a) The overall audit strategy</li> <li>b) The audit plan</li> <li>c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes</li> <li>d) All of the above</li> </ul>
<b>4.</b>	<b>Adequate planning benefits the audit of financial statements in several ways, including:</b>
	<ul style="list-style-type: none"> <li>a) Facilitating the direction and supervision of engagement team members and the review of their work</li> <li>b) Facilitating the supervision of engagement team members and the review of their work</li> <li>c) Facilitating the direction of engagement team members and the review of their work</li> <li>d) None of the above</li> </ul>
<b>5.</b>	<b>The nature and extent of planning activities will vary depending on:</b>
	<ul style="list-style-type: none"> <li>a) The size and complexity of the entity</li> <li>b) The key engagement team members' previous experience with the entity</li> <li>c) Changes in circumstances that occur during the audit engagement</li> </ul>

## Audit Planning, Strategy and Execution

	d) All of the above
6.	<p>Planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as</p> <p>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</p>
7.	<p>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:</p> <p>a) The resources to deploy for specific audit areas  b) The amount of resources to allocate to specific audit areas  c) When these resources are to be deployed  d) All of the above</p>
8.	<p>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?</p> <p>a) Result of unexpected events  b) Changes in conditions  c) Audit evidence obtained from the result of audit procedures  d) All of the above</p>
9.	<p>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:</p> <p>a) The assessed risks of material misstatement  b) The capabilities and competence of the individual team members performing the audit work  c) Both (a) and (b)  d) Neither (a) nor (b)</p>
10.	<p>For initial audits, which of the following additional matters the auditor may consider in establishing the overall audit strategy and audit plan</p> <p>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)</p>
11.	<p>Which of the following activities the auditor should undertake prior to starting an initial audit?</p> <p>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</p>
12.	<p>The _____ and the other key members of _____ should be involved in planning the audit.</p> <p>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</p>
13.	<p>The auditor should establish an overall audit strategy that sets the scope, timing and _____ of the audit.</p>

	<ul style="list-style-type: none"> <li>a) Planning</li> <li>b) Extent</li> <li>c) Direction</li> <li>d) Risk</li> </ul>
<b>14.</b>	<b>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.</b>
	<ul style="list-style-type: none"> <li>a) All</li> <li>b) Key</li> <li>c) Some of the</li> <li>d) None of the above</li> </ul>

### 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

### B] SA 600 - Using the Work of Another Auditor

<b>1.</b>	<b>The Principal Auditor may discuss audit findings of other auditor with:</b>
	<ul style="list-style-type: none"> <li>a) Only with Other Auditor of component</li> <li>b) Only with Management of component</li> <li>c) Other auditor and the management of component</li> <li>d) None of the above</li> </ul>
<b>2.</b>	<b>This Standard does not cover:</b>
	<ul style="list-style-type: none"> <li>I. Joint audits</li> <li>II. Relationship with predecessor auditor</li> </ul> <p><b>Choose the correct option:</b></p>
	<ul style="list-style-type: none"> <li>a) I only</li> <li>b) II only</li> <li>c) I &amp; II both</li> <li>d) None of the above</li> </ul>