

Section A Multiple Choice Questions

MCQs 1-6 carry 1 mark each and MCQs 7-8 carry 2 marks each. (Total 10 marks)

CASE SCENARIO:

Auditors while conducting audits are governed by SA 230 “Audit Documentation” in relation to record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. CA. Harry is a statutory auditor of Potter Ltd. The auditor of Rowling Ltd. a parent company of Potter Ltd. asked Harry the working papers of Potter Ltd for commenting on the important requirement of the Central Government. Also, CA. Bean is statutory auditor of Rowling Ltd. against which Income tax department started search and seizer procedure. CA. Bean was asked for the working papers of the company on the directions and permission of CIT (A) to provide for the relevant information asked.

Based on the above specific cases and in general, answer the following questions as per guidance provided by SA 230.

1 _____ is the file containing the records and data that comprise the audit documentation for a specific engagement.

- (a) Audit file
- (b) Engagement file
- (c) Working file
- (d) Client’s file.

2 Which of the following does not affects form, content & extent of documentation

- (a) Size and complexity of the entity
- (b) nature of audit team who will perform audit
- (c) identified Risk of material misstatement
- (d) audit methodology and tools to be used

3 If in exceptional circumstances the auditor departs from Standards on Auditing, he shall _____

- (a) Document the reason for departure
- (b) document how the alternative procedures were performed for achieving the objective
- (c) Both (a) and (b)
- (d) Auditor is not allowed to depart from SAs.

4 Which of the following is not true of working papers?

- (a) They record the audit evidence to provide support for the auditor’s opinion
- (b) They assist in review of the audit work
- (c) They are a direct aid in the planning of the audit
- (d) They provide proof of the correctness of the financial statements.

5 Can CA. Bean provide access to working papers to Income Tax department during search & seizure operation?

- (a) CA. Bean can provide if it is the requirement of law
- (b) CA. Bean is guilty of professional misconduct
- (c) CA. Bean should not provide the working paper
- (d) None of the above.

6 As per SQC1, what is the retention period of the audit documentation?

- (a) It should be no shorter than seven years from the date of the auditor’s report.
- (b) It should be no shorter than eight years from the date of the auditor’s report
- (c) There is no such retention period; audit documentation must be there permanently as a defence in favor of the auditor in any litigation
- (d) It should be no shorter than eight years from the date of entering into the audit agreement with client.

7 Which of the following is correct :

- (a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
- (b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
- (c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.
- (d) The auditor shall not assemble the audit documentation in an audit file.

8 Audit documentation provides:

- (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- (b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- (c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
- (d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Section B : Descriptive Questions

Question 1: While auditing the books of accounts of Very Careful Limited for the financial year 2020-21, a team member of the auditors of Very Careful Limited was of the view that with regard to audit of the company, no relation exists between Audit File and Audit Documentation. Explain the relationship between Audit File and Audit Documentation. (3 marks)

Answer 1:

Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

Question 2: "Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits". Explain. (4 marks)

Answer 2:

The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-

- the significant matters identified during the audit and
- how they were addressed.

Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits.

Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

Question 3: The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature. State some examples of such changes . (4 marks)

Answer 3:

Examples of such changes include:

- *Deleting or discarding superseded documentation.*
- *Sorting, collating and cross-referencing working papers.*
- *Signing off on completion checklists relating to the file assembly process.*
- *Documenting audit evidence that the auditor has obtained, discussed, and agreed with the relevant members of the engagement team before the date of the auditor's report.*

○

Question 4: Objective of the auditor is to prepare audit documentation that provides a sufficient and appropriate record of the basis for the auditor's report; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. What are the additional purposes of Audit Documentation?

(6 marks)

Answer 4:

As per SA 230, Audit documentation serves several additional purposes, including the following:

1. Assisting the engagement team to **plan and perform** the audit.
2. Assisting members of the engagement team responsible for supervision to **direct and supervise** the audit work.
3. Enabling the engagement team to be **accountable** for its work.
4. **Retaining** a record of matters of **continuing significance** to future audits.
5. Enabling the conduct of **quality control reviews and inspections**.
6. Enabling the conduct of **external inspections** in accordance with applicable legal, regulatory or other requirements

Question 5: The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. Explain. (5 marks)

Answer 5:

- SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
- An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not **more than 60 days** after the date of the auditor's report.
- The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature.
- After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
- SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The **retention period for audit engagements ordinarily is no shorter than seven years** from the date of the auditor's report, or, if later, the date of the group auditor's report.

Question 6: State any 6 examples of Audit Documentation. Also state what is not a part of audit documentation. (4 marks)

Answer 6:

1. Audit Programme.
2. Engagement letter.
3. External confirmations.
4. Copies of written representations given to management and TCWG.
5. Audit checklists.
6. Significant matters communicated to the client.
7. Copies of correspondence including E mail concerning significant matters.
8. Analysis of significant ratios and trends.

It is to be noted that he need not include in documentation superseded drafts of W.P. and financial statements, notes reflecting preliminary thinking, previous records corrected for typographical errors and duplicates of documents.

Question 7:

State with reasons (in short) whether the following statements are correct or incorrect (2 marks each)

(1) As per SA 230 on “Audit Documentation”, the working papers are not the property of the auditor.

Incorrect: As per SA 230 on “Audit Documentation” the working papers are the property of the auditor and the auditor has right to retain them. He may at his discretion can make available working papers to his client. The auditor should retain them long enough to meet the needs of his practice and legal or professional requirement

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

Incorrect: SA 230 issued by ICAI on Audit Documentation, and “Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.