

5. AUDIT DOCUMENTATION AND EVIDENCE

QUESTION - WISE ANALYSIS OF PREVIOUS EXAMINATIONS

Question No.	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)
1.	-	-	-	-	-	5	-	-	-	5	-	-
7.	-	-	-	4	-	-	-	-	-	-	-	-
8.	-	-	4	-	-	-	-	-	-	-	-	-
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12.	-	-	-	-	6	-	-	-	-	-	-	-

CHAPTER OVERVIEW

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SECTION 1: THEORY FOR CLASSROOM DISCUSSION

Q.No.1. Mention the audit procedures to be performed by the auditor? (A) (NEW SM)

MEANING OF AUDIT PROCEDURES:

- 1) It is a broad framework of audit through which the audit is carried out to obtain sufficient appropriate evidence in order to express the opinion on financial statements.
- 2) The audit procedures are performed in two parts as below:
 - a) Risk assessment procedures; and
 - b) Further audit procedures which consists of:
 - i) Compliance procedures; and
 - ii) Substantive procedures which includes analytical procedures and test of details.

1) RISK ASSESSMENT PROCEDURES:

- a) **Meaning:** The audit procedures are performed
 - i) To obtain an understanding of the entity and its environment,
 - ii) Including the Internal control system,
- b) **Purpose:** To identify and assess the risks of material misstatements in financial statements.

Note: Knowledge of client business is essential for proper conduct of audit. Also the risk may arise from fraud or error.

2) FURTHER AUDIT PROCEDURES: It comprises of

a) Compliance Procedures:

- i) It deals with examination of internal controls to determine their effectiveness in order to determine the nature, timing and extent of substantive procedures to be performed.

E.g.: If the auditor obtains positive confirmations in compliance procedures, generally the timing and extent of substantive procedures will reduce.

ii) These are also known as “**Test of controls**”.

b) Substantive Procedures:

It involves examination of accounting records including financial statements to determine the reliability of information therein. It is also known as test of details.

i) Test of Details:

- **Test of transactions:** It deals with vouching of transactions recorded in the accounting records.
- **Test of balances:** It deals with the verification of balances in the accounting records.

ii) **Analytical Procedures:** Analytical procedures consist of evaluation of financial information by understanding the relationships among the financial and non-financial data.

3) CONCLUSION:

- a) The Compliance Procedures and substantive procedures must complement each other. The auditor shall not ignore either of it. He must carry out both the audit procedures to make the audit more effective.
- b) Further the fact that the controls are very effective doesn't mean the auditor can skip substantive procedures. He must carry out both.
- c) The absence of misstatements (Non identification) in substantive procedures does not indicate that the controls are effective.
- d) The presence of material misstatement strongly indicates that there is a significant deficiency. Re-performing the reconciliation of bank statement, re-performing the aging of accounts receivable. in the internal controls.

SIMILAR QUESTIONS:

1. **Audit evidence is necessary to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing various audit procedures. Explain the audit procedures.**
- A. Write about Meaning and Point A and B

Q.No.2. Define the term “Audit Evidence” and explain sufficiency and appropriateness of audit evidence. (A) (NEW SM)

As per SA 200 - “Overall objectives of an independent auditor and conduct of an audit in accordance of standards on auditing”, one of the basic responsibilities of an auditor is to obtain sufficient and appropriate audit evidence.

1) AUDIT EVIDENCE:

- a) The information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.
- b) It includes both information contained in the accounting records that are underlying the financial statements and other information.
- c) The auditor cannot express opinion unless he has examined the financial statements objectively. Further he shall obtain sufficient appropriate evidence.
- d) Audit evidence is necessary to support the auditor opinion and report. It is cumulative in nature and is obtained from audit procedures performed.

2) AUDIT EVIDENCE INCLUDES:

- a) **Information contained in the accounting records:** Accounting records include the records of Journal registers, subsidiary ledgers and supporting bills or invoices.
- b) **Other information:** It may include minutes of board meetings, Management information systems, confirmations from debtors or creditors etc.

3) SUFFICIENCY OF AUDIT EVIDENCE:

Sufficiency is the measure of the quantity of audit evidence. The following factors influence the auditor's judgement of sufficiency:

- a) **Nature and Size** of organization.
- b) **Source:** The quantum of evidences to be obtained is affected by their Source.
E.g.: Generally external evidence is more reliable than internal evidence.
- c) **Risk of MMS:** It also depends upon assessment of risk of material misstatement by the auditor.
E.g.: If auditor assessed higher risk then the quantum will be more.
- d) **Materiality:** If assertions are more material then more evidences to be obtained.
- e) **Internal Control:** If the controls are more effective then quantum of audit procedures decreases and resultantly the number of evidences also decreases.
- f) **Size of the population:** In case of smaller level of population, less number of evidences will be sufficient. For Larger level of population, more number of evidences will be required.
- g) **Characteristics of population:** For homogeneous population, lesser number of evidences will be sufficient. For Heterogeneous population, more number of evidences will be obtained.

4) APPROPRIATENESS OF AUDIT EVIDENCE:

- a) Appropriateness is the measure of the quality of audit evidence i.e., its relevance and its reliability in providing support for the audit conclusions.
- b) The reliability of evidence is influenced by its source **Reliability** and by its nature.

SIMILAR QUESTIONS:

1. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. Discuss RTP M18(N)
- A. Write about Intro para, Point A and B.
2. Explain the factors that influence the auditor's judgement in obtaining sufficient audit evidence.
- A. Write Point A and then Point C.
3. General factors which may influence the auditor's judgement as to what is sufficient and appropriate audit evidence? MTP N18(O)
- A. Write Point A and then Point C.
4. Obtaining more evidences may not compensate for their poor quality. Explain the factors affecting the auditor's judgment of sufficiency and appropriateness of audit evidence. RTP-M19(N)
- A. Write Point A and then Point C and D.
5. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement and also by the quality of such audit evidence. Obtaining more audit evidence, however, may not compensate for its poor quality. Explain also stating the factors affecting auditor's judgment as to sufficiency of audit evidence. RTP N20(N)
- A. Refer Point C
6. Auditing is a logical process. An auditor is called upon to assess the actualities of the situation, review the statements of account and give an expert opinion about the truth and fairness of such accounts. This he cannot do unless he has examined the financial statements objectively. He needs evidence to obtain information for arriving at his judgment. Discuss explaining clearly the detailed meaning of audit evidence RTP N19(N)
- A. Refer A and B

Q.No.3. What are the various types of audit evidences?

(B) (NEW SM)

1) BASED ON FORM / NATURE:

- a) **Documentary:** Evidence obtained in paper or electronic form. **E.g.:** Registration documents, title deeds, vouchers and Bills etc.
- b) **Oral:** Evidence which is obtained through inquiry. **E.g.:** Response to Inquiries made by auditor.
- c) **Visual:** Evidence obtained by the auditor through actual observation. **E.g.:** Physical inspection of Fixed Assets, Cash, etc.

2) BASED ON SOURCE:

- a) **Internal evidence:** Evidence which originates within the entity being audited is called internal evidence. **E.g.:** Sales invoice, GRN, Debit and Credit note, internal confirmations, etc.
- b) **External evidence:** Evidence, which originates outside the entity being audited, is called external evidence. **E.g.:** Purchase invoice, Debit notes and Credit notes, Quotations, External confirmation, etc.

SIMILAR QUESTION:

1. Mention the audit evidence that an auditor can obtain based on its Source.
- A. Write Point B
2. Mention the audit evidence that an auditor can obtain based on its Nature.
- A. Write Point A

Q.No.4. Distinguish between Internal evidence and External evidence.

(B) (NEW SM)

1) ON THE BASIS OF DEFINITION:

- a) **Internal evidence** is the evidence which originates from within the organization being audited.
E.g.: sales invoice, goods received notes, cash memo, etc.
- b) **External evidence** is the evidence that originates from outside the client's organization.
E.g.: purchase invoice, quotations, external confirmations, etc.

2) ON THE BASIS OF AVAILABILITY: The bulk of evidence that an auditor gets is internal in nature. However, Substantial external evidence is also available to the auditor but lesser in comparison to internal audit evidence.

3) ON THE BASIS OF RELIABILITY:**a) Internal evidence:**

- i) Client's staff will have control on the internal evidence. So, the auditor should be careful in placing reliance on such evidence.
- ii) It does not mean that all the internal evidence needs to be suspected every time. But the auditor shall be alert to the possibilities of manipulation, creation of false and misleading evidences.

b) External evidence:

- i) It is generally considered to be more reliable as they come from third parties who are independent of the entity being audited.
- ii) However, if the auditor has any reason to doubt the independence of any third party, then he should exercise greater care in that matter. **E.g.**, collusion of third party with the client.

CONCLUSION: As an ordinary rule the auditor should try to match internal and external evidence as far as practicable. Where external evidence is not readily available to match, the auditor should try to match various internal evidences in support of each other.

In other words, the information contained in internal and external evidences shall be same. If there is a difference then it shall be resolved immediately and shall ensure there are no MMS in financial statements.

SIMILAR QUESTIONS:

1. "As an ordinary rule the auditor should try to match internal and external evidence as far as practicable. Where external evidence is not readily available to match, the auditor should see as to what extent the various internal evidence corroborate each other". You are required to distinguish between the two evidences in the given statements.
- A. Write Point A in Q No. 2 and then write above Points A, B and C.

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Q.No.5. Discuss the principles, which are useful in assessing the reliability of audit evidence.

(A) (NEW SM)

The following are the principles useful in assessing the reliability of audit evidence:

- 1) External evidence is generally more reliable than internal evidence.
- 2) Evidence directly obtained from third party by the auditor is more reliable than the same obtained through client.
- 3) Evidence in documentary form is more reliable than oral evidence.
- 4) Original evidence is more reliable than photocopy or duplicate.
- 5) Internal evidence is also reliable provided the related controls are effective.
- 6) The audit evidences, obtained through different sources or of different nature are more reliable when they are more consistent. In case of any inconsistency further audit procedures have to be performed.

SIMILAR QUESTIONS:

1. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability". Explain. Also state clearly generalisations about the reliability of audit evidence.

RTP-M18(N), RTP - M17

A. Write Point A in Q No. 2 and then above complete answer.

2. The reliability of audit evidence is influenced by its source, nature and circumstances under which it is obtained. Discuss. N13-5M

A. Write Point A in Q No. 2 and then above complete answer.

3. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. While recognizing that exceptions may exist, state the generalizations about the reliability of audit evidence that may be useful.

MTP N18(O)

A. Write Point A in Q No. 2 and then above complete answer.

Q.No.6. Write about different audit procedures / methods to obtain audit evidence?

(A) (NEW SM)

Audit Procedures are broad framework within which the audit shall be carried out. Sometimes audit procedures and the term audit techniques are used interchangeably. Typically techniques are tools for performing audit. The following are various Procedures/Methods of obtaining audit evidence.

1) INSPECTION:

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

2) INQUIRY:

- a) Inquiry consists of seeking information from knowledgeable persons, both financial and non-financial, within the entity or outside the entity.
- b) Inquiries may range from formal written inquiries to informal oral inquiries.
- c) Evaluation of responses to inquiries is an integral part of inquiry process.
- d) Through inquiry the auditor may obtain following three types of information:
 - i) New information which auditor originally not aware of;
 - ii) Changes to the original information known to the auditor; and
 - iii) Additional information in support for existing information which is corroborative in nature.
- e) The evidence often comes from inquires may not be persuasive as it is less reliable.

3) OBSERVATION:

- a) Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's internal controls

b) Observation provides audit evidence about the performance of a process or procedure, but it is limited to the point in time at which the observation takes place.

4) **EXTERNAL CONFIRMATION:**

a) An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party).

b) It can be obtained in paper form or by electronic or other medium.

5) **RE-CALCULATION:**

Recalculation consists of checking the arithmetical accuracy of documents or records. Recalculation may be performed manually or electronically.

6) **RE-PERFORMANCE:**

Re-performance involves the auditor's independent execution of procedures or controls that were originally performed by the entity's internal control.

7) **ANALYTICAL PROCEDURES:**

a) Analytical procedures consist of evaluation of financial information by a study of acceptable relationships among both financial and non-financial data.

b) Analytical procedures also include:

i) Analysis of trends and ratios;

ii) Identification of abnormal deviations and

iii) Investigation of those deviations.

SIMILAR QUESTIONS:

1. Evaluating responses to inquiries is an integral part of the inquiry process. Explain. RTP M18(N)
A. Write Point A in Q No. 2 and Point B of this answer.
2. "Inquiry is used extensively throughout the audit in addition to other audit procedures". MTP N18 (O), RTP M18 (N)
A. Write Point A in Q No. 2 and Point B of this answer.
3. Inquiry is one of the audit procedures to obtain audit evidence. Discuss. RTP N18(O)
A. Write Point A in Q No. 2 and Point B of this answer.
4. Write short note on audit techniques? M12 - 4M
A. Write above answer
5. With reference to SA 500 "audit evidence", discuss the different sources and their reliability of audit evidence. RTP N18(O)
A. Write Point A in Q No. 2
6. Write short note on the methods of obtaining audit evidence? N15 - 4M
A. Write Point A in Q No. 3 and then above answer in full.
7. Mr. A was appointed statutory auditor of P Ltd., but he was not able to gather the sufficient audit evidences. Discuss how he should proceed to gather more audit evidences. RTP M19(O)
A. Write Point A in Q No. 3 and then above answer in full.
8. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Explain. RTP N18(N), RTP N19(N)
A. Write Meaning of Audit Evidence and then above answer (4 points).

Q.No.7. Write about Audit Documentation. State its purpose and advantages? (A) (NEW SM)

1) **AUDIT DOCUMENTATION:**

a) It refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

b) These are also called as "working papers" or "work papers" or "audit files".

2) PURPOSE OF DOCUMENTATION:

Audit documentation provides:

- a) Evidence of the auditor's basis for a conclusion and achievement of overall objective and
- b) Evidence that the audit was planned and performed in accordance with SAs.

3) ADVANTAGES OF AUDIT DOCUMENTATION:

The following are the purpose of Audit documentation:

- a) Assisting the engagement team to plan and perform the audits of next years.
- b) Assisting the engagement team to direct and supervise the audit work.
- c) Enabling the engagement team to be accountable for its work.
- d) Enabling quality control reviews and inspections within the auditors firm.
- e) Enabling of external inspections in accordance legal, regulatory or other requirements. Example: Peer reviews.

4) AUDIT DOCUMENTATION INCLUDES:

- a) Audit Programmes
- b) Analyses
- c) Issues Memorandum (Query Sheet)
- d) Evidences obtained
- e) Summary of Significant matters
- f) Confirmation and representation letters
- g) Correspondence relating to significant matters.

SIMILAR QUESTIONS:

1. What do you mean by audit documentation? Also explain the nature and purpose of audit documentation. RTP N18(N) RTP M19(N)
- A. Write above answer.
2. Define audit documentation. Also give some examples. SM-TYK
- A. Write Point A and then Point D.
3. Write short note on the importance of working papers. M15-4M, N13-4M, N11-4M
- A. Write Points A, B and C.
4. Audit documentation serves a number of purposes. Explain with reference to SA-230. MTP N18(O)
- A. Write Points A, B and C.
5. Audit documentation provides 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. Explain stating clearly purpose of audit documentation. MTP N18(N)
- A. Write Points A, B and C
6. Audit documentation provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. Explain clearly stating the nature and purpose of Audit Documentation. MTP N18(N)
- A. Write Points A, B and C.

Q.No.8. What are the factors that affect the form, content and extent of audit documentation? (B) (NEW SM)

- 1) **MANNER OF DOCUMENTATION:** The documentation shall be such that an experienced auditor having no previous connection with the audit shall understand the planning and performance of audit based on the audit documentation.
- 2) **FORM, CONTENT AND EXTENT OF AUDIT DOCUMENTATION:** It depends on the following factors:
 - a) The size and complexity of the entity.
 - b) The risks of material misstatement.
 - c) The nature and extent of exceptions identified.

- d) The extent of audit carried out and methods used.
- e) Level of Effectiveness of internal controls.
- f) The Significance of evidence obtained.

MEANING OF AN EXPERIENCED AUDITOR: A person who has a reasonable knowledge of:

- 1) Applicable financial reporting,
- 2) Accounting standards,
- 3) Auditing standards and
- 4) Knowledge of clients business.

SIMILAR QUESTIONS:

- 1. The form, content and extent of audit documentation depend on factors such as the size and complexity of the entity, the nature of the audit procedures to be performed etc. Explain in detail. RTP N18(N)
- A. Write about Point A and then Entire Point B
- 2. Discuss with reference to SA-230, factors affecting form, contents and extent of audit documentation. OLD PM, N18(O) - 4M
- A. Write about Point A and then Entire Point B

Q.No.9. Write a short note on Audit File, its retention and ownership.

(A) (NEW SM)

1) AUDIT FILE / WORKING PAPERS / DOCUMENTATION:

- a) It is a record of audit procedures performed and relevant audit evidence obtained for a specific engagement which can be stored in a physical file or electronic storage medium which is referred as audit file.
- b) The audit file is of two types:
 - i) Permanent audit file
 - ii) Current audit file

2) ASSEMBLY OF THE FINAL AUDIT FILE:

- a) The auditor shall after completion of audit i.e., after issuance of audit report, within 60 days shall assemble the audit file so as to keep it for future reference. This process is also known as working paper arrangement. (SQC - 1)
- b) The assembly of audit file after completion of audit is an administrative process and does not involve carrying out new or additional audit procedures or conclusions. Changes may be made if applicable and administrative in nature. E.g., Deleting superseded documents, referencing WP's, signing the evidence by engagement team, discussions among the engagement team etc..
- c) Once Final audit file assembly is completed, the auditor shall not delete or discard audit documentation of any nature before completion of retention period.

3) RETENTION PERIOD:

The auditor shall retain the working paper file for a minimum period of 7 years from the date of audit report or group audit report, whichever is later. (SQC - 1)

4) OWNERSHIP OF AUDIT DOCUMENTATION:

- a) Audit documentation is the property of the auditor.
- b) The auditor may at his discretion, make portions of, or extracts from, audit documentation available to clients or third parties.

SIMILAR QUESTIONS:

- 1. 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. RTP N18(N), MTP M18(N) MTPM19(N) N-19(N)
- A. Write Point A and Point B.

2. Write about documentation, its retention period and ownership?
- A. Write Point A, C and D.
3. Can a Principal auditor demand/request the working papers of branch/ component auditor?
- A. No. Audit Documentation is the property of auditor. The auditor at his discretion can share the copy of documentation to others provided it does not amount to breach of confidentiality.

Q.No.10. Discuss various contents of Permanent Audit File and Current File? (C) (NEW SM)

- 1) **PERMANENT AUDIT FILE:** It includes –
 - a) Information regarding the legal and organizational structure of the entity. For example, MOA & AOA.
 - b) Copies of important legal documents, agreements.
 - c) A record of the study and evaluation of the internal controls.
 - d) Copies of audited financial statements for previous years.
 - e) Analysis of significant ratios and trends.
 - f) Record of communication with the retiring auditor.
 - g) Notes regarding significant accounting policies.
 - h) Significant audit observations of earlier years.
 - i) List of officers, their financial powers and authorities.
 - j) List of offices, factories, godowns, depots etc.,
- 2) **CURRENT AUDIT FILE:** It includes
 - a) Correspondence relating to acceptance of annual reappointment.
 - b) Annual letter of engagement if any sent by the auditor to the management.
 - c) Evidence of the planning process of the audit and audit programme.
 - d) A record of the nature, timing and extent of auditing procedures performed and the results of such procedures.
 - e) Copies of communications with other auditors, experts and other third parties.
 - f) Written representations or confirmation received from the client.
 - g) Conclusions reached by the auditor concerning significant aspects of the audit.
 - h) Copies of current year financial statements and related information and the related audit reports.

SIMILAR QUESTION:

1. What are the audit working papers? Discuss various contents of current file. N12 - 8M
- A. Refer Point 2

Q.No.11. Write short notes on Audit Note-book and What are the contents of Audit Note Book. (B) (NEW SM)

- 1) **MEANING:**
 - a) An audit note book is usually a bound book in which a large variety of matters observed during the course of audit are recorded.
 - b) It forms part of audit working papers and
 - c) For each year a fresh audit note book is maintained.
- 2) **CLASSIFICATION:**

If an auditor classifies his working papers into permanent and current then audit note book shall form part of current file.

3) BENEFITS:

- a) It helps in tracking the links of work when the concerned assistant is away or the work is stopped temporarily.
- b) It is also used for recording various queries raised in the course of the work and their state of disposal.
 - i) In respect of disposed queries, explanation obtained and evidence seen would be recorded in the said book.
 - ii) While queries remaining undisposed of would be noted for follow up.

SIMILAR QUESTIONS:

1. What are the significant matters observed during the course of audit, a record of which should be kept in audit note book? MTP M18(O), M16 - 6M
- A. Write above answer.

Q.No.12. Define the word “assertion” and also explain different categories of assertions checked by the auditor while performing audit procedures. (A) (NEW SM)

- 1) **ASSERTIONS:** Representations given by the management with respect to class of transactions, account balances or disclosures in financial statements. While carrying out the audit procedures the auditor shall verify the following assertions.
- 2) **FOR COMPLIANCE PROCEDURE:**
 - a) **Existence:** Seeks whether the related control exists or not.
 - b) **Effectiveness:** Whether the controls existing in the entity are preventing and detecting the misstatements.
 - c) **Continuity:** Whether these controls are effectively operating throughout the financial year.
- 3) **FOR SUBSTANTIVE PROCEDURES:**
 - a) **Existence:** Assets and liabilities are existing on a given date.
 - b) **Occurrence:** Transactions and events that have been recorded have occurred and pertain to the entity.
 - c) **Cut-off:** Transactions and events have been recorded in the correct accounting period.
 - d) **Measurement:** Amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - e) **Valuation and allocation:** Assets and liabilities are included in the financial statements at appropriate amounts and corresponding valuations are properly accounted.
 - f) **Completeness:** All transactions and events that should have been recorded.
 - g) **Classification:** Transactions and events have been recorded in the proper accounts.
 - h) **Presentation and disclosures:** All the presentation and disclosures requirements are applied in accordance with applicable financial reporting framework.

SIMILAR QUESTIONS:

1. In the context of SA-315, state the assertions used by auditor to consider the different types of potential mis-statements that may occur w.r.t. classes of transactions and events for period under audit. RTP M19(O)
- A. Write Point C.
2. Name the assertions for the following audit procedures: M18(N) - 5M
 - i) Year-end inventory verification - Existence
 - ii) Depreciation has been properly charged on all assets - Valuation & Measurement.
 - iii) The title deeds of the lands disclosed in the Balance Sheet are held in the name of the company - Rights and Obligations.
 - iv) All liabilities are properly recorded in the financial statements - Completeness.
 - v) Related party transactions are shown properly - Presentation and Disclosure.

3.			SM
	Plant and Machinery (at cost)		2,00,000
	Less: Depreciation till the end of previous year	70,000	83,000
	Depreciation for the year	13,000	<u>1,17,000</u>

State the assertions for the above.

- A. The assertions are as follows:
- The firm owns the plant and machinery;
 - The historical cost of plant and machinery is ₹ 2 lacs;
 - The plant and machinery physically exists;
 - The asset is being utilised in the business of the company productively;
 - Total charge of depreciation on this asset is ₹ 83,000 to date on which ₹ 13,000 relates to the year in respect of which the accounts are drawn up; and
 - The amount of depreciation has been calculated on recognised basis and the calculation is correct.
4. Comment on the following: compliance procedures are tests designed to obtain audit evidence as to completeness accuracy and validity of data produced by accounting system. M13 - 2M
- A. Write Point B.
5. When we find in the balance sheet, an item under current assets reading as “cash in hand - ₹ 8,000” what are the obvious assertions that would strike the mind. ICAI SM
- A.
- The firm concerned had ₹ 8,000 in hand in valid notes and coins on the balance sheet day;
 - That the cash was free and available for expenditure to the firm; and
 - That the books of account show a cash balance of identical amount at the end of the day on which the balance sheet is drawn up.

SECTION 2: QUESTIONS FOR ACADEMIC INTEREST – FOR STUDENTS SELF STUDY

Q.No.13. Documentation of significant matters. Comment (C) (NEW SM)

Judging a matter arisen in audit as ‘significant’ requires analysis of facts and circumstances. In other words, whether a matter is a significant matter or not, is a matter of professional judgment of auditor.

FACTORS DETERMINING FOR SIGNIFICANT MATTERS:

- Whether the matters related to identified significant risks.
- Indication of circumstances where financial statements could be materially misstated, or
- Auditor facing significant difficulties for conducting audit procedures.
- Auditor’s observations or findings that results in expression of modified opinion as per SA 705.

SIMILAR QUESTIONS:

- Judging the significance of a matter requires an objective analysis of the facts and circumstances. Documentation of the authentic. Judgments made, where significant, serves to explain the auditor’s conclusions and to the judgment. Explain with the help of examples. RTP-M19(N)
- Refer above answer
- An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Explain stating clearly the examples of significant matters. RTP N20(N)
- Refer above answer

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Q.No.13. What are the Substantive Procedures Related to the Financial Statement Closing Process? (C) (NEW SM)

The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:

- 1) Agreeing or reconciling the financial statements with the underlying accounting records; and
- 2) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

The nature, and also the extent, of the auditor's examination of journal entries and

Q.No.14. Write a short note on audit documentation summary or audit completion memorandum. (C) (NEW SM)

- 1) At the end of audit the auditor may prepare a completion memorandum which includes-
 - a) The significant matters identified during the audit and
 - b) How they were addressed.
- 2) Generally this kind of audit summary is prepared for big and complex audits.
- 3) This summary may help the auditor for identifying and documenting significant matters arisen.
- 4) It will also help the auditor to determine whether the overall nare achieved or not and all the applicable auditing standards are complied or not.

SIMILAR QUESTIONS:

1. "Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits". Explain. SM - TYK
- A. Refer above answer
2. "Completion Memorandum" is helpful as part of audit documentation. Explain? QP-M19 (N)-3M
- A. Write above answer.

Q.No.15. Write a short note on - Examination in Depth or Walk through test or Audit in depth. (B) (NEW SM)

- 1) It implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction, i.e., from initiation to the completion of the transaction by receipt of payment of cash and delivery or receipt of the goods.
- 2) This examination consists of studying the recording of transactions at the various stages through which they have passed.
- 3) At each stage, relevant records and authorities are examined to ensure that the transactions are executed with proper authorizations by the competent authorities at each stage.
- 4) For example, in case purchases are taken for auditing in depth, the auditor will examine:
 - a) Purchase Requisition,
 - b) Invitation of quotations and analysis of the same,
 - c) Official Purchase order,
 - d) Receipt of goods, together with delivery challan
 - e) Admission of goods to stores after verification of quality, quantity etc.,
 - f) Entry in store records,
 - g) Receipt of supplier's invoice.

- h) Entries in Purchase day book.
- i) Postings to purchase ledger and purchase ledger control account,
- j) Payment of Cheque in settlement of invoice & Entry for payment in Cash/Bank book,
- k) Posting from Cash book to Ledger Account.

SIMILAR QUESTIONS:

1. "Examination in Depth" implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. Explain. RTP M17
- A. Refer above answer

Q.No.16. Discuss the concept of "True and Fair" in light of companies act, 2013 (or) "Every company is required to maintain its books of accounts and financial statements in such they will reflect the true and fair view". (B) (NEW SM)

1) REQUIREMENT OF COMPANIES W.R.T TRUE AND FAIR VIEW (SEC 128 AND SEC 129):

- a) **Provisions of Section 128:** It provides that every company shall prepare and keep at its registered office books of account and financial statement for every financial year which gives a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any.

Such books of Account shall be kept on accrual basis and according to the **double entry system of accounting**.

b) Provisions of Section 129:

- i) It provides that financial statements must comply with the Accounting Standards specified under section 133 so as to give a true and fair view of the state of affairs of the company.

If not complied with Accounting Standards, the company shall disclose in its financial statements, the deviation from the Accounting Standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

- ii) Financial statements should be presented in the format given under Schedule III

Exceptions: The following companies are not required to comply with schedule III

- Insurance companies
- Banking companies
- Companies engaged in the generation or supply of electricity
- Companies governed by any other law

2) Requirement of auditor w.r.t true and fair view (Sec 143(2) and SA 700):

Every auditor is required to form an opinion on the financial statements in the form a report to the members of the company indicating that, the Financial statements give a true and fair view of the,

- a) Statement of affairs of the company as at of its financial year and
- b) Profit or Loss for the year
- c) Cash Flow Statement for the year

Based on evaluation of the conclusions drawn from the audit evidence obtained through performing audit procedures.

Q.No.17. What constitutes true and fair view is a matter of auditor's judgement, but some specific points must be seen by the auditor to ensure true and fair view. (A) (NEW SM)

TRUE & FAIR VIEW: What constitutes a 'true and fair' view is a matter of an auditor's judgment in the particular circumstances of a case.

IN MORE SPECIFIC TERMS, TO ENSURE TRUE AND FAIR VIEW, AN AUDITOR HAS TO SEE:

- 1) That the assets are neither undervalued nor overvalued, according to the applicable accounting principles.
- 2) No material asset is omitted.
- 3) The charge, if any, on assets are disclosed.
- 4) Material liabilities should not be omitted.
- 5) The Profit and loss account discloses all the matters required to be disclosed by Part II of Schedule III and the Balance sheet has been prepared in accordance with Part I of Schedule III.
- 6) Accounting policies have been followed consistently.
- 7) All unusual, exceptional or non-recurring items have been disclosed separately.

SIMILAR QUESTIONS:

1. What constitutes true and fair view is a matter of auditor's judgement, but some specific points must be seen by the auditor to ensure true and fair view. MTP M18(O), N16 - 5M
A. Write above answer
2. What constitutes a 'true and fair' view is the matter of an auditor's judgement in the particular circumstances of a case. In order to ensure 'true and fair' view, auditor has to review certain points. Mention any such 5 (five) points in brief. M18(N) - 5M
A. Write above answer

THE END

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