

Mock Test Paper - Series I: March, 2026

Date of Paper: 25th March, 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE: GROUP – II
PAPER – 5: AUDITING AND ETHICS
SUGGESTED ANSWERS / HINTS
Part I - Multiple Choice Questions

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

Part II - Descriptive Answers

1. (a) Inherent risk is the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements before consideration of any related controls as described in SA 200.

There is always a risk that before considering any existence of internal control in an entity, a particular transaction, balance of an account or a disclosure required to be made in the financial statements of an entity has a chance of being misstated and such misstatement can be material. This risk is known as inherent risk.

Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations. In the given case, revenue-sharing agreements with foreign distributors and application of a newly issued Accounting Standard involving multiple performance obligations require complex judgment and calculations, thereby increasing inherent risk in revenue recognition assertions.

Inherent risk factors are considered while designing tests of controls and substantive procedures. Category of auditor's assessment lower or higher, each category covers a range of degrees of inherent risk. Auditor may assess the inherent risk of two different assertions as lower while recognizing that one assertion has less inherent risk than the other, although both have been assessed as lower.

It is important to consider the reason for each identified inherent risk even if the risk is lower, when auditor designs tests of controls and substantive procedures. For example, even if inventory valuation risk is assessed as lower, the auditor must understand why such assessment is appropriate in light of biotechnology products which may become obsolete quickly.

External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete. In the present case, rapid technological advancements in the pharmaceutical industry and recent insolvencies in the sector increase inherent risk relating to inventory valuation, going concern, and impairment of assets. Factors in the entity and its environment may also influence the inherent risk related to a specific assertion.

Few examples of inherent risks could include:

- An accounting standard provides guidance on some complex issue which might not be understood by the management. Therefore, recording of this issue in financial statements carries inherent risk of being misstated. In the given case, adoption of a new revenue standard increases such risk.
- There are large number of business failures in an industry. Therefore, assertions in financial statements of an entity operating in such an industry

carry an inherent risk of being misstated. Here, recent insolvencies in the pharmaceutical sector increase inherent risk relating to recoverability of receivables and going concern assumptions.

Inherent risk exists independently of internal controls and represents the susceptibility of assertions to material misstatement. In the given case, complex revenue arrangements, adoption of a new Accounting Standard, technological changes, and industry instability significantly increase inherent risk. Accordingly, the auditor must carefully assess inherent risk for each relevant assertion and design appropriate tests of controls and substantive procedures to obtain sufficient and appropriate audit evidence.

(b) In the given case, the shareholders of Orion Engineering Ltd. have requested the auditor to perform certain activities which fall outside the normal scope of audit. The scope of audit does not include the following:

1. Matters outside the auditor's technical competence: An auditor is not expected to perform duties that require specialised technical expertise beyond accounting and auditing knowledge. For instance, determining the physical condition or useful life of sophisticated machinery or assessing the structural suitability of buildings requires technical skills of engineers or other experts. Therefore, the auditor cannot certify such matters.
2. Authentication of documents: An auditor is not an expert in detecting forgery or verifying the genuineness of documents. While the auditor may examine documents as audit evidence, he cannot guarantee their authenticity because he does not possess specialised expertise in forensic document verification.
3. Conducting an official investigation: An audit is not an official investigation into alleged wrongdoing. The auditor does not possess legal powers such as searching premises or recording statements of witnesses on oath, which are generally available to investigative authorities.
4. Audit is distinct from investigation: Investigation involves a critical examination of accounts with a specific purpose, such as determining whether fraud exists. Its scope is specific and narrow.

On the other hand, the objective of audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion. The scope of audit is general and broad, whereas the scope of investigation is specific and narrow.

Accordingly, in the given case, the auditor of Orion Engineering Ltd. is justified in clarifying that certification of technical condition of machinery, authentication of documents, and conducting a detailed fraud investigation fall outside the normal scope of audit and such matters may require involvement of experts or a separate investigation.

- (c) As per SA 505 relating to external confirmations, the auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence or whether performing further audit procedures is necessary.

When evaluating the results of individual external confirmation requests, the auditor may categorise such results as follows:

- (a) Positive confirmation request
- (b) Negative confirmation request;
- (c) A non-response; or
- (d) A response indicating an exception.

Applying the above principles to the given case:

1. 15 responses confirming balances without any difference: These fall under Positive confirmation 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.
2. 3 responses were received directly to the auditor only if they disagree with the information provided in the request: These fall under Negative confirmation request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
3. 5 customers who did not respond despite follow-up requests: These fall under non-response. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered. A non-response does not provide audit evidence and therefore alternative audit procedures may be required.
4. 2 responses indicating lower balances than those stated in the confirmation requests: These fall under a response indicating an exception. 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. Such exceptions require investigation to determine whether they represent misstatements.

The auditor's evaluation of the above results, when taken into account with other audit procedures performed, shall assist in concluding whether sufficient appropriate audit evidence has been obtained, as required by SA 330.

2. (a) **Recorded purchases represent goods actually received/ services availed during the period (OCCURRENCE):** Ensure purchases are not understated/ overstated by performing following audit procedures:

- Whether any fictitious vendors have been booked or purchases have been recorded by reviewing the vendor selection process followed by the entity and also performing procedures to ensure existence of the vendors.
- Whether the goods were received at the factory gate and whether there exists an entry in the security gate inward register.
- Whether quality inspection of goods was done.
- Whether a goods receipt note was prepared and signed by an appropriate client personnel.
- Whether the purchase invoice was approved as per delegation of authority and whether a 3 or 2-way match was done.
- Whether stock record has been updated by the stores personnel.

In the given case, since purchases form a material component of the financial statements and weaknesses in controls have been indicated, the auditor must perform detailed substantive and control procedures as above to obtain sufficient and appropriate audit evidence that purchases recorded during the year represent genuine transactions relating to goods actually received or services availed. If these procedures provide satisfactory evidence, the occurrence assertion in respect of purchases may be considered as appropriately addressed; otherwise, appropriate modifications or reporting implications may arise.

(b) In the given case of ABC Bank Ltd., there is a substantial increase in operating expenses disproportionate to growth in income, along with system changes and decentralised authorisation. Accordingly, the auditor needs to design audit procedures addressing both control and substantive aspects.

The auditor should:

- study and evaluate the system of internal control relating to expenses, including authorisation procedures in order to determine the nature, timing and extent of his other audit procedures.

(Considering that branch managers have discretionary powers and the bank has migrated to a centralised expense system, special attention should be given to approval hierarchies, maker-checker controls, system-based authorization limits, and monitoring controls.)

- examine whether there are any divergent trends in respect of major items of expenses.

(In the present case, abnormal increase in staff welfare expenses, IT maintenance charges and rent requires detailed trend analysis branch-wise and region-wise to identify unusual patterns.)

- perform substantive analytical procedures in respect of these expenses. e.g. assess the reasonableness of expenses by working out their ratio to total operating expenses and comparing it with the corresponding figures for previous years.

(The auditor may also compare expense ratios with industry averages of other scheduled commercial banks and correlate expenses with number of branches, employee strength and business volume.)

- verify expenses with reference to supporting documents and check the calculations wherever required.

(Particular emphasis should be placed on high-value payments, year-end provisions, related party transactions and expenses incurred at branches where internal audit observations were adverse.)

In view of the significant increase in operating expenses and control weaknesses indicated by internal audit reports, the auditor should adopt a risk-based approach combining evaluation of internal controls, analytical procedures and detailed substantive testing. If adequate audit evidence is obtained and no material misstatements are found, the auditor may conclude that operating expenses are fairly stated. However, any material weakness in internal controls or unexplained abnormal trends may require appropriate reporting in the audit report or Long Form Audit Report (LFAR), as applicable to banks.

- (c) There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence

about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.

In the given case, Bright Vision Ltd. introduced significant changes in its operations, such as online sales, third-party warehouses, implementation of a new ERP system, and extended credit terms. These changes directly impacted revenue recognition, inventory control, receivables management, and internal controls. However, the audit firm failed to revise or review the existing audit programme and continued to apply procedures designed for a traditional wholesale model.

The utility of the audit programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed. Since no review was undertaken, the audit procedures became outdated and inadequate to address the changed risk environment.

Although assistants are required to strictly follow the audit programme as approved by the principal, the responsibility to update and revise the programme lies with the auditor. The argument that adherence to a fixed programme creates rigidity is not valid, provided periodic review is undertaken and assistants are encouraged to observe and report significant changes in the client's accounting functions.

The auditor was not justified in continuing with the obsolete audit programme without periodic review. Failure to revise the audit programme in light of significant business and control changes amounts to negligence, and the auditor may be held responsible for inadequately conducted audit and consequent legal implications.

3. (a) Examples of factors influencing Sample Size for Test of Details:
 - (i) **Desired Level of Assurance:** An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population will increase the sample size. Hence, greater the level of assurance that the auditor requires that the results of the sample are in fact indicative of the actual amount of misstatement in the population, the larger the sample size needs to be.
 - (ii) **Stratification of Population:** When stratification of the population is appropriate, then sample size will decrease as when there is a wide range

(variability) in the monetary size of items in the population, it may be useful to stratify the population. When a population can be appropriately stratified, the aggregate of the sample sizes from the strata generally will be less than the sample size that would have been required to attain a given level of sampling risk, had one sample been drawn from the whole population.

Thus, while determining the sample size for test of details, the auditor considers factors such as the desired level of assurance and the possibility of stratifying the population, as these directly influence the extent of sampling required.

(b) Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:

- Those that provide evidence of conditions that existed at the date of the financial statements; and
- Those that provide evidence of conditions that arose after the date of the financial statements.

Classification and Application to the Case

1. Events providing evidence of conditions that existed at the date of the financial statements: Examples of events providing evidence of conditions that existed at the date of the financial statements -

- Declaration of insolvency of a major debtor of the entity between the date of financial statements and the date of auditor's report providing evidence on the recoverability of the money due from debtor as on date of the financial statements.

In the present case, insolvency of the debtor owing ₹ 8 crores indicates that the financial difficulty existed as at 31st March 2025. Therefore, this is an adjusting event. The financial statements require adjustment by creating appropriate provision / writing off the debtor. Mere disclosure is not sufficient.

- Settling a legal claim outside the court at a reduced amount between the date of financial statements and the date of auditor's report for which provision has already been made in financial statements. It provides evidence on adjustment in provision amount already made in financial statements, if any.

In the present case, settlement at ₹ 1.80 crores provides evidence regarding the best estimate of liability as at 31st March 2025. Therefore, the excess provision of ₹ 1.20 crores should be reversed. This is also an adjusting event.

2. Events providing evidence of conditions that arose after the date of the financial statements: Examples of events providing evidence of conditions that arose after the date of the financial statements

- Issue of new share capital.
- Planned merger of the company.
- Destruction of substantial inventories due to fire between the date of the financial statements and the date of auditor's report.

In the present case:

- Issue of fresh equity shares is a non-adjusting event. It does not affect financial position as at 31st March 2025 but requires disclosure if material.
- Approval of merger plan is also a non-adjusting event requiring disclosure.
- Destruction of inventory due to fire occurred after the reporting date and relates to a new condition. Hence, it is a non-adjusting event. Only disclosure is required, unless it affects going concern assumption.

In the given case, management has merely disclosed all events without making adjustments.

- Non-provision for insolvent debtor and
- Non-reversal of excess legal provision

constitute material misstatements since they are adjusting events requiring modification of figures in the financial statements.

Therefore, unless management makes necessary adjustments, the auditor should modify the audit opinion in accordance with SA 705.

Disclosure alone is sufficient for issue of share capital, planned merger, and destruction of inventory due to fire, as they are non-adjusting events.

Accordingly, management's treatment is partially incorrect, and necessary adjustment is required.

- (c) Power of Central Government to direct special audit in certain cases – Under Section 77 of the Multi-State Co-operative Societies Act, 2002, where the Central Government is of the opinion:
- (a) that the affairs of any Multi-State co-operative society are not being managed in accordance with self-help and mutual aid and co-operative principles or prudent commercial practices or with sound business principles; or
 - (b) that any Multi-State co-operative society is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains; or
 - (c) that the financial position of any Multi-State co-operative society is such as to endanger its solvency,

the Central Government may, by order, direct that a special audit of the accounts of the society shall be conducted and may appoint a Chartered Accountant or such other qualified person as may be prescribed to conduct such audit.

Application to the Given Case: In the present case, the following circumstances are observed:

- Granting unsecured advances to related parties and ignoring internal audit findings indicate deviation from prudent commercial practices and sound business principles.
- Awarding procurement contracts without competitive bidding reflects non-adherence to co-operative principles and transparency.
- Abnormal increase in borrowings and use of short-term funds for long-term assets indicates weak financial discipline.
- Persistent cash flow mismatch and solvency concerns suggest that the financial position may endanger its solvency.
- Complaints from trade associations regarding market distortion indicate management in a manner likely to cause serious injury to the trade or industry concerned.

Thus, the facts satisfy clauses (a), (b), and (c) of Section 77.

Considering the above statutory provisions and the facts of the case, the Central Government is legally empowered under Section 77 of the Multi-State Co-operative Societies Act, 2002 to order a special audit of GreenGrow Multi-State Co-operative Society Ltd.

The invocation of special audit provisions is fully justified as the management practices, financial instability, and potential harm to trade clearly fall within the scope of Section 77.

4. (a) **Concept of overall audit strategy:** As per SA 300 – Planning an Audit of Financial Statements, the auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit and that guides the development of the audit plan.

In the given case, since First Heavy Engineering Ltd. has multiple locations and complex transactions such as specialised inventory and long-term contracts, the auditor is required to determine the appropriate deployment and management of audit resources while planning the audit.

The process of establishing the overall audit strategy assists the auditor to determine, subject to completion of the auditor's risk assessment procedures, such matters as:

- (i) **The resources to deploy for specific audit areas**, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters like valuation of specialised inventory or long-term contract accounting.
- (ii) **The amount of resources to allocate to specific audit areas**, such as the number of team members assigned to observe inventory counts at major warehouses, the extent of review of other auditors' work in case of multiple locations, or the audit budget in hours to allocate to high-risk areas.
- (iii) **When these resources are to be deployed**, such as whether certain procedures should be performed during the interim audit stage or at the year-end and key cut-off dates.
- (iv) **How such resources are managed, directed and supervised**, such as scheduling team briefing and debriefing meetings, determining how engagement partner and manager reviews will take place (on-site or off-site), and deciding whether an engagement quality control review is required.

Therefore, while auditing First Heavy Engineering Ltd., the auditor should establish an appropriate overall audit strategy to ensure proper allocation, timing, and supervision of audit resources so that the audit is conducted efficiently and in accordance with SA 300.

- (b) In the given case, issues relating to independence and ethical requirements have arisen during the audit engagement. As per SA 220, the Engagement Partner is responsible for forming a conclusion on compliance with relevant ethical requirements, including independence.

The responsibilities of an engagement partner in relation to ethical requirements in an audit engagement are as under: -

- **Identifying a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level.**

In the present case, financial interest held by the spouse of a team member, provision of consultancy services, and offer of advisory position may create self-interest, self-review, and familiarity threats. The Engagement Partner must evaluate whether these threats are significant and whether available safeguards (such as removal of the concerned team member, independent review, or discontinuation of non-audit services) can reduce the threats to an acceptable level.

- **Reporting by engagement partner to the relevant persons within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is legally permitted.**

Accordingly, Mr. A must communicate these matters to the appropriate authority within the firm (such as the Ethics Partner or Managing Partner). If safeguards are not sufficient to mitigate the threats, appropriate action must be taken. This may include:

- Disposal of the financial interest,
- Removal of affected personnel from the engagement,
- Discontinuation of conflicting services, or
- Withdrawal from the audit engagement, where withdrawal is legally permitted.

In the given case, the Engagement Partner is duty-bound under SA 220 to evaluate the identified threats to independence, ensure compliance with ethical requirements, and take appropriate corrective action. If the threats cannot be eliminated or reduced to an acceptable level through safeguards, the firm must either eliminate the underlying cause or withdraw from the engagement, as permitted by law. Failure to do so would amount to non-

compliance with SA 220 and compromise the quality and credibility of the audit.

- (c) As per Clause (ii) of Paragraph 3 of the Companies (Auditor's Report) Order, 2020, the auditor's report shall include a statement on the following matters relating to inventory:
- (a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;
 - (b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

5. (a) **Specific Evaluations by the Auditor:** In particular, the auditor shall evaluate whether:
- (a) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

Further, when the financial statements are prepared in accordance with a fair presentation framework, the evaluation mentioned above shall also include an

evaluation by the auditor as to whether the financial statements achieve fair presentation, which shall include consideration of:

- (a) The overall presentation, structure and content of the financial statements; and
- (b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

- (b)** Audit procedures generally required to be undertaken while auditing employee benefits expenses:
 1. Obtain an understanding of entity's process of capturing employee attendance. There is always a risk that an entity could record expense for fictitious employees. To address this risk, the auditor may choose to meet the employees in person, on a sample basis. Further, the auditor may choose to select a sample of employees and ask the payroll department to share their bank details/ identity proofs of the employees.
 2. Obtain a list of employees as at the period- end along with a monthly movement split between new hires, leavers and continuing employees.
 3. For a sample (selected randomly) of new hires, obtain the appointment letter and verify whether the salary for first month and subsequent months was processed as per the agreed terms.
 4. For a sample (selected randomly) of resigned employees, obtain their full and final computation and verify whether all their dues including post-retirement benefits like gratuity, leave encashment have been paid and whether the respective employee's acknowledgement on final computation has been obtained.
 5. Obtain the monthly salary registers for all 12 months. Compile a monthly payroll reasonability by calculating the average salary per employee per month and compare with the previous year and preceding month and analyse the reasons for variance which could be attributable to annual increments, an employee at senior level joining/ leaving the entity, bonus pay-out etc.
 6. Verify if accrual/ provision has been made for all employee benefits and obligations like bonus, gratuity, leave encashment, etc.

7. In case provident fund (PF), employee state insurance (ESI) are applicable to the entity, compile a reasonability by applying the rate to the basic wages and comparing to the amount recorded in books and analyse reasons for variance, if any. Also, obtain monthly deposit challans to verify if the month on month liability was subsequently deposited with the authorities and within the defined timelines.
8. Perform analytical procedures to obtain audit evidence as to overall reasonableness of employee benefit expenses which may include production per employee analysis. Auditor should analyse units produced per employee and compare the same with previous years and present industry trends and ask for the reasons from the management, if any significant variations are found.
9. Where employee benefit expenses have increased significantly as compared to the previous year, perform a detailed variance analysis by obtaining a break-up of the increase into components such as increase due to headcount, annual increments, bonus payouts, change in salary structure, actuarial remeasurement losses, or change in statutory contribution rates. Correlate the increase with supporting documentation such as board approvals for increments, bonus declarations, revised employment contracts, actuarial valuation reports, etc., and obtain management explanations for any abnormal or unexplained variances.

Thus, in the given case of Gama Manufacturing Limited, considering the significant increase in employee benefit expenses, the auditor should perform the above procedures including detailed variance analysis to ensure the increase is justified and properly supported. If sufficient appropriate audit evidence is obtained and the increase is adequately explained and supported, the auditor may conclude that employee benefit expenses are fairly stated. Otherwise, the auditor shall consider the implications for reporting in accordance with the applicable Standards on Auditing.

(c) Audit procedures while auditing provisions and contingent liabilities:

1. Obtain a list of all provisions and compare them with balances in the ledger.
2. Inspect the underlying agreements like agreement with customers to assess warranty commitments, any legal and other claims on the entity i.e. litigations.

3. Obtain the underlying working and the basis for each of the provisions made, from the management and verify whether the same is complete and accurate.
4. Wherever required, obtain expert's report, calculation and underlying working for the provision amount, example for warranty involving complex calculations, some entities get that valued through an actuary.
5. In the above case, the auditor may request the management to share the actuarial valuation report and in case of any matter under legal dispute, the auditor should request for assessment made by a legal expert in relation to likelihood of a liability devolving on the entity i.e. whether probable or possible or remote as defined above.
6. The auditor should then verify the underlying assumptions used by the expert with the data shared by the management.

6. (a) **Written representation about management's responsibilities involves confirmation of fulfilment of management's responsibilities in the preparation of the financial statements:** The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.

Due to its responsibility for the preparation and presentation of the financial statements and its responsibilities for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing and presenting the financial statements and the assertions therein on which to base the written representations.

In some cases, however, management may decide to make inquiries of others who participate in preparing and presenting the financial statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include:

- An actuary responsible for actuarially determined accounting measurements.
- Staff engineers who may have responsibility for and specialized knowledge about environmental liability measurements.
- Internal counsel who may provide information essential to provisions for legal claims.

In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations.

In the given case, the auditor may obtain written representations from management confirming that it has fulfilled its responsibility for the preparation and fair presentation of the financial statements. The inclusion of the phrase "to the best of its knowledge and belief" in the written representation may be accepted by the auditor, provided the auditor is satisfied that the representation is being made by management having appropriate responsibility and adequate knowledge of the matters concerned.

(b) SA 210 – Agreeing the Terms of Audit Engagements: In order to establish whether the preconditions for an audit are present, the auditor of Meet Electronics Ltd., CA S shall:

- (1) Determine whether the financial reporting framework is acceptable; and
- (2) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework;
 - (ii) For the internal control as management considers necessary; and
 - (iii) To provide the auditor with:
 - Access to all information such as records, documentation and other matters;
 - Additional information that the auditor may request from management for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Therefore, CA S should accept the audit engagement only after determining that an acceptable financial reporting framework is used and after obtaining management's acknowledgement and understanding of its responsibilities relating to preparation of

financial statements, internal control and providing necessary access and information required for the audit.

- (c) **Risk of Material Misstatement – Greater for Significant Non-Routine Transactions:** Significant risks often relate to significant non-routine transactions or judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently.

Risks of Material Misstatement– Greater for Significant Non-Routine Transactions

Risks of material misstatement may be greater for significant non-routine transactions arising from matters such as the following:

- (a) Greater management intervention to specify the accounting treatment.
- (b) Greater manual intervention for data collection and processing.
- (c) Complex calculations or accounting principles.
- (d) The nature of non-routine transactions, which may make it difficult for the entity to implement effective controls over the risks.

Keeping in view above, view of Auditor of Sunshine Ltd. is correct.

OR

- (c) **Objective of the Auditor:**

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Nature of Audit Documentation

Audit documentation provides:

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

Therefore, in the given case, CA P is required to ensure that the audit working papers properly document the procedures performed, evidence obtained and conclusions reached. Proper audit documentation enables the auditor to support the auditor's report and demonstrate that the audit was conducted in accordance with the Standards on Auditing and applicable legal and regulatory requirements.