



## CA Inter Audit Test-8 (SA 260/265/700/701/705/706/710)

Time: 1 Hour

Marks: 30 Marks

### Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

### MCQs [10 Marks (5Q \* 2 Marks each)]

**1. The description of the auditor's responsibilities for the audit of the financial statements shall be included:**

**I. Within the body of the auditor's report.**

**II. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix.**

**III. By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.**

- a) I,II
- b) I,III
- c) I,II or III
- d) II or III

### **Case Study**

M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients.

You are requested to go through the following and answer the questions that follow:

- During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial statements and if auditor persists they may give the effect in the next financial year.
- During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr B.
- During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm



has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based on above, answer following questions:

**2. In case of M/s Persistent & Company, what would be an ideal Audit Opinion?**

- (a) Unmodified
- (b) Qualified
- (c) Mention the fact in Emphasis of Matter Paragraph
- (d) Disclaimer

**3. In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?**

- (a) Qualified
- (b) Adverse
- (c) Disclaimer
- (d) Unmodified

**4. According to you, what would be appropriate course to take in case of M/s Honest & Associates?**

- (a) Issue Qualified Opinion
- (b) Issue Adverse Opinion
- (c) Mention the fact of change in method in Emphasis of Matter Paragraph
- (d) Issue Disclaimer of Opinion

**5. When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:**

- (a) Modified Opinion
- (b) Qualified Opinion
- (c) Disclaimer of Opinion
- (d) Unmodified Opinion



### Descriptive Questions [20 Marks]

1. CA. N has been appointed as an auditor of TRP Ltd. While conducting the audit he has identified some deficiencies in the Internal control. He needs to determine whether a deficiency or combination of deficiencies in internal control constitutes a "significant deficiency" and has to communicate them in writing to those charged with Governance and management on a timely basis. Guide CA. N with some examples of matters to be considered while determining 'significant deficiency' in internal control with reference to relevant SA.

[5M]

2. The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Explain stating clearly specific evaluations made by the auditor.

[5M]

3. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, explain the areas of concern that an auditor should take into account.

[3M]

Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not considered as a substitute or alternative for a number of important items. What are those items?

[2M]

4. UVW & Associates are the statutory auditors of Moon Ltd., a listed company, for the financial year 2023-24. CA Udhav is the engagement partner for the audit assignment. He was of the understanding that as per the requirement of one of the SAs he has a responsibility to communicate following matters to those charged with governance:

- a) The auditor's responsibilities in relation to the financial statement audit.
- b) Planned scope and timing of the audit.
- c) Auditor independence

Which of the matters is not included in the list prepared by CA Udhav. Discuss such matter in detail.

[5M]