

MULTIPLE CHOICE QUESTIONS (MCQs) ON ENGAGEMENT AND QUALITY CONTROL STANDARDS

(As on July 1, 2020)



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Multiple Choice Questions (MCQs) on Engagement and Quality Control Standards



Auditing and Assurance Standards Board
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Disclaimer: This publication has been prepared to provide knowledge of Engagement and Quality Control Standards in the form of Multiple Choice Questions (MCQs) and it is not a substitute to the complete text of Engagement and Quality Control Standards. Every effort is made to avoid errors or omissions in this publication, errors or mistakes, if any, are unintentional. In case of any divergence between the material of this publication and the text of Engagement and Quality Control Standards, the later should be considered as the authoritative version.

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Foreword

Engagement and Quality Control Standards are performance benchmarks for the members while performing auditing, review, assurance and related services engagements. The Institute of Chartered Accountants of India (ICAI) through its Auditing and Assurance Standards Board (AASB) is making every possible effort to ensure that these standards are understood and implemented in the same spirit in which these standards have been formulated. For this purpose, AASB has taken various steps like organizing regular training programmes on standards, issuing implementation guides on standards, issuing non-authoritative literature on standards, running e-learning course on standards.

I am happy to note that the AASB of ICAI is bringing out this “Multiple Choice Questions (MCQs) on Engagement and Quality Control Standards”. The publication contains a number of MCQs on each of the 46 Engagement and Quality Control Standards issued till date. The publication is quite comprehensive containing around 1200 MCQs.

I wish to place my appreciation for CA. G. Sekar, Chairman, CA. (Dr.) Debashis Mitra, Vice-Chairman and all members of the Auditing and Assurance Standards Board for taking this timely initiative of bringing out this publication for creating awareness about the Engagement and Quality Control Standards for the benefit of members and other stakeholders at large.

I am sure that the members and other interested readers would find this publication immensely useful.

June 11, 2020
New Delhi

CA. Atul Kumar Gupta
President, ICAI

Preface

The Standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants represent the global best practices in performance of auditing, review, assurance and related services engagements and these Standards are globally accepted and used by various jurisdictions. The Engagement and Quality Control Standards used in India have been converged with the corresponding international Standards issued by IAASB. The Auditing and Assurance Standards Board (AASB) of ICAI has taken various initiatives in order to provide support to the members in effective implementation of these standards. These initiatives include organizing regular training programmes on standards, issuing implementation guides on standards, running e-learning course on standards, issuing non-authoritative literature on standards.

AASB feels happy to publish this “Multiple Choice Questions (MCQs) on Engagement and Quality Control Standards”. The publication contains number of MCQs on all the 46 Engagement and Quality Control Standards issued till date. These MCQs are in the form of select true or false, fill in the blanks, match the order, choose the correct option. Readers are cautioned that this publication is not a substitute of complete text of the standards and the complete text of the standards should always be referred for comprehensive knowledge on the subject.

We place on record our gratitude to all experts viz. CA. Khushroo B. Panthaky, CA. Manoj Daga, CA. Deepa Agarwal, CA. Archana Bhutani, CA. Madhumathi L, CA. Amit Mitra, CA. Radhika Sharma, CA. Anuradha Jain, CA. Amruta Rangnekar, CA. Amit Goel for their contribution in developing MCQs for enrichment of knowledge of the members.

We wish to express our sincere thanks to CA. Atul Kumar Gupta, Honourable President, ICAI and CA. Nihar Niranjana Jambusaria, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

We also wish to place on record our sincere thanks to all the Board members for their suggestions, support and guidance in finalising various pronouncements of the Board. We sincerely appreciate the efforts made by CA. Megha Saxena, Secretary, AASB and other staff of AASB in reviewing the MCQs developed by experts and finalizing this publication.

We are confident that the readers would find this publication very useful.

CA. (Dr.) Debashis Mitra

Vice Chairman

Auditing and Assurance Standards Board

CA. G. Sekar

Chairman

Auditing and Assurance Standards Board

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SQC 1 - Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

Select True or False:

1. There are benchmarks or exemptions to firms for applicability of SQC 1.
 - a) True
 - b) False
2. To act as the engagement quality control reviewer, the person should mandatorily be a member of ICAI.
 - a) True
 - b) False
3. A team of individuals (partner, other persons in the firm and / or qualified external person) can act as engagement quality control reviewer.
 - a) True
 - b) False
4. In case where engagement quality control review is performed by a team of individuals, the head of the team should mandatorily be a member of ICAI.
 - a) True
 - b) False
5. Suitably qualified external person may or may not be a member of ICAI.
 - a) True
 - b) False
6. The firm can take external consultations.
 - a) True
 - b) False
7. Engagement quality control review is mandatorily required for all listed entities.
 - a) True
 - b) False
8. Engagement partner always selects the engagement quality control reviewer.
 - a) True
 - b) False

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9. Engagement quality control reviewer can participate in the engagement during the period of review.
- a) True
 - b) False
10. The firm is under an obligation to share the engagement documentation with the client in case there is no specific law or regulation requiring the firm to do so.
- a) True
 - b) False

Choose the correct option from the following:

11. What is excluded from the definition of "Firm"?
- a) Sole practitioner
 - b) Partnership
 - c) Corporation
 - d) Other entity of professional accountants
12. Independence required by the Code is applicable to:
- a) Firm and Firm's personnel
 - b) Network firm personnel
 - c) Experts contracted by the firm
 - d) All of the above
13. What should be the frequency to obtain written confirmation of compliance with firm's independence policies and procedures?
- a) Half yearly
 - b) Yearly
 - c) Once in two years
 - d) Once in three years
14. What is be the maximum continuing period an engagement partner can serve on the listed entities?
- a) Five years
 - b) Three years
 - c) Seven years
 - d) Two years
15. What action should be taken by the sole practitioner involved in assurance engagement of a listed entity after the completion of seven years?
- a) Resign
 - b) No action required
 - c) Get the peer review done
 - d) Change the independent engagement quality reviewer

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16. What consideration should be exercised before acceptance or re-acceptance of a client relationship or specific engagement?
 - a) Business reputation of client's principal owners, key management, related parties and those charged with governance
 - b) Limitation on the scope of work and involvement, if any, in money laundering activities
 - c) Reason for proposed appointment of the firm and non-reappointment of the previous firm
 - d) All of the above
17. What is the maximum recommended time limit within which assembly of engagement files should be completed after the engagement reports have been finalized?
 - a) 30 days
 - b) 45 days
 - c) 65 days
 - d) 60 days
18. What is the minimum period for which engagement documentation is to be retained?
 - a) Five years
 - b) Seven years
 - c) Ten years
 - d) Eight years
19. Engagement documentation is the property of:
 - a) Firm
 - b) Client

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

Select True or False:

1. Audit risk can be reduced to zero.
 - a) True
 - b) False
2. Auditor shall be independent of auditee only in terms of financial interest in auditee.
 - a) True
 - b) False
3. The audit risk, for the purpose of Standards on Auditing, includes risk that the auditor may express an opinion that the financial statements are materially misstated when they are not.
 - a) True
 - b) False
4. An internal control which is well designed and operating would eliminate the risk of material misstatement in the financial statements.
 - a) True
 - b) False
5. As per Standards on Auditing, the auditor is expected to be an expert in the authentication of documents.
 - a) True
 - b) False
6. Material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with Standards on Auditing.
 - a) True
 - b) False

Choose the correct option from the following:

7. The purpose of audit of financial statements in context of SA 200 is:
 - a) Compliance with regulatory requirements of Companies Act 2013, SEBI and other regulators;
 - b) Enhance the degree of confidence of intended users of financial statements;

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- c) Prevent or detect the fraud or error;
 - d) Enable management of the company to understand the financial position of the company.
8. Professional judgement and professional skepticism shall be exercised by the auditor during:
- a) Identifying and assessing the risk of material misstatement
 - b) While forming an opinion based on conclusion drawn
 - c) While obtaining sufficient and appropriate audit evidence
 - d) All of the above
9. Auditor's opinion on the financial statement provides:
- a) True and fair view
 - b) True and correct view
 - c) List of frauds and misstatements
 - d) All of the above
10. The fair presentation financial reporting framework, under which the financial statements are prepared, refers to:
- a) Compliance with the requirements of the framework;
 - b) Compliance with the requirements of the framework and explicitly acknowledges that for fair presentation, it may be necessary for management to provide disclosures, beyond or may depart from, the requirement of framework;
 - c) Both (a) and (b)
 - d) None of the above
11. Which of the following statement is correct?
- a) Materiality is applied by the auditor only during the planning stage of an audit
 - b) Auditor of the financial statement shall be independent of the auditee only at the beginning of the audit
 - c) Auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole
 - d) All disclosures in the financial statements shall be as per guidance by auditor of the financial statements
12. In an audit of financial statements, when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for the purposes of reporting then:
- a) Auditor shall resign if legally permitted;
 - b) Auditor shall disclaim an opinion;
 - c) Auditor shall highlight the circumstances to Central Government;
 - d) Either (a) or (b)

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13. Risk of material misstatement in an audit of financial statements may exist at:
- a) Overall financial statements level
 - b) Assertion level
 - c) Both (a) and (b)
 - d) Either (a) or (b)
14. The inherent limitations of an audit arise from:
- a) The nature of financial reporting
 - b) The nature of audit procedures
 - c) The need for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - d) All of the above
15. Identify the correct sentence from the following, considering the audit of financial statements carried out by an Independent Auditor:
- a) An Audit of financial statements is an official investigation of auditee's financials statements
 - b) An audit is not an official investigation into alleged wrongdoing
 - c) An Auditor is given with certain legal powers like power to search which may be necessary for concluding the audit
 - d) None of the above
16. In the event that the requirement of applicable laws and regulations differ from the requirements of SAs, an audit conducted in accordance with the law and regulation will:
- a) Not automatically comply with SA
 - b) Will automatically comply with SA
 - c) Be enough for an auditor to conclude and express the audit opinion
 - d) Require an auditor to obtain legal advice
17. Profession skepticism means:
- a) Being alert
 - b) Questioning mind
 - c) Both (a) and (b)
 - d) None of the above
18. Which of the following statement is incorrect?
- a) Reasonable assurance means absolute level of assurance
 - b) Reasonable assurance gives high level of assurance
 - c) Limited assurance is also known as negative assurance
 - d) Application of Standards on Auditing is mandatory in the audit of financial statements

Choose all the correct options from the following:

19. Professional judgment is necessary, and in particular, for the decisions relating to:
- a) Accepting the audit engagement
 - b) Materiality and audit risk
 - c) Assessing the reasonableness of the estimates made by management in preparing the financial statements
 - d) Communicating the matters with those charged with governance
20. Ethical requirements relating to an audit of financial statements is specified under SA 200 and includes:
- a) Confidentiality and Objectivity
 - b) Profitability
 - c) Accuracy
 - d) Integrity

SA 210 - Agreeing the Terms of Audit Engagements

Select True or False:

1. If the terms of audit engagement is governed by laws and regulations, a written engagement letter is not compulsory.
 - a) True
 - b) False
2. When the auditor of a parent entity is also the auditor of a component, one of the factor that may influence the decision whether to send a separate audit engagement letter to the component is “the degree of independence of the component management from the parent entity”.
 - a) True
 - b) False
3. If the preconditions for an audit are not present, the auditor shall discuss the matter with management and with those charged with governance.
 - a) True
 - b) False
4. If management or those charged with governance impose a limitation on the scope of the auditor’s work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.
 - a) True
 - b) False
5. The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation.
 - a) True
 - b) False

Fill in the blanks:

6. When there is a conflict between standards and additional requirements prescribed under laws & regulations, an auditor should discuss with _____ the additional requirements, and agree whether:
 - I. Additional requirements can be met through additional disclosures in the Financial Statements; or

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II. Description of financial reporting framework in financial statement can be amended accordingly.

III. If neither possible, consider effect on_____.

Solution:

- a) Management, audit opinion
- b) Those charged with governance, auditors report

7. The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through_____ that there is common understanding between the auditor and management. and, where appropriate, those charged with governance of the terms of the audit engagement.

- a) Confirming
- b) Establishing

8. Preconditions for an audit means the use by management of an_____ financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.

- a) Acceptable
- b) Applicable

Choose the correct option from the following:

9. When should the auditor agree with the management or those charged with governance on the basic premise on which audit is conducted?

- a) During the audit
- b) After the audit
- c) Before the audit

10. What will be the course of action if the management does not acknowledge its responsibilities or agree to provide written representations for an audit?

- a) Auditor will be unable to obtain sufficient appropriate audit evidence
- b) Do not accept engagement unless required by Laws and regulations
- c) If auditor is required to accept engagement, explain to management the importance of these matters & impact on auditor's report
- d) All the above

11. When is it appropriate to revise the terms of audit engagement or remind the existing terms to the entity?

- a) Any indication that the entity misunderstands objective and scope of the audit
- b) Any revised or special terms of the audit engagement

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- c) A significant change in ownership
 - d) A significant change in nature or size of the entity's business
 - e) A change in legal or regulatory requirements
 - f) All the above
12. The auditor shall agree the terms of the audit engagement with:
- a) Management
 - b) Those charged with governance
 - c) Management or those charged with governance, as appropriate
 - d) Audit committee
13. The agreed terms of the audit engagement shall be recorded in:
- a) An audit engagement letter
 - b) An audit engagement letter or other suitable form of written agreement
 - c) Any suitable form of written agreement
 - d) None of the above
14. If law or regulation prescribes in sufficient detail the terms of the audit engagement:
- a) The auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities
 - b) The auditor need not record them in a written agreement
 - c) The auditor needs to record them in a written agreement
 - d) None of the above
15. A request from the entity for the auditor to change the terms of audit engagement may result from:
- a) A change in circumstances affecting the need for the service
 - b) A misunderstanding as to the nature of an audit as originally requested
 - c) A restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances
 - d) All of the above
16. Circumstances that may warrant the revision in terms of engagement as per SA 210.
- a) Significant change in ownership
 - b) Significant change in nature or size of the entity's business
 - c) Change in legal or regulatory requirements
 - d) All of above

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17. The audit engagement letter may make reference to:
- a) Elaboration of the scope of the audit, including reference to applicable legislation, regulations, Standards on Auditing, and ethical and other pronouncements of professional bodies
 - b) The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with SA 701
 - c) The expectation that management will provide written representations
 - d) All of the above
 - e) Only (a) & (b)

Choose all the correct options from the following:

18. What factors are considered by auditors for determining acceptability of Financial Reporting framework?
- a) The nature of the entity
 - b) The nature and purpose of the financial statements
 - c) Convenience and ease of the financial reporting framework
 - d) Whether law or regulation prescribes the applicable financial reporting framework
 - e) None of the above
 - f) All the above
19. If the auditor is unable to agree with changed terms of audit engagement he shall:
- a) Withdraw if permitted under laws and regulations
 - b) Determine for need to report to other parties such as those charged with governance, owners or regulators
 - c) Issue a qualified opinion
 - d) Finish the audit as per old terms of engagement
 - e) None of the above
20. The agreed terms of the audit engagement shall include:
- a) Responsibilities of the Auditor
 - b) Objective and Scope of audit
 - c) The responsibilities of management and identification of the applicable financial reporting framework
 - d) All of the above

SA 220- Quality Control for an Audit of Financial Statements

Select True or False:

1. SA 220 deals with specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.
 - a) True
 - b) False
2. SA 220 presumes firm is applying SQC 1.
 - a) True
 - b) False
3. Engagement team does not include any outside expert.
 - a) True
 - b) False
4. Engagement quality control reviewer can review the auditor's proposed report.
 - a) True
 - b) False
5. An engagement team also includes a member using expertise in a specialised area other than accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement.
 - a) True
 - b) False
6. The engagement partner need not review all audit documentation, but may do so. However, as required by SA 230, the partner documents the extent and timing of the review.
 - a) True
 - b) False
7. Engagement team can consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organisations that provide relevant quality control services.
 - a) True
 - b) False

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Fill in the Blanks:

8. _____ is procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
 - a) Monitoring
 - b) Inspection
9. _____ is process comprising an ongoing consideration and evaluation of the firm's system of quality control.
 - a) Monitoring
 - b) Inspection
10. Engagement quality control reviewer is required to objectively evaluate significant judgments/ conclusions of _____.
 - a) Engagement team
 - b) Engagement partner
11. Staff includes _____ other than partners, including any experts, which the firm employs.
 - a) Professionals
 - b) Persons
12. Auditor is required to document the nature and _____ of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.
 - a) Scope
 - b) Extent
13. The engagement partner may identify a threat to independence regarding the audit engagement that _____ may not be able to eliminate or reduce to an acceptable level.
 - a) Safeguards
 - b) Measures
 - c) Necessary protection
14. The engagement partner shall form a _____ on compliance with independence requirements that apply to the audit engagement.
 - a) Conclusion
 - b) Opinion
15. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm, and other network firms and whether _____ noted in that information may affect the audit engagement.
 - a) Material misstatements
 - b) Deficiencies
 - c) Significant Risks

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16. The engagement quality control reviewer shall document, that he is not aware of any _____ matters that would cause him to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.
- a) Unresolved
 - b) Significant
17. The _____ of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement.
- a) Responsibility
 - b) Performance
 - c) Completion
18. Documentation of the engagement quality control review may be completed _____ the date of the auditor's report as part of the assembly of the final audit file.
- a) After
 - b) near
 - c) Before
19. Timely reviews of the significant risks by the engagement partner at _____ stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report.
- a) Appropriate
 - b) Relevant
20. The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and _____.
- a) Regulatory and legal requirements
 - b) Relevant ethical requirements
 - c) Independence requirements

Choose the correct option from the following:

21. Appointment of engagement quality control reviewer is mandatory in case of audit of financial statements of:
- a) Any entity
 - b) Any entity except One Person Company and Small Company
 - c) Listed Entity
 - d) None of these

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22. The engagement quality control reviewer shall perform an object evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
- a) Discussion of significant matters with engagement team
 - b) Review of the financial statements and the proposed auditor's report
 - c) Review of selected audit documentation relating to the significant judgements and the engagement team made and the conclusions it reached
 - d) All of the above

SA 230 - Audit Documentation

Select True or False

1. For the purpose of SA 230 'Audit documentation' the term "Experienced Auditor" does not include an individual who is external to the firm.
 - a) True
 - b) False
2. The advantage of audit documentation is that in case of regulatory inspection at the entity, audit documentation can also serve as a substitute for entity's accounting records.
 - a) True
 - b) False
3. 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.
 - a) True
 - b) False
4. After the assembly of the final audit file has been completed, the auditor may delete or discard audit documentation of any nature before the end of its retention period.
 - a) True
 - b) False
5. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.
 - a) True
 - b) False
6. The auditor may include abstracts or copies of the entity's records as part of audit documentation.
 - a) True
 - b) False
7. Oral explanations by the auditor on their own may represent adequate support for the work auditor performed or conclusions the auditor reached.
 - a) True
 - b) False

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8. The absence of a documentation requirement in any particular SA is not intended to suggest that there is no documentation that will be prepared as a result of complying with that SA.
 - a) True
 - b) False
9. It is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.
 - a) True
 - b) False
10. Recording the identifying characteristics serves a number of purposes. Identifying characteristics will not vary with the nature of the audit procedure and the item or matter tested.
 - a) True
 - b) False
11. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review.
 - a) True
 - b) False
12. The documentation is limited to records prepared by the auditor and will not include records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor.
 - a) True
 - b) False
13. The requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.
 - a) True
 - b) False
14. Matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality, determined in accordance with SA 320, assessed risks, significant matters noted during the audit, and conclusions reached.
 - a) True
 - b) False

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15. Changes may be made to the audit documentation during the final assembly process if they are administrative in nature.
- a) True
 - b) False
16. SQC 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.
- a) True
 - b) False

Fill in the blanks:

17. The retention period for audit engagements ordinarily is no shorter than _____ from the date of the auditor's report, or, if later, the date of the group auditor's report.
- a) Five years
 - b) Seven years
 - c) Ten years
18. Audit documentation provides evidence that the audit complies with Standards on Auditing. However, it is neither necessary nor _____ for the auditor to document every matter considered, or professional judgment made, in an audit.
- a) Expected
 - b) Required
 - c) Practicable
19. An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of _____ in performing the work and evaluating the results.
- a) Risks identified
 - b) Professional judgment exercised
 - c) Audit evidence obtained
20. The auditor shall prepare audit documentation on a _____ basis.
- a) Regular
 - b) Timely
21. If the auditor identified information that is _____ with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.
- a) Inconsistent
 - b) Contradictory

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22. Experienced auditor is an individual who has _____ audit experience and a reasonable understanding of audit processes.
- a) Practical
 - b) Vast
23. After the assembly of the final audit file has been completed, the auditor shall not _____ audit documentation of any nature before the end of its retention period.
- a) delete or remove
 - b) delete or discard

Choose the correct option from the following:

24. Which of the following statement is incorrect?
- a) SA 230 is not to be applied where other SAs prescribe the specific audit documentation
 - b) SA 230 is to be adapted as necessary when applied to audits of other historical financial information
25. Which of the following serves as a purpose of Audit documentation?
- a) Assisting the engagement team to plan and perform the audit.
 - b) Assisting members of the engagement team responsible for supervision to discharge their review responsibilities
 - c) Retaining a record of matters of continuing significance to future audits
 - d) Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
 - e) All of the above
 - f) None of the above
26. The audit documentation shall include:
- a) Superseded drafts of working papers and financial statements
 - b) Duplicates of documents
 - c) Previous copies of documents corrected for typographical or other errors
 - d) All of the above
 - e) None of the above
27. A summary of audit documentation that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation is called as:
- a) Information memorandum
 - b) Completion memorandum
 - c) Planning memorandum

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28. SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. What is the appropriate time limit within which to complete the assembly of the final audit file after the date of the auditor's report?
- a) 30 days
 - b) 45 days
 - c) 60 days
 - d) 90 days
29. The audit documentation should be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
- a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
 - b) The results of the audit procedures performed, and the audit evidence obtained; and
 - c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
 - d) All of the above
 - e) None of the above
30. If the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:
- a) The circumstances encountered
 - b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report
 - c) When and by whom the resulting changes to audit documentation were made and reviewed
 - d) All of the above
31. Select the circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgment include where the matters and judgments are significant:
- a) The basis for the auditor's conclusion on the reasonableness of areas of subjective judgment
 - b) The basis for the auditor's conclusions about the authenticity of a document when further investigation causes the auditor to believe that the document may not be authentic
 - c) When SA 701 applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.
 - d) All of the above

MCQs on Engagement and Quality Control Standards

32. The audit documentation for the audit of a smaller entity is generally:
- a) Less extensive than that for the audit of a large entity
 - b) The same as to that of a large entity
 - c) SA 230 is not applicable for a smaller entity

Choose all the correct options from the following:

33. The form, content and extent of audit documentation depend on factors such as:
- a) The size and complexity of the entity
 - b) The experience of the auditor
 - c) The nature of the audit procedures to be performed
 - d) The medium used such as the paper or electronic format
 - e) The identified risks of material misstatement
 - f) The audit methodology and tools used

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

Select True or False:

1. SA 240 expands on how SA 315 and SA 330 are to be applied in relation to risks of material misstatement due to fraud.
 - a) True
 - b) False
2. The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.
 - a) True
 - b) False
3. Auditor should maintain professional skepticism throughout the audit, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.
 - a) True
 - b) False
4. Audit performed in accordance with Standards on Auditing rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication.
 - a) True
 - b) False
5. Inquiries with management provide useful information concerning the risks of material misstatements in the financial statements resulting from management fraud.
 - a) True
 - b) False
6. Unusual or unexpected relationships cannot be identified by performing analytical procedures.
 - a) True
 - b) False
7. There is no need to consider other information obtained for assessing risks of material misstatement due to fraud.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Fraud risk factors may not necessarily indicate the existence of fraud.
 - a) True
 - b) False
9. There is always presumed risk of fraud in revenue recognition.
 - a) True
 - b) False
10. Risk of management override of controls is always considered as a risk of material misstatement due to fraud and thus a significant risk.
 - a) True
 - b) False
11. Inconsequential matters related to fraud need not to be communicated to appropriate level of management.
 - a) True
 - b) False
12. Auditor's legal responsibilities may override the duty of confidentiality in some circumstances.
 - a) True
 - b) False
13. Retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year is not intended to call into question the auditor's professional judgments made in the prior year that were based on information available at that time.
 - a) True
 - b) False

Fill in the blanks:

14. Those charged with governance exercise _____ of management's processes for identifying and responding to the risks of fraud.
 - a) Oversight
 - b) Review
15. An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to _____ fraud, the adequacy of internal control over risks of fraud, and the competency and integrity of management.
 - a) Management
 - b) Employees
 - c) Third Party

MCQs on Engagement and Quality Control Standards

16. Determination of whether a fraud risk factor is present and whether it is to be considered in assessing the risks of material misstatement of the financial statements due to fraud requires the exercise of _____.
a) Professional Judgement
b) Power given to auditor in laws and regulations
17. Risk of material misstatement due to fraud is always treated as _____.
a) Significant Risk
b) Higher Risk
c) Inherent Risk
18. The extent of the procedures applied reflects the ____ of the risks of material misstatement due to fraud.
a) Assessment
b) Significance
19. Material misstatement of financial statements due to fraud often involves the manipulation of the ____ by recording inappropriate or unauthorized journal entries.
a) Financial reporting process
b) Internal reporting process
20. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters _____ to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.
a) On a timely basis
b) At the end of audit
c) Monthly basis
d) Quarterly basis
21. Where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to _____.
a) Obtain legal advice
b) Modify audit opinion
c) Communicate to regulatory authorities
d) Withdraw from the engagement
22. If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to _____.
a) A party outside the entity
b) Regulatory and enforcement authorities

MCQs on Engagement and Quality Control Standards

23. The auditor's professional duty to maintain the confidentiality of client information may _____ reporting fraud to a party outside the client entity.
- a) Prohibit
 - b) Preclude

Choose the correct option from the following:

24. Which of the following misstatements are relevant for auditor?
- a) Misstatements resulting from fraudulent financial reporting
 - b) Misstatements resulting from misappropriation of assets
 - c) Both (a) & (b)
 - d) None of the above
25. Fraudulent financial reporting can be accomplished by the following :
- a) Manipulation, falsification (including forgery), or alteration of accounting records
 - b) Misrepresentation in or intentional omission from, the financial statements
 - c) Intentional misapplication of accounting principles
 - d) All of the above
26. Primary responsibility for the prevention and detection of fraud rests with:
- a) Those charged with governance
 - b) Management
 - c) Both (a) & (b)
 - d) None of the above
27. Auditor's ability to detect a fraud depends on factors such as:
- a) Skilfulness of the perpetrator
 - b) The frequency and extent of manipulation
 - c) Degree of collusion involved
 - d) All of the above
28. Management is responsible for:
- a) Assessing risk of fraud
 - b) Identification of Fraud
 - c) Responding to Fraud
 - d) All of the above

MCQs on Engagement and Quality Control Standards

29. Which characteristics of the entity have a significant influence on the consideration of relevant fraud risk factors?
- a) Size, complexity, and ownership
 - b) Nature, time and extent of procedures
 - c) Competency of management
 - d) All of the above
30. Responses to address the assessed risks of material misstatement due to fraud are required at the:
- a) Financial Statement level
 - b) Assertion level
 - c) Both (a) & (b)
 - d) None of the above
31. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:
- a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals
 - b) Evaluate selection and application of accounting policies
 - c) Incorporate an element of unpredictability in the audit procedures
 - d) All of the above
32. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:
- a) Test the appropriateness of journal entries
 - b) Review accounting estimates
 - c) Assess significant transactions that are outside the normal course of business
 - d) All of the above
33. When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor should:
- a) Modify audit opinion
 - b) Evaluate the implications for the audit
34. If, auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:
- a) Determine the professional and legal responsibilities applicable in the circumstances
 - b) Consider whether it is appropriate to withdraw from the engagement
 - c) If the auditor withdraws, discuss withdrawal and its reasons with the appropriate level of management and those charged with governance
 - d) All of the above

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35. The written representations from management and, where applicable, those charged with governance shall include:
- a) Acknowledgement of their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud
 - b) Statement that they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - c) Statement that they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud
 - d) All of the above
36. The auditor's documentation of the understanding of the entity and its environment and the assessment of the risks of material misstatement shall include:
- a) Significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud
 - b) Identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level
 - c) Both (a) & (b)
 - d) None of the above

SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements

Select True or False:

1. It is the responsibility of the auditor to report every non-compliance.
 - a) True
 - b) False
2. To prevent the non-compliance of laws and regulations is primarily the job of the auditor and not of management.
 - a) True
 - b) False
3. The auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations unless a non-compliance is suspected or identified.
 - a) True
 - b) False
4. The management should design internal control procedures to prevent non-compliance.
 - a) True
 - b) False
5. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements.
 - a) True
 - b) False
6. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.
 - a) True
 - b) False
7. Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Non-compliance may include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.
 - a) True
 - b) False
9. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.
 - a) True
 - b) False
10. If the auditor suspects there may be non-compliance, the auditor should directly approach regulatory authorities instead of discussing the matter with management and where appropriate those charged with governance.
 - a) True
 - b) False
11. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.
 - a) True
 - b) False
12. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.
 - a) True
 - b) False
13. Detection of non-compliance, may affect other aspects of the audit only if it is material.
 - a) True
 - b) False
14. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine.
 - a) True
 - b) False

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15. In some audit engagements, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.
 - a) True
 - b) False
16. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.
 - a) True
 - b) False
17. Written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements.
 - a) True
 - b) False
18. An adverse media comment is not an indication of non-compliance with laws and regulations.
 - a) True
 - b) False
19. The auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.
 - a) True
 - b) False
20. When it is not considered appropriate to consult with the entity's legal counsel or when the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.
 - a) True
 - b) False
21. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law.
 - a) True
 - b) False

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22. Under the present legal and regulatory framework for financial institutions in India, their auditor has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities.
- a) True
 - b) False

Fill in the blanks:

23. Non-compliance may either be _____ or _____.
- a) Intentional, non-intentional
 - b) Significant, non-significant
24. It is _____ responsibility to ensure compliance with laws and regulations.
- a) Auditor's
 - b) Management's
25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall report in accordance with _____.
- a) SA 700(Revised)
 - b) SA 705(Revised)

Choose the correct option from the following:

26. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater because of the following reasons:
- a) Laws and regulations that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting
 - b) Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations
 - c) None of above
 - d) All of the above
27. Which audit procedures can help the auditor identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements?
- a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and Regulations

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- b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities
 - c) All of the above
28. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall:
- a) Communicate the matter to the next higher level of authority at the entity
 - b) Consider the need to obtain legal advice
 - c) All of the above
29. Select the policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
- a) Developing, publicising and following a code of conduct
 - b) Ensuring employees are properly trained and understand the code of Conduct
 - c) Engaging legal advisors to assist in monitoring legal requirements
 - d) All of the above
30. The implications of particular instances of non-compliance identified by the auditor will depend on:
- a) The relationship of the perpetration and concealment, if any, of the act to specific control activities
 - b) The level of management or employees involved
 - c) All of the above
31. In case of larger entities the policies and procedures to assist in the prevention and detection of non-compliance with laws and regulations may be supplemented by assigning appropriate responsibilities to:
- a) An internal audit function
 - b) An audit committee
 - c) A compliance function
 - d) All of the above

SA 260(Revised) - Communication with Those Charged with Governance

Select True or False:

1. The responsibility for communicating matters of governance interest to those charged with governance is that of the auditor only.
 - a) True
 - b) False
2. The auditor may communicate matters not covered by SA 260(Revised) to those charged with governance.
 - a) True
 - b) False
3. The objective of the auditor is to obtain from those charged with governance information relevant to the audit.
 - a) True
 - b) False
4. SA 260(Revised) does not establish requirements regarding the auditor's communication with entity's owners unless they are also charged with governance role.
 - a) True
 - b) False
5. The communication about auditor independence may be oral or written.
 - a) True
 - b) False
6. Further matters, not required by this or other Standards on Auditing, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement.
 - a) True
 - b) False
7. The Standards on Auditing require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
 - a) True
 - b) False

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8. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance.
 - a) True
 - b) False
9. If the auditor communicates with a subgroup of those charged with governance, then the auditor is not required to communicate with the governing body.
 - a) True
 - b) False
10. In the case of listed entities, the auditor's communication to those charged with governance for ensuring compliance with relevant ethical requirements regarding independence shall consider total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity.
 - a) True
 - b) False
11. Written communications need not include all matters that arose during the course of the audit.
 - a) True
 - b) False
12. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.
 - a) True
 - b) False
13. In some smaller entities, one person may be charged with governance.
 - a) True
 - b) False
14. In cases where the appropriate person(s) with whom to communicate may not be clearly identifiable the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate.
 - a) True
 - b) False
15. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.
 - a) True
 - b) False

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16. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance.
- a) True
 - b) False
17. Communication with those charged with governance may change the auditor's responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- a) True
 - b) False
18. If the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit.
- a) True
 - b) False
19. The communication requirements relating to auditor independence apply only in the case of listed entities and will not be required in the case of some other entities, including those that may be of significant public interest.
- a) True
 - b) False
20. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind.
- a) True
 - b) False
21. The auditor may need the prior consent of those charged with governance before providing a third party with a copy of the auditor's written communications with those charged with governance.
- a) True
 - b) False

Fill in the blanks:

22. One of the objectives of the auditor in communicating with those charged with governance is to provide the latter with timely observations, which are significant and relevant in overseeing the _____ process.
- a) Audit
 - b) Financial reporting

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23. Auditor's evaluation of the two way communication with those charged with governance is based on observation of appropriateness and _____ of action taken by those charged with governance in response to matters raised by the auditor.
- a) Timeliness
 - b) Adequacy
24. In case of _____ communication with those charged with governance, the auditor shall document when and to whom communications were made.
- a) Oral
 - b) Written
25. The appropriate timing of communications will vary with the significance and nature of the matter, and the action expected to be taken by _____.
- a) Auditor
 - b) Those charged with governance
26. Auditor shall communicate with those charged with governance regarding auditor _____ in the case of listed entities.
- a) Independence
 - b) Competence
27. Where the auditor reaches the conclusion that the two way communication between the auditor and those charged with governance was inadequate for the purpose of audit, the auditor should evaluate its effect on auditor's assessment of risk of material misstatement and ability to obtain _____.
- a) Management representation
 - b) Sufficient appropriate audit evidence
28. Auditor shall communicate with those charged with governance the form, _____ and expected general content of communications.
- a) Nature
 - b) Timing
29. Effective two-way communication is important in assisting the auditor and those charged with governance in developing a constructive working relationship. This relationship is developed while maintaining the auditor's _____ and _____.
- a) Independence and objectivity
 - b) Competence and objectivity

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30. _____ communication of specific matters required to be communicated by Standards on Auditing is an integral part of every audit.
- a) Timely
 - b) Clear
31. In case of complex potential conflicts between the auditor's obligations of confidentiality and obligations to communicate, the auditor may consider obtaining _____.
- a) Legal advice
 - b) Written representation
32. _____ has the executive responsibility for the conduct of the entity's operations.
- a) Management
 - b) Those charged with governance
33. _____ have the responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.
- a) Management
 - b) Those charged with governance
34. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the _____ identified by the auditor.
- a) Significant risks
 - b) Material misstatements
35. The auditor shall communicate in writing with those charged with governance regarding significant _____ from the audit if, in the auditor's professional judgment, oral communication would not be adequate.
- a) Findings
 - b) Matters
36. When governance is a _____ responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities
- a) Collective
 - b) Joint
37. Communicating _____ identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration.
- a) Significant Risks
 - b) Key Audit Matters

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Choose the correct option from the following:

38. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters:
- a) The respective responsibilities of the subgroup and the governing body
 - b) The nature of the matter to be communicated
 - c) Relevant legal or regulatory requirements
 - d) Whether the subgroup has the authority to take action in relation to the information communicated
 - e) All of the above

SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Select True or False:

1. SA 265 precludes the auditor from communicating to those charged with governance and management, other internal control matters that the auditor has identified during the audit.
 - a) True
 - b) False
2. A deficiency in internal control on its own is sufficiently important to constitute a significant deficiency.
 - a) True
 - b) False
3. The requirements of this SA remain applicable notwithstanding that law or regulation may require the auditor to use specific terms or definitions.
 - a) True
 - b) False
4. Where the jurisdiction has established specific terms for the types of deficiency in internal control to be communicated but has not defined such terms, it may be necessary for the auditor to use judgment to determine the matters to be communicated further to the legal or regulatory requirement.
 - a) True
 - b) False
5. The auditor is required to quantify the potential effects of the significant deficiencies in internal control while communicating the same to those charged with governance.
 - a) True
 - b) False
6. Regardless of the timing of the written communication of significant deficiencies, the auditor may communicate significant deficiencies orally in the first instance to management and, when appropriate, to those charged with governance to assist them in taking timely remedial action to minimize the risks of material misstatement. Doing so, relieves the auditor of the responsibility to communicate the significant deficiencies in writing.
 - a) True
 - b) False

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7. Auditor is not required to communicate significant deficiency in internal control to those charged with governance if cost involved in remediation of such significant deficiency is very high.
 - a) True
 - b) False
8. Auditor should communicate other deficiencies in internal control along with significant deficiencies to those charged with governance.
 - a) True
 - b) False
9. If the auditor has communicated deficiencies in internal control other than significant deficiencies to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period.
 - a) True
 - b) False
10. Where the auditor has discussed the facts and circumstances of the auditor's findings with management, the auditor may consider an oral communication of the other deficiencies to have been made to management at the time of these discussions. Accordingly, a formal communication need not be made subsequently.
 - a) True
 - b) False
11. If the auditor communicated a significant deficiency to those charged with governance and management in a previous audit, he need not repeat the communication in current period even if remedial action has not yet been taken.
 - a) True
 - b) False
12. If the auditor considers it appropriate to inform those charged with governance of the communication of the other deficiencies to management, the auditor may report orally or in writing to those charged with governance as appropriate.
 - a) True
 - b) False
13. Significant deficiencies in internal control may exist even though the auditor has not identified misstatements during the audit.
 - a) True
 - b) False

Fill in the blanks:

14. The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the _____ are of sufficient importance to merit their respective attentions.
- a) Management's terms and conditions
 - b) Auditor's professional judgment
 - c) Management's Control
15. Significant deficiency is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of _____:
- a) Management
 - b) Those Charged with Governance
 - c) Employees
 - d) Internal Audit Team
16. This SA specifies which _____ the auditor is required to communicate to those charged with governance and management.
- a) Deficiencies
 - b) Identified deficiencies
 - c) Significant deficiencies

Choose the correct option from the following:

17. Scope of SA 265 includes:
- a) Auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control identified by the auditor
 - b) Obtaining an understanding of internal controls, designing and performing tests of controls
 - c) Reporting on the effectiveness of the internal controls
 - d) All of the above
18. The auditor can identify deficiencies in internal control at:
- a) Planning Stage
 - b) Execution Stage
 - c) Reporting Stage
 - d) Follow up Stage
 - e) All of the above

MCQs on Engagement and Quality Control Standards

19. The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of:
- a) Fraud
 - b) Material Misstatements
 - c) Prevention and Detection
 - d) Control
20. Deficiency in internal control as per SA 265 exists when:
- a) A control is ineffective
 - b) A control is duplicate
 - c) A control is missing
 - d) (a) and (c)
 - e) All of the above
21. The significance of a deficiency or a combination of deficiencies in internal control depends on:
- a) Actual occurrence of a misstatement
 - b) Likelihood that a misstatement could occur
 - c) Both of the above
 - d) None of the above
22. The auditor shall communicate significant deficiencies in internal control identified during the audit to those charged with governance in:
- a) Writing
 - b) Oral form only
 - c) Writing or Oral
 - d) Not required to communicate
23. Which of the following statements is correct regarding reporting of other deficiencies in internal control other than significant deficiencies:
- a) Required to be communicated to those charged with governance always
 - b) Required to be communicated to management always
 - c) Required to be communicated to management, if in the auditor's professional judgment, they are of sufficient importance to merit management's attention
 - d) Required to be communicated to both management and those charged with governance

MCQs on Engagement and Quality Control Standards

24. Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:
- I. Nature, size and complexity of the entity
 - II. Nature of the significant deficiencies identified
 - III. Estimated time required by management to resolve the deficiency
 - IV. Fees charged from the client

Solution:

- a) I and II
 - b) I, II and III
 - c) III and IV
 - d) All of the above
25. The auditor shall also, communicate the deficiencies in internal control to management at an appropriate level of responsibility:
- a) On a timely basis
 - b) Whenever the management asks for it
 - c) At the Conclusion Stage
 - d) At the Planning Stage

Choose the incorrect option from the following:

26. Which of the following statements is incorrect regarding the content of the written communication of the significant deficiencies in internal control as per SA 265:
- a) The communication should include quantification of the significant deficiencies.
 - b) The communication may also include suggestions for remedial action for significant deficiencies.
 - c) The auditor should explain that the matters being reported are limited to those deficiencies that the auditor has identified and concluded to be of sufficient importance to merit being reported to those charged with governance.
 - d) The auditor should explain that purpose of the audit was for the auditor to express an opinion on the financial statements.

SA 299(Revised) - Joint Audit of Financial Statements

Select True or False:

1. ABC & Associates are auditors of P Ltd. and XYZ & Associates are auditors of Mumbai Branch of P Ltd. SA 299(Revised) covers this situation.
 - a) True
 - b) False
2. Out of 4 joint auditors of an entity, 3 joint auditors are in agreement w.r.t. audit opinion and 4th Joint auditor is in disagreement with other 3 joint auditors. The 4th Joint auditor can issue separate audit report.
 - a) True
 - b) False
3. Each joint auditor is entitled to assume that other joint auditors have carried out their part of the audit work in accordance with the Standards on Auditing.
 - a) True
 - b) False
4. Division of work among joint auditors need not be communicated to the entity.
 - a) True
 - b) False
5. ABC & Associates are auditors of P Ltd. and XYZ & Associates are auditors of N Ltd. which is a subsidiary company of P Ltd. SA 299(Revised) does not cover this situation.
 - a) True
 - b) False
6. A joint auditor is required to review the work performed by other joint auditors.
 - a) True
 - b) False
7. The joint auditors shall obtain separate engagement letter.
 - a) True
 - b) False
8. After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

9. Before finalizing their audit report, the joint auditors need not discuss and communicate with each other their respective conclusions that would form the content of the audit report.
- a) True
 - b) False
10. A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express his opinion in separate audit report in case of disagreement.
- a) True
 - b) False

Fill in the blanks:

11. In developing the joint audit plan, the joint auditors shall identify division of _____ and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor.
- a) Audit areas
 - b) Risk areas
 - c) Significant areas
12. The joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to _____.
- a) Those charged with governance
 - b) Management
13. The _____ allocation of work helps in avoiding any dispute or confusion which may arise among the joint auditors regarding the scope of work to be carried out by them.
- a) Documentation of
 - b) Discussion about
14. Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in _____ prior to the completion of the audit.
- a) Writing
 - b) Oral form only
 - c) Writing or Oral

MCQs on Engagement and Quality Control Standards

Choose the correct option from the following:

15. A, B & C are joint auditors of P Ltd. During audit, A comes to know of a matter related to area of work of B. Which of the following statement is correct:
- a) A is required to communicate this to both B & C
 - b) A is not required to communicate this
 - c) A is required to communicate this to B only
 - d) A is required to communicate this to management
16. A, B & C are joint auditors of P Ltd. There is disagreement among them regarding certain matters to be covered in audit report. Which of the following statement is correct:
- a) They should issue a common audit report
 - b) They should issue a common audit report and discuss the disagreement with management
 - c) They should issue separate audit report
17. It is the responsibility of each joint auditor to determine:
- I. Nature, timing & extent of audit procedures
 - II. Appropriateness of test checking/sampling
 - III. Study and evaluate prevailing system of internal control in relation to work allocated

Which of the following is correct:

- a) Only I
 - b) I & III
 - c) All of the above
 - d) None of the above
18. Where an entity has three joint auditors and all of them have disagreements and this leads to three different sets of opinion, then each of them needs to issue a separate audit report. Further, in their respective audit reports, each of them needs to include:
- a) Other Matter paragraph
 - b) Emphasis of Matter paragraph
 - c) Both of (a) & (b)
 - d) None of the above

MCQs on Engagement and Quality Control Standards

19. All the joint auditors shall be jointly and severally responsible for:
- I. The audit work which is not divided among the joint auditors and is carried out by all joint auditors
 - II. Examining that the financial statements of the entity comply with the requirements of the relevant statutes
 - III. Presentation and disclosure of the financial statements as required by the applicable financial reporting framework

Choose the correct option:

- a) Only I
 - b) I or III
 - c) All of the above
 - d) II and III
20. When the joint auditors expect to modify the opinion in the auditor's report, the joint auditors shall communicate with those charged with governance:
- a) The circumstances that led to the expected modification
 - b) Proposed wording of the modification
 - c) Only (a)
 - d) Both (a) and (b)

SA 300 - Planning an Audit of Financial Statements

Select True or False:

1. The auditor should update and change the overall audit strategy and the audit plan as necessary during the course of the audit.
 - a) True
 - b) False
2. The auditor should plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
 - a) True
 - b) False
3. The auditor cannot discuss elements of planning of audit with the entity's management to facilitate the conduct and management of the audit engagement.
 - a) True
 - b) False
4. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.
 - a) True
 - b) False
5. Discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.
 - a) True
 - b) False
6. Planning is a discrete phase of an audit which often begins shortly after the completion of the previous audit and ends before the commencement of the current audit engagement.
 - a) True
 - b) False

Fill in the blanks:

7. The _____ and the other key members of _____ should be involved in planning the audit.
 - a) Directors; the management of the entity
 - b) Engagement partner; the engagement team
 - c) The audit committee; the management of the entity

MCQs on Engagement and Quality Control Standards

8. The auditor should establish an overall audit strategy that sets the scope, timing and _____ of the audit.
- a) Planning
 - b) Extent
 - c) Direction
 - d) Risk
9. The documentation of the overall audit strategy is a record of the _____ decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.
- a) All
 - b) Key
 - c) Some of the

Choose the correct option from the following:

10. As per SA 300, the auditor shall undertake which of the following activities at the beginning of the current audit engagement:
- a) Performing procedures required by SA 220, "Quality Control for an Audit of Financial Statements" regarding the continuance of the client relationship and the specific audit engagement
 - b) Evaluating compliance with ethical requirements, including independence, as required by SA 220
 - c) Neither (a) nor (b)
 - d) Both (a) and (b)
11. The auditor should develop an audit plan that includes a description of:
- a) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"
 - b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks"
 - c) Other Planned audit procedures that are required to be carried out so that the engagement complies with SAs
 - d) All of the above
12. As per SA 300, the auditor should document:
- a) The overall audit strategy
 - b) The audit plan
 - c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes
 - d) All of the above

MCQs on Engagement and Quality Control Standards

13. Adequate planning benefits the audit of financial statements in several ways, including:
- a) Facilitating the direction and supervision of engagement team members and the review of their work
 - b) Facilitating the supervision of engagement team members and the review of their work
 - c) Facilitating the direction of engagement team members and the review of their work
 - d) None of the above
14. The nature and extent of planning activities will vary depending on:
- a) The size and complexity of the entity
 - b) The key engagement team members' previous experience with the entity
 - c) Changes in circumstances that occur during the audit engagement
 - d) All of the above
15. Planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:
- a) The involvement of experts
 - b) The determination of materiality
 - c) Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework
 - d) All of the above
16. The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:
- a) The resources to deploy for specific audit areas
 - b) The amount of resources to allocate to specific audit areas
 - c) When these resources are to be deployed
 - d) All of the above
17. In what circumstances the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks?
- a) Result of unexpected events
 - b) Changes in conditions
 - c) Audit evidence obtained from the result of audit procedures
 - d) All of the above

MCQs on Engagement and Quality Control Standards

18. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, such as:
- a) The assessed risks of material misstatement
 - b) The capabilities and competence of the individual team members performing the audit work
 - c) Both (a) and (b)
 - d) Neither (a) nor (b)
19. For initial audits, which of the following additional matters the auditor may consider in establishing the overall audit strategy and audit plan.
- a) Unless prohibited by law or regulation, arrangement with the predecessor auditor to review his working papers
 - b) The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances
 - c) Neither (a) nor (b)
 - d) Both (a) and (b)
20. Which of the following activities the auditor should undertake prior to starting an initial audit?
- a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement
 - b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements
 - c) Both (a) and (b)
 - d) None of the above

SA 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Select True or False:

1. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion.
 - a) True
 - b) False
2. The auditor should consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying risks of material misstatement.
 - a) True
 - b) False
3. In understanding the entity's control activities, the auditor should obtain an understanding of how the entity has responded to risks arising from IT.
 - a) True
 - b) False
4. The auditor is not required to obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose.
 - a) True
 - b) False
5. As per SA 315, while understanding the entity and its environment, the auditor should evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
 - a) True
 - b) False
6. The auditor should evaluate the design of those internal controls that are relevant to audit and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

7. In exercising judgment as to which risks are significant risks, the auditor should include the effects of identified controls related to the risk.
 - a) True
 - b) False
8. When the auditor has determined that a significant risk exists, the auditor should obtain an understanding of the entity's controls, including control activities, relevant to that risk.
 - a) True
 - b) False
9. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
 - a) True
 - b) False
10. Observation and inspection may support inquiries of management and others, and may also provide information about the entity and its environment.
 - a) True
 - b) False
11. Business risk is broader than the risk of material misstatement of the financial statements, though it includes the latter.
 - a) True
 - b) False

Fill in the Blanks:

12. SA 315 helps the auditor to reduce the risk of material misstatement to an acceptably _____ level.
 - a) High
 - b) Moderate
 - c) Low
13. Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur are termed as _____.
 - a) Risk assessment procedures
 - b) Business risk
 - c) Affirmations
 - d) Assertions

MCQs on Engagement and Quality Control Standards

14. An _____ risk of material misstatement that, in the auditor's judgment, requires special audit consideration is known as _____.
- a) Identified and assessed, significant risk
 - b) Identified and assessed, higher risk
 - c) Assessed, significant risk
 - d) Identified, higher risk
15. As per SA 315, the auditor should obtain an understanding of the entity's objectives and strategies, and those related _____ that may result in risks of material misstatement.
- a) Risks
 - b) Significant risks
 - c) Business risks
 - d) Highly significant risks
16. As a part of obtaining the understanding of an entity, the auditor should evaluate whether the management, with the oversight of those charged with governance, has created and maintained a culture of _____.
- a) Discipline
 - b) Honesty and ethical behavior
17. The auditor's assessment of the risks of material misstatement at the _____ may change during the course of the audit as additional audit evidence is obtained.
- a) Document level
 - b) Assumption level
 - c) Assertion level
 - d) Both (a) and (c)
18. Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of _____ information throughout the audit.
- a) Gathering and updating
 - b) Gathering and analysing
 - c) Updating and analysing
 - d) Gathering, updating and analysing

MCQs on Engagement and Quality Control Standards

19. Appropriate individuals within the internal audit function with whom inquiries are made are those who, in the auditor's judgment, have the appropriate _____.
- a) Competence
 - b) Experience and authority
 - c) Ability
 - d) Knowledge, experience and authority

Choose the correct option from the following:

20. As per SA 315, the risk assessment procedures should include the following:
- I. Analytical procedures
 - II. Observation and inspection
 - III. Substantive procedures
 - IV. Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and other appropriate individuals within the entity who may have information that is likely to assist in identifying risks of material misstatement due to fraud or error

Choose the correct option:

- a) Both I and II
 - b) I, II and III
 - c) I, II and IV
21. As per SA 315, the auditor should obtain an understanding of:
- a) Relevant industry factors
 - b) Relevant industry and regulatory factors
 - c) Relevant industry, regulatory, and other external factors
 - d) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework
22. As per SA 315, the auditor should obtain an understanding of the nature of entity including:
- a) Its operations
 - b) Its ownership and governance structures
 - c) The types of investments that the entity is making and plans to make, including investments in special-purpose entities
 - d) All of the above

MCQs on Engagement and Quality Control Standards

23. The auditor should obtain an understanding of whether the entity has a process for:
- a) Identifying business risks relevant to financial reporting objectives
 - b) Estimating the significance of the risks
 - c) Assessing the likelihood of risks occurrence
 - d) Deciding about actions to address the risks
 - e) All of the above
24. The auditor should obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:
- a) Communications between management and those charged with governance
 - b) External communications, such as those with regulatory authorities
 - c) Both a and b
 - d) Neither a nor b
25. The areas for which the auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting, include:
- a) The classes of transactions in the entity's operations that are significant to the financial statements
 - b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements
 - c) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures
 - d) All of the above
26. In exercising judgment as to which risks are significant risks, the auditor should consider:
- a) Whether the risk is a risk of fraud
 - b) The complexity of transactions
 - c) Whether the risk involves significant transactions with related parties
 - d) All of the above

MCQs on Engagement and Quality Control Standards

27. The auditor's previous experience with the entity and audit procedures performed in previous audits may provide the auditor with information about such matters as:
- a) Past misstatements and whether they were corrected on a timely basis
 - b) The nature of the entity and its environment, and the entity's internal control (including deficiencies in internal control)
 - c) Both a and b
 - d) None of the above
28. Internal control is designed, implemented and maintained to address identified business risks that threaten the achievement of any of the entity's objectives that concern:
- a) The reliability of the entity's financial reporting
 - b) The effectiveness and efficiency of its operations
 - c) Its compliance with applicable laws and regulations
 - d) Safeguarding of assets
 - e) All of the above

SA 320 - Materiality in Planning and Performing an Audit

Select True or False:

1. In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material.
 - a) True
 - b) False
2. Materiality is always determined for the financial statements as a whole and never at a level of particular classes of transactions, account balances or disclosures.
 - a) True
 - b) False
3. When, as a starting point, the materiality for the financial statements as a whole is determined for a particular entity based on a percentage of profit before tax from continuing operations, circumstances that give rise to an exceptional decrease or increase in such profit are not to be adjusted to arrive at the normalized profit before tax from continuing operations figure for determining materiality.
 - a) True
 - b) False
4. In considering whether there are one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole exist, the auditor may obtain an understanding of the views and expectations of those charged with governance and management.
 - a) True
 - b) False
5. The determination of performance materiality is a simple mechanical calculation and does not involve the exercise of professional judgment.
 - a) True
 - b) False

Fill in the Blanks:

6. Performance materiality means the amount or amounts set by the auditor at _____ the amount of materiality level for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
 - a) More than
 - b) Less than
 - c) Equal to

MCQs on Engagement and Quality Control Standards

7. If the auditor concludes that a _____ materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.
- a) Higher
 - b) Lower
8. Determining a percentage to be applied to a chosen benchmark for materiality involves the exercise of _____.
- a) Professional skepticism
 - b) Professional judgement
 - c) Independence
9. In determining materiality for the financial statements as a whole, _____ from continuing operations is often used for profit-oriented entities. When this is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.
- a) Profit before tax
 - b) Profit after tax

Choose the correct option from the following:

10. SA 320 deals with:
- a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
 - b) How materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements
 - c) Both of the above
 - d) None of the above
11. The amount of materiality initially determined needs to be revised as the audit progresses:
- a) If there is a delay in the audit
 - b) In the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially
 - c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially
 - d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially

MCQs on Engagement and Quality Control Standards

12. Materiality is considered in the following phases of an audit:
- a) Identifying and assessing the risks of material misstatement
 - b) Determining the nature, timing and extent of further audit procedures
 - c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report
 - d) All of the above
13. Factors that may affect the identification of an appropriate benchmark in determining Materiality for the financial statements as a whole include the following:
- a) The elements of the financial statements
 - b) The entity's ownership structure and the way it is financed
 - c) Both the above
 - d) None of the above
14. The audit documentation shall include the following:
- a) Materiality for the financial statements as a whole
 - b) If applicable, the materiality levels for particular classes of transactions, account balances or disclosures
 - c) Performance materiality
 - d) All of the above
 - e) None of the above
15. If an entity is financed solely by debt rather than equity, users may put more emphasis on:
- a) Entity's earnings before tax
 - b) Entity's earnings after tax
 - c) Assets, and claims on them
 - d) None of the above
16. Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality-
- a) Should be proportionately reduced or increased to an amount corresponding to twelve months
 - b) Relates to the financial statements prepared for that financial reporting period
 - c) Any of the above
 - d) None of the above

MCQs on Engagement and Quality Control Standards

17. Which of the following statements is correct:
- a) Performance materiality once determined, cannot be changed till conclusion of the audit
 - b) Performance materiality cannot be more than materiality for financial statements as a whole
 - c) Performance materiality can only be set at financial statements level and not at classes of transactions, account balances and disclosures level
 - d) None of the above
18. Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include:
- a) Disclosure requirements of law, regulations or the applicable financial reporting framework
 - b) Key disclosures in relation to the industry in which the entity operates
 - c) Both the above
 - d) None of the above
19. Audit risk is a function of:
- a) Audit risk and detection risk
 - b) Risks of material misstatement and detection risk
 - c) Control risk and detection risk
 - d) Inherent risk and detection risk
20. In relation to the chosen benchmark in determining materiality for the financial statements as a whole, relevant financial data ordinarily includes:
- a) Prior periods' financial results and financial position
 - b) The period-to-date financial results and financial position
 - c) Both the above
 - d) None of the above

MCQs on Engagement and Quality Control Standards

Choose the incorrect option from the following:

21. Which of the following statements is incorrect?

- a) Materiality and audit risk are considered throughout the audit.
- b) Misstatements are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- c) The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial.
- d) SA 320 states that it is mandatory for the auditor to take five percent of profit before tax from continuing operations as materiality for a profit oriented entity in a manufacturing industry and one percent of total revenue for a not-for-profit entity. Higher or lower percentages are not allowed.

SA 330 - The Auditor's Responses to Assessed Risks

Select True or False:

1. The higher the auditor's assessment of risk, the auditor has to obtain more persuasive audit evidence.
 - a) True
 - b) False
2. The auditor need not perform tests of controls when the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively.
 - a) True
 - b) False
3. It is mandatory for the auditor to perform tests of controls even if substantive procedures alone can provide sufficient appropriate audit evidence at the assertion level and the risk is not significant.
 - a) True
 - b) False
4. The greater the reliance is placed by the auditor on the effectiveness of a control, the auditor should obtain more persuasive audit evidence while performing tests of controls.
 - a) True
 - b) False
5. Indirect controls are never to be included for testing of its operative effectiveness.
 - a) True
 - b) False
6. The audit evidence about the operating effectiveness of controls obtained in previous audits can never be relied upon and all controls on which reliance is being placed by the auditor have to be tested for operative effectiveness every year even if the risk is not significant.
 - a) True
 - b) False
7. Substantive procedures are required to be performed only for a risk which the auditor has determined to be a significant risk.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. In forming an opinion, the auditor should only consider audit evidence which appear to corroborate the assertions in the financial statements and audit evidence which contradict these assertions should not be considered.
 - a) True
 - b) False
9. The audit approach that uses tests of controls as well as substantive procedures is referred to as the combined approach.
 - a) True
 - b) False
10. The same types of audit procedures are used for testing the operating effectiveness of controls and for evaluating the design and implementation of controls. The auditor may, therefore, decide it is efficient to test the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented.
 - a) True
 - b) False
11. The test of controls and test of details in an audit may be accomplished concurrently by performing the respective audit procedures on the same transaction.
 - a) True
 - b) False
12. In a dual-purpose test, the substantive audit procedures can be commenced for a class of transactions, account balance, or disclosure only after completion of the test of operating effectiveness of controls for that class of transactions, account balance, or disclosure.
 - a) True
 - b) False
13. In most cases, audit evidence from a previous audit's substantive procedures provides little or no audit evidence for the current period.
 - a) True
 - b) False

Fill in the Blanks:

14. If there have not been any changes to the controls that have been tested in the previous audit, the auditor shall test the controls at least once in every _____ audit.
 - a) Third
 - b) Alternate

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15. The auditor should design and implement overall responses to address the assessed risks of material misstatement at the _____ level.
- a) Assertion
 - b) Financial statement
16. The auditor should design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the _____ level.
- a) Assertion
 - b) Financial statement

Choose the correct option from the following:

17. SA 330 deals with:
- a) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor
 - b) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
 - c) The auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations
 - d) None of the above
18. An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level is –
- a) Substantive procedure
 - b) Test of controls
 - c) Test of details
 - d) None of the above
19. An audit procedure designed to detect material misstatements at the assertion level is –
- a) Test of controls
 - b) Substantive procedure
 - c) Both the above
 - d) None of the above
20. In designing the further audit procedures to be performed, the auditor should consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each –
- a) Class of transactions
 - b) Account balance
 - c) Disclosure
 - d) All the above

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21. In designing the further audit procedures to be performed, which of the following are to be considered by the auditor.
- a) Inherent risk
 - b) Control risk
 - c) Both the above
 - d) None of the above
22. While performing test of controls, which of the following have to be considered for other audit procedures to be performed by the auditor in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls:
- a) How the controls were applied at relevant times during the period under audit
 - b) The consistency with which they were applied
 - c) By whom or by what means they were applied
 - d) All the above
23. The auditor has to test controls-
- a) For the particular time for which the auditor intends to rely on those controls
 - b) Throughout the period for which the auditor intends to rely on those controls
 - c) Any or both of the above based on reporting requirement
 - d) None of the above
24. Which of the following is required to be performed by auditor while using audit evidence about the operating effectiveness of controls, obtained during an interim period?
- a) Obtain audit evidence about significant changes to those controls subsequent to the interim period
 - b) Determine the additional audit evidence to be obtained for the remaining period
 - c) Both the above
 - d) None of the above
25. Which of the following is relevant in determining whether it is appropriate to use, in current period, the audit evidence about the operating effectiveness of controls obtained in previous audits?
- a) The effectiveness of general IT-controls
 - b) The length of the time period that has elapsed after the previous period testing of controls
 - c) Both the above
 - d) None of the above

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26. Which of the following procedures are necessary to be performed in current period, if the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, for establishing the continuing relevance of that evidence to assess whether significant changes in those controls have occurred subsequent to the previous audit.
- a) Inquiry
 - b) Observation or inspection
 - c) Inquiry combined with observation or Inspection
 - d) None of the above
27. When the auditor plans to rely on controls over a risk which the auditor has determined to be a significant risk, the auditor -
- a) Can use the audit evidence about the operating effectiveness of those controls obtained in previous audits and the controls need not be tested for operative effectiveness in the current period
 - b) Shall test those controls in the current period
 - c) Has an option for any of (a) and (b) above
 - d) Can test those controls once in every third audit
28. Select the correct statement from the following:
- a) When evaluating the operating effectiveness of relevant controls, the auditor has also to evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively
 - b) It can always be concluded that if there are no misstatements detected by substantive procedures, the controls related to the assertion being tested are effective
 - c) Both (a) and (b)
 - d) None of the above
29. When deviations from controls upon which the auditor intends to rely are detected, which of the following are not relevant for the auditor to determine the further audit procedures:
- a) Specific inquiries to understand the deviations and their potential consequences
 - b) Whether additional tests of controls are necessary
 - c) Whether the potential risks of misstatement need to be addressed using substantive procedures
 - d) Whether the deviations from controls were remediated after the period end on which the auditor is reporting

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30. When the approach to a significant risk consists only of substantive procedures, those procedures shall include:
- a) Variance analysis only
 - b) Analytical procedures only
 - c) Test of details
 - d) None of the above

31. **Match the following words in the left column with the appropriate definition in the right column.**

a)	Inherent risk	1	An audit procedure designed to detect material misstatements at the assertion level.
b)	Substantive procedure	2	An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.
c)	Control risk	3	The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure.
d)	Test of control	4	The likelihood of material misstatement due to controls not operating effectively.

SA 402 - Audit Considerations Relating to an Entity Using a Service Organisation

Select True or False:

1. SA 402 expands on how the user auditor applies SA 315 and SA 330 in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.
 - a) True
 - b) False
2. If reference to the work of a service auditor is made in the user auditor's report, then SA 402 mandates that such reference diminishes the user auditor's responsibility for the audit opinion.
 - a) True
 - b) False
3. The user auditor may make inquiries about the service auditor to the service auditor's professional organisation or other practitioners and inquire whether the service auditor is subject to regulatory oversight.
 - a) True
 - b) False
4. The use of a service organisation by smaller entities for the preparation of its financial statements relieves its management and those charged with governance of their responsibilities for the financial statements.
 - a) True
 - b) False
5. A type 1 report does not provide any evidence of the operating effectiveness of the relevant controls.
 - a) True
 - b) False
6. A user auditor should not consider controls at the sub-service organisation.
 - a) True
 - b) False
7. A Type 1 or Type 2 report that is for a period that is outside of the reporting period of a user entity should not be used by the user auditor even in obtaining a preliminary understanding of the controls implemented at the service organisation even if the report is supplemented by additional current information from other sources.
 - a) True
 - b) False

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8. Use of a service organisation always increases a user entity's risk of material misstatement.
 - a) True
 - b) False
9. A user auditor can use an auditor other than the auditor of the service organisation to perform tests of controls at the service organisation in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.
 - a) True
 - b) False
10. A user auditor can contact the service organisation, through the user entity, to request a discussion with the service auditor about the scope and results of the service auditor's work.
 - a) True
 - b) False

Fill in the blanks:

11. _____ user entity controls are the controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.
 - a) Supplementary
 - b) Complementary
12. Obtaining confirmation of balances and transactions from the service organisation _____ considered by the user auditor in determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity.
 - a) may be
 - b) may not be
13. The user auditor makes inquiries of the _____ management regarding whether the service organisation has reported any matters relating to fraud, non-compliance with laws and regulations or uncorrected misstatements attributable to the service organisation's management or employees and evaluates whether any matters reported by the service organisation affect the nature, timing and extent of the user auditor's further audit procedures.
 - a) User entity's
 - b) Service organisation's
14. A service auditor is defined as an auditor who, at the request of the _____, provides an assurance report on the controls of a service organisation.
 - a) User entity
 - b) Service organisation

Choose the correct option from the following:

15. SA 402 deals with:
- a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
 - b) The user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations
 - c) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor
 - d) none of the above
16. SA 402 does not apply to:
- a) Services provided by financial institutions that are limited to processing, for an entity's account held at the financial institution, transactions that are specifically authorised by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker
 - b) The audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders
 - c) Both the above
 - d) None of the above
17. A subservice organisation is defined as:
- a) A third-party organisation (or segment of a third party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting
 - b) A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting
 - c) An entity that uses a service organisation and whose financial statements are being audited
 - d) None of the above
18. The user auditor shall refer to the work of a service auditor in the user auditor's report in following circumstance/s:
- a) Where it is a requirement by law or regulation to refer to the work of a service auditor in the user auditor's report
 - b) If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion
 - c) Both the above
 - d) None of the above

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19. If the user auditor is unable to obtain a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit to provide a basis for the identification and assessment of risks of material misstatement from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:
- I. Obtaining a Type 1 or Type 2 report, if available.
 - II. Contacting the service organisation, through the user entity, to obtain specific information.
 - III. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation.
 - IV. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
- Choose the correct option:**
- a) Only I & II
 - b) Only IV
 - c) All of the above
 - d) I or II or III
20. In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, the user auditor shall be satisfied as to the:
- a) service auditor's professional competence and independence from the service organisation
 - b) adequacy of the standards under which the said report was issued
 - c) Both (a) and (b)
 - d) None of the above
21. SA 402 defines a user auditor as an auditor who audits and reports-
- a) On the financial statements of a subservice organisation
 - b) On the financial statements of a user entity
 - c) On the financial statements of a service organisation
 - d) None of the above

SA 450 - Evaluation of Misstatements Identified During the Audit

Select True or False:

1. The judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate is considered as misstatement.
 - a) True
 - b) False
2. Auditor need not reassess the materiality based on actual financial results for evaluating the uncorrected misstatements.
 - a) True
 - b) False
3. If management believes the uncorrected misstatements identified by the auditor are not misstatements and that fact is stated in written representation obtained in accordance with SA 450, the auditor can leave out such misstatements in forming an opinion on the financial statements.
 - a) True
 - b) False
4. Where there is a large number of individual immaterial uncorrected misstatements, the auditor may communicate to those charged with governance, the number and overall monetary effect of the uncorrected misstatements, rather than the details of each individual uncorrected misstatement.
 - a) True
 - b) False
5. If uncorrected misstatements have been communicated with person(s) with management responsibilities and those person(s) also have governance responsibilities, they need not be communicated again with those same person(s) in their governance role.
 - a) True
 - b) False
6. An omission of information not specifically required by the applicable financial reporting framework but which, in the judgment of the auditor, is important to the users' understanding of the financial position, financial performance or cash flows of the entity is considered as material misstatement irrespective of being lower than the materiality for the financial statements as a whole.
 - a) True
 - b) False

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7. A misclassification between balance sheet line items may not be considered material in the context of the financial statements as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios.
- a) True
 - b) False
8. Auditor should communicate to those charged with governance the effect of only current year misstatements not relating to prior years.
- a) True
 - b) False
9. The auditor should communicate on timely basis all misstatements accumulated during the audit to the appropriate level of management unless prohibited by law or regulation.
- a) True
 - b) False

Fill in the Blanks:

10. Auditor should not accumulate misstatements which are _____.
- a) Immaterial
 - b) Clearly Trivial
 - c) Not significant
 - d) None. All misstatements should be accumulated
11. Auditor should obtain written representation from those charged with governance on _____.
- a) Corrected misstatements
 - b) Uncorrected misstatements
 - c) Both a and b

Choose the correct option from the following:

12. What is uncorrected misstatements?
- a) Misstatements that auditor has identified but not agreed by management hence not rectified.
 - b) Misstatements that management has identified and reported to auditors but not rectified.
 - c) Misstatements that internal auditor has identified but not rectified by management.
 - d) Misstatements that auditor has accumulated during the audit and not rectified.

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13. Auditor should revise audit strategy and audit plan if:
- a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material
 - b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320
 - c) Both (a) and (b)
14. If auditor's reassessment of materiality based on actual financial results, results in lower materiality, auditor should:
- a) Express adverse opinion directly
 - b) Re-consider the performance materiality and nature, timing and extent of further audit procedures to base the audit opinion
 - c) Resign from the audit
 - d) Obtain management representation letter for uncorrected misstatements
15. The auditor's documentation of uncorrected misstatements may take into account:
- a) The consideration of the aggregate effect of uncorrected misstatements
 - b) The evaluation of whether the materiality level or levels for particular classes of transactions, account balances or disclosures, if any, have been exceeded
 - c) The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants)
 - d) All the Above
16. What is factual misstatement?
- a) Differences arising in judgment of management and that of auditor
 - b) Auditor's best estimate of misstatements in the population
 - c) Misstatements about which there is no doubt
 - d) None of the above
17. Misstatements may result from:
- a) An inaccuracy in gathering or processing data from which the financial statements are prepared
 - b) An omission of an amount or disclosure
 - c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts
 - d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate
 - e) All the above

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18. Misstatements can be in the nature of:
- a) Factual misstatements
 - b) Judgmental misstatements
 - c) Projected misstatements
 - d) All the above
19. The auditor should determine the materiality of uncorrected misstatements with respect to:
- a) Individual misstatements
 - b) Misstatements in the aggregate
 - c) Need not determine as misstatements are uncorrected
 - d) Both (a) and (b)
20. The audit documentation should include:
- a) The amount below which misstatements would be regarded as clearly trivial
 - b) All misstatements accumulated during the audit and whether they have been corrected
 - c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion
 - d) All the above

SA 500 - Audit Evidence

Select True or False:

1. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.
 - a) True
 - b) False
2. Observation consists of looking at a process or procedure being performed by others.
 - a) True
 - b) False
3. Absence of information (for example, management's refusal to provide a requested representation) also constitutes an audit evidence in some cases.
 - a) True
 - b) False
4. Obtaining more audit evidence compensates for its poor quality.
 - a) True
 - b) False
5. Recalculation may be performed manually or electronically.
 - a) True
 - b) False

Fill in the Blanks:

6. _____ assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.
 - a) Limited
 - b) Reasonable
 - c) Complete
 - d) Substantive
7. Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing _____ and _____.
 - a) Test of controls; physical verification
 - b) Test of details; risk assessment procedures
 - c) Risk assessment procedures; further audit procedures
 - d) Test of control; analytical review

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8. Recalculation consists of checking the _____ of documents or records.
- a) Mathematical valuation
 - b) Accuracy
 - c) Valuation
 - d) Mathematical accuracy
9. _____ involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.
- a) Recalculation
 - b) Reperformance
 - c) Analytical procedure
 - d) Inquiry
10. The information used by auditor in arriving at conclusions on which auditor's opinion is based is called _____.
- a) Audit Evidence
 - b) Vouchers
 - c) Auditor's Report
 - d) Substantive procedures
11. When designing and performing audit procedures, the auditor shall consider the _____ of the information to be used as audit evidence.
- a) Relevance and reliability
 - b) Sufficiency and appropriateness
12. Audit evidence is _____ in nature and is primarily obtained from audit procedures performed during the course of the audit.
- a) Collective
 - b) Cumulative

Choose the correct option from the following:

13. SA 500 is applicable on:
- a) All the audit evidence obtained during the course of the audit
 - b) The audit evidence obtained in relation to a particular topic
 - c) Specific procedures to obtain audit evidence
 - d) All of the above
14. Inspection of tangible assets may provide reliable audit evidence regarding:
- a) Existence
 - b) Valuation
 - c) Completeness
 - d) None of the above

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15. Inspection involves:
- a) Looking at a process or procedure being performed by others
 - b) Examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset
 - c) Both (a) and (b)
 - d) None of the above
16. What is analytical procedure?
- a) Evaluations of financial information made by a study of plausible relationships among both financial and non-financial data
 - b) Investigation of identified fluctuations and relationships that are inconsistent with other relevant information
 - c) Both (a) and (b)
 - d) None of the above
17. Audit evidence comprises:
- a) Information that supports and corroborates management's assertions.
 - b) Both information that supports and corroborates management's assertions, and any information that contradicts such assertions.
 - c) Any information that contradicts management's assertions.
18. Information from sources independent of the entity that the auditor may use as audit evidence may include:
- a) Confirmations from third parties
 - b) Comparable data about competitors
 - c) Analysts reports
 - d) All of the above
19. Sufficiency and appropriateness of audit evidence refers to:
- a) Sources of audit evidence
 - b) Internal and External evidence
 - c) Two broad classification of audit evidence
 - d) Quantity and Quality of audit evidence
20. Management's expert refers to an individual or organization, whose work is used by the entity to assist the entity in preparation of financial statements and:
- a) Who possess expertise in the field of accounting and auditing
 - b) Who possess expertise in a field other than the field of accounting and auditing
 - c) Both of the above
 - d) None of the above

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21. If an individual or organization provides merely price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to:
- a) Specific requirements of SA 500 regarding use of a management's expert by the entity.
 - b) Requirements of SA 500 regarding assessment of relevance and reliability of audit evidence.
22. Which among the following is not an essential requirements of Management's Expert?
- a) Capability
 - b) Capacity
 - c) Objectivity
 - d) Competence
23. Arrange the following in the order of reliability (from higher to lower):
- a) External Evidence collected by management and made available to auditors
 - b) Internal Evidence when internal controls are tested to be effective
 - c) Internal Evidence when internal controls are tested to be ineffective
 - d) External Evidence directly collected by auditors

Choose all the correct options from the following:

24. Inspection of documents related to the collection of receivables after the period end provide evidence regarding to:
- a) Existence
 - b) Cut off
 - c) Valuation
 - d) Completeness
25. Select among the following, procedures used by auditor in obtaining audit evidences:
- a) Computation
 - b) Documentation
 - c) Physical verification
 - d) Analytical procedures

SA 501 - Audit Evidence - Specific Considerations for Selected Items

Select True or False:

1. SA 501 deals with specific considerations by the auditor in obtaining limited assurance with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.
 - a) True
 - b) False
2. If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.
 - a) True
 - b) False
3. SA 540 establishes requirements and provides guidance relevant to the auditor's consideration of litigation and claims requiring accounting estimates or related disclosures in the financial statements.
 - a) True
 - b) False

Fill in the blanks:

4. SA 501 deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with _____, _____ and other relevant SAs.
 - a) SA 330, SA 510
 - b) SA 330, SA 500
 - c) SA 500, SA 520
 - d) SA 500, SA 510
5. When inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the _____.
 - a) Existence and condition of inventory
 - b) Accuracy and condition of inventory
 - c) Valuation and condition of inventory
 - d) Presentation and condition of inventory

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6. The auditor shall request management to provide written representations that all known _____ whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.
- a) Actual claims
 - b) Possible litigation
 - c) Actual or possible litigation and claims
 - d) Actual litigation

Choose the correct option from the following:

7. If attendance at physical inventory counting is impracticable and sufficient appropriate audit evidence regarding the existence and condition of inventory could not be obtained by performing alternative audit procedures, the auditor shall:
- a) Rely on management and obtain management representation letters.
 - b) Rely on Internal Auditor's report
 - c) Modify the opinion in the auditor's report in accordance with SA 705(Revised)
 - d) All of the above
8. When inventory under the custody and control of a third party is material to the financial statements, which audit procedure shall be performed by the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory:
- a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity
 - b) Perform inspection or other audit procedures appropriate in the circumstances
 - c) Both (a) and (b)
 - d) None of the above
9. Which audit procedure shall be performed to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory lying with the third party in case there is doubt on integrity and objectivity of the third party:
- a) Communication with the third party
 - b) Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded
 - c) Modify the auditor's report
 - d) All of the above

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10. When is it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims:
 - a) When the matter is a significant risk
 - b) When the matter is complex
 - c) When there is disagreement between management and the entity's external legal counsel
 - d) All of the above
11. What is the suggested frequency of physical Inventory count given in SA 501?
 - a) At least twice in a year
 - b) At least once in a year
 - c) As per the wish of management
12. Which are the major factors to be considered for planning attendance at physical inventory counting?
 - a) Nature and location of Inventory
 - b) Stages of completion of Inventory
 - c) Risk of material misstatement related to the inventory
 - d) Nature of internal control related to Inventory
 - e) All of the above
13. The auditor's inventory observation test counts are traced to the client's inventory listing to test for which of the following financial statement assertions?
 - a) Completeness
 - b) Rights and obligations
 - c) Allocation and valuation
 - d) Understandability and classification
14. SA 501 requires auditor to perform following audit procedures in relation to Litigation and Claims?
 - a) To inquire the management and others within the entity
 - b) Review minutes of meeting of Those charged with governance and correspondence between the entity and external legal counsel
 - c) Review legal expenses accounts
 - d) All of the above
15. If risk of material misstatement in litigation and claims is identified, what an auditor needs to do?
 - a) To communicate to Those charged with governance
 - b) To communicate to Those charged with governance and management
 - c) To communicate directly with entity's external legal counsel
 - d) None of these

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16. Attendance at physical inventory counting involves:
- I. Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts
 - II. Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count
 - III. Obtaining audit evidence as to the reliability of management's count procedures

Choose the correct option:

- a) I and II
 - b) II and III
 - c) I, II and III
 - d) I and III
17. In some cases, the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand. This may indicate that:
- a) Substantive testing procedures are not performed correctly
 - b) Controls over changes in inventory are not operating effectively
 - c) Physical count has not been performed correctly
 - d) Controls over changes in inventory are operating effectively

Choose all the correct options from the following:

18. What an auditor needs to do, if he is unable to attend the physical Inventory counting?
- a) Make or observe count on some other date
 - b) Perform audit procedures on intervening transactions
 - c) Rely on management and obtain management representation letters
 - d) Rely on Internal Auditors report

SA 505 - External Confirmations

Select True or False

1. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.
 - a) True
 - b) False
2. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.
 - a) True
 - b) False
3. Negative confirmations provide more persuasive audit evidence than positive confirmations.
 - a) True
 - b) False
4. An oral response to a confirmation request meets the definition of an external confirmation.
 - a) True
 - b) False
5. Non-response is failure of the confirming party to respond, or fully respond, to a positive confirmation request or negative confirmation request, or a confirmation request returned undelivered.
 - a) True
 - b) False
6. A response to a confirmation request may contain restrictive language regarding its use. Such restrictions do not necessarily invalidate the reliability of the response as audit evidence.
 - a) True
 - b) False
7. Exceptions noted in responses to confirmation requests always indicate misstatements or potential misstatements in the financial statements.
 - a) True
 - b) False

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8. The alternative audit procedures to be performed in case of management's refusal to allow the auditor to send confirmation request may be similar to those alternative audit procedures which are appropriate in case of non-response to confirmation requests.
- a) True
 - b) False
9. A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information.
- a) True
 - b) False

Fill in the blanks

10. SA 505 deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of _____.
- a) SA 330 and SA 500
 - b) SA 700 and SA 705
 - c) SA 200 and SA 230
 - d) SA 520 and SA 560
11. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request is called as _____.
- a) Positive confirmation request
 - b) Negative confirmation request
 - c) Moderate confirmation request
 - d) None of the above
12. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called as _____.
- a) No response
 - b) Non- response
 - c) Denial of response
 - d) None of above
13. Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium is called as _____.
- a) Internal confirmation
 - b) Direct confirmation
 - c) Indirect confirmation
 - d) External confirmation

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14. 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 is called as _____.
- a) Exception
 - b) Inclusion
 - c) Exclusion
 - d) None of the above
15. The auditor may send an additional confirmation request when a reply to a previous request has not been received within a reasonable time. It is known as _____.
- a) Follow-Up on Confirmation Requests
 - b) Additional request
16. The types of External Confirmations Request covered by SA 505 are _____ and _____.
- a) Positive Confirmation Request
 - b) Direct Confirmation
 - c) Indirect Confirmation
 - d) Negative Confirmation Request
17. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing _____ audit procedures is necessary.
- a) Further
 - b) Additional

Choose the correct option from the following:

18. Auditor may categorise the results of individual external confirmation requests into:
- I. A non-response
 - II. A response indicating an exception
 - III. A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception; or
 - IV. _____

Fill in the blanks with correct option

- a) A non-response deemed unreliable
- b) A non-response deemed reliable
- c) A response deemed unreliable
- d) A response deemed reliable

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19. Which of the following statement is not true?
- I. Audit evidence is more reliable when it is obtained from independent sources outside the entity.
 - II. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
 - III. Audit evidence is not reliable when it exists in documentary form, whether paper, electronic or other medium.

Solution:

- a) I and II
 - b) II and III
 - c) All of the above
 - d) III only
20. Factors to consider when designing confirmation requests include:
- I. The assertions being addressed.
 - II. The layout and presentation of the confirmation request.
 - III. The method of communication (for example, in paper form, or by electronic or other medium).
 - IV. Prior experience on the audit or similar engagements.

Solution:

- a) I and II
 - b) All of the above
 - c) II and IV
 - d) I and III
21. A 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 is:
- a) Positive confirmation request
 - b) Negative confirmation request
 - c) Both (a) and (b)
 - d) Neither (a) nor (b)

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22. Auditor shall follow below mentioned procedures, if management refuses to allow the auditor to send a confirmation request:
- I. Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness
 - II. Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures.
 - III. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

Choose the correct option:

- a) All of the above
 - b) I and II only
 - c) I and III only
 - d) None of the above
23. When can an auditor rely on negative confirmation request?
- I. The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion.
 - II. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions.
 - III. A very low exception rate is expected.
 - IV. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Choose the correct option:

- a) All of the above
- b) I, II and IV
- c) I, II and III
- d) None of the above

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24. Arrange the following steps to be taken for obtaining external confirmation from third party in correct order.
- a) Sending the requests, including follow-up requests when applicable, to the confirming party.
 - b) Selecting the appropriate confirming party.
 - c) Determining the information to be confirmed or requested.
 - d) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor.

SA 510 - Initial Audit Engagements - Opening Balances

Select True or False:

1. SA 510 deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement.
 - a) True
 - b) False
2. The objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:
 - I. Opening balances contain misstatements that materially affect the current period's financial statements; and
 - II. Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.
 - a) True
 - b) False
3. The auditor shall not obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted.
 - a) True
 - b) False
4. When during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated. Whether the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period?
 - a) True
 - b) False
5. A modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial statements in case there was a scope limitation in the prior period, but the matter giving rise to the scope limitation has been resolved in the current period.
 - a) True
 - b) False

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6. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with SA 315.
 - a) True
 - b) False
7. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705 (Revised).
 - a) True
 - b) False
8. If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with SA 705(Revised) and SA 710.
 - a) True
 - b) False
9. For non-current assets and liabilities, such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.
 - a) True
 - b) False
10. Audit evidence regarding opening balances for long term debt and investments may be obtained through confirmation with third parties.
 - a) True
 - b) False
11. If the auditor concludes that the opening balances contain a misstatement that materially affects current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a disclaimer of opinion.
 - a) True
 - b) False
12. Opening balances do not include matters requiring disclosure that existed at the beginning of the period.
 - a) True
 - b) False

Fill in the blanks:

13. An engagement in which either the financial statements for the prior period were not audited or the financial statements for the prior period were audited by a predecessor auditor is known as _____.
 - a) Initial audit engagement
 - b) First audit engagement
 - c) Subsequent audit engagement
 - d) Primary audit engagement
14. _____ are those account balances that exist at the beginning of the period and are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period and also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
 - a) Opening balances
 - b) Closing balances
 - c) Account balances
15. The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor is known as _____.
 - a) Predecessor auditor
 - b) New Auditor
 - c) Outgoing auditor
 - d) Retiring auditor
16. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such _____ audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.
 - a) Further
 - b) Additional
17. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the ----- financial statements.
 - a) Previous Period's
 - b) Current Period's

MCQs on Engagement and Quality Control Standards

Choose the correct option from the following:

18. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by performing following procedures:
- I. Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss.
 - II. Determining whether the opening balances reflect the application of appropriate accounting policies.
 - III. Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements.
 - IV. Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances.

Choose the correct option:

- a) All of the Above
 - b) I, II and IV
 - c) II, III and IV
 - d) I, III and IV
19. The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances will depend on:
- a) The accounting policies followed by the entity
 - b) The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial statements
 - c) The significance of the opening balances relative to the current period's financial statements
 - d) Modified opinion on prior period's financial statement by predecessor auditor
 - e) All of the above
20. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances and impact of which is material and pervasive, the auditor shall express:
- a) Qualified Opinion or Disclaimer of Opinion
 - b) Qualified Opinion
 - c) Qualified Opinion or Adverse Opinion
 - d) Disclaimer of Opinion

MCQs on Engagement and Quality Control Standards

21. If the auditor concludes that accounting policies not consistently applied and impact of which is material but not pervasive, the auditor shall express:
- a) Qualified Opinion or Disclaimer of Opinion
 - b) Qualified Opinion
 - c) Qualified Opinion or Adverse Opinion
 - d) Disclaimer of Opinion
22. Arrange audit procedures in sequence when the auditor obtains audit evidence that the opening balances contain misstatements:
- a) Conclude misstatement exist in current year financial statements
 - b) Communicate with management and those charged with governance
 - c) Perform additional audit procedures to determine effect on current year financial statements

Choose all the Correct Options from the following:

23. Some audit evidence about opening balances may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their:
- a) Existence at the beginning of the period
 - b) Accuracy at the beginning of the period
 - c) Completeness at the beginning of the period
 - d) Valuation at the beginning of the period

SA 520 - Analytical Procedures

Select True or False:

1. The determination of the suitability of particular substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the risk of material misstatement.
 - a) True
 - b) False
2. Analytical procedures when forming an overall opinion may identify previously unrecognised risk of material misstatement, leading to revised risk assessment & modification in further audit procedures.
 - a) True
 - b) False
3. Determining suitability of particular substantial analytical procedures for given assertions takes into account assessed risk of material misstatement and test of details, if any, for these assertions.
 - a) True
 - b) False
4. Analytical procedure encompasses investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by significant amount.
 - a) True
 - b) False
5. SA 520 deals with the procedures after the audit to help in forming an overall conclusion on the financial statements.
 - a) True
 - b) False
6. Auditor's objective under SA 520 is to obtain relevant and reliable audit evidence when using substantive analytical procedures.
 - a) True
 - b) False
7. Information may be more reliable when it is obtained from dependent sources outside the entity.
 - a) True
 - b) False

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8. The auditor's determination of the amount of difference from the expectation that can be accepted without further investigation is influenced by materiality and the consistency with the desired level of assurance taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.
- a) True
 - b) False
9. Particular substantive analytical procedures may also be considered suitable when tests of controls are performed on the same assertion.
- a) True
 - b) False

Fill in the blanks:

10. The auditor's _____ at the assertion level may be tests of details, substantive analytical procedures, or a combination of both.
- a) Test of control
 - b) Analytical procedure
 - c) Substantive procedures
11. Substantive analytical procedures are more suitable to _____ of transactions tending to be predictable over time.
- a) Large Volume
 - b) Less Volume
12. The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the _____.
- a) Management
 - b) Entity
13. The application of _____ analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.
- a) Planned
 - b) Substantive

Choose the correct option from the following:

14. In an entity where auditor finds that controls over sales order processing are weak, for assertions related to receivables, the auditor may place more reliance on:
- a) Tests of details
 - b) Substantive analytical procedures

MCQs on Engagement and Quality Control Standards

15. Analysis by computation of ratios includes:
- a) Analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.
 - b) The study of relationships between financial statement amounts.
16. Factors to be considered by auditor while performing analytical procedures are:
- a) Determine suitability of particular substantive analytical procedure for given assertion
 - b) Evaluate reliability of data
 - c) Develop expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify misstatement
 - d) All of the above
17. Analysing account fluctuations by comparing current year to prior year information and also to information derived over several years is called:
- a) Analysis of Trends
 - b) Analysis of Ratios
18. Which of the following is not an analytical procedure?
- a) Comparison with prior period information
 - b) Analysis of significant ratios and trends
 - c) Analysis of relationships between financial and non-financial data
 - d) None of the above
19. If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:
- I. Inquiring of management and obtaining appropriate audit evidence relevant to management's responses;
 - II. Performing other audit procedures as necessary in the circumstances.

Choose the correct Option:

- a) I only
- b) II only
- c) All of the above
- d) None of the above

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20. Analytical procedures include the consideration of comparisons of the entity's financial information with:

- I. Comparable information for prior periods.
- II. Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
- III. Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

Choose the correct Option:

- a) I, II and III
- b) II and III only
- c) I and II only
- d) None of Above

21. Substantive analytical procedures may be more effective when applied to:

- I. Financial information on individual sections of an operation
- II. Financial statements of components of a diversified entity
- III. Financial statements of the entity as a whole.

Choose the correct Option:

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

22. Factors determining reliability of data:

- I. Source of information available
- II. Comparability of information available
- III. Nature & relevance of information available
- IV. Controls over preparation of information

Choose the correct Option:

- a) I, III and IV
- b) II, III and IV
- c) I, II and III
- d) All of the above

MCQs on Engagement and Quality Control Standards

23. Arrange the following in correct order:

The flow of audit procedures for substantive analytical procedures:

- a) Determine any difference of recorded amounts from expected value that is acceptable without further investigation
- b) Determine suitability of a substantive audit procedures for given assertion
- c) Develop expected relationship
- d) Evaluate reliability of base data
- e) Evaluate precision of expected relationship to identify risk of material misstatement

24. Match the following:

a)	Analytical procedures when forming an overall conclusion	1	Completeness, accuracy & validity
b)	Precision to identify misstatement depends on	2	➤ Design & perform Analytical Procedures ➤ Near the end of audit ➤ When forming overall audit conclusion ➤ Whether Financial Statements are consistent with auditor's understanding of entity
c)	Reliability of the data depends on	3	➤ Accuracy with which expected results of Substantive Analytical Procedures can be predicted ➤ Degree to which information can be disaggregated ➤ Availability of information – financial/non-financial

SA 530 - Audit Sampling

Select True or False:

1. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population.
 - a) True
 - b) False
2. The level of sampling risk that the auditor is willing to accept affects the sample size required.
 - a) True
 - b) False
3. The sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment.
 - a) True
 - b) False
4. With non-statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected.
 - a) True
 - b) False
5. With statistical sampling, judgment is used to select sample items.
 - a) True
 - b) False
6. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.
 - a) True
 - b) False
7. SA 530 does not permit use of non-statistical sampling.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Auditor is required to determine a sample size sufficient to reduce sampling risk to an acceptably low level.
 - a) True
 - b) False
9. Auditor is required to select items for sample in such a way that each sampling unit has a chance of selection.
 - a) True
 - b) False
10. Auditor is required to project misstatements found in the sample to the population for tests of details.
 - a) True
 - b) False
11. Anomaly is a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
 - a) True
 - b) False
12. The more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular population, the higher assurance the auditor will require from sampling and, therefore, the larger the sample size can be.
 - a) True
 - b) False
13. An increase in the tolerable misstatement, the smaller the sample size needs to be.
 - a) True
 - b) False

Fill in the blanks:

14. _____ approach to sampling has the following characteristics:
 - I. Random selection of the sample items; and
 - II. The use of probability theory to evaluate sample results, including measurement of sampling risk.

Solution:

- a) Statistical sampling
- b) Random sampling
- c) Stratified sampling
- d) Haphazard sampling

MCQs on Engagement and Quality Control Standards

15. If auditor is unable to apply the designed audit procedures or alternative procedures to the selected item, auditor shall treat that item as _____ in case of tests of controls.
- a) Deviation
 - b) Misstatement
16. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a _____ item.
- a) Replacement
 - b) Substitute
 - c) Both (a) and (b)
17. Inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation are examples of _____.
- a) Sampling Risk
 - b) Non-sampling Risk
 - c) Tolerable misstatement
 - d) Intolerable misstatement
18. If auditor is unable to apply the designed audit procedures or alternative procedures to the selected item, auditor shall treat that item as _____ in case of tests of details.
- a) Deviation
 - b) Misstatement
19. When designing audit sample, auditor is required to consider the _____ of population.
- a) Objective
 - b) Characteristics
20. To design audit sample & determine sample size, for test of controls, the auditor makes an assessment of _____.
- a) Expected rate of deviation
 - b) Expected misstatement
21. An increase in the auditor's assessment of the risk of material misstatement will _____ sample size.
- a) Increase
 - b) Decrease

MCQs on Engagement and Quality Control Standards

22. The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value) is _____.
a) Stratification
b) Value-weighted selection
23. The greater the level of assurance that the auditor desires that the results of the sample are in fact indicative of the actual incidence of deviation in the population, the _____ the sample size needs to be.
a) Smaller
b) Larger
24. The more assurance the auditor intends to obtain from the operating effectiveness of controls, the _____ the auditor's assessment of the risk of material misstatement will be, and the _____ the sample size will need to be.
a) Lower, Smaller
b) Lower, Larger
c) Greater, Smaller
d) Greater, Larger
25. Haphazard selection of sample is _____ when using statistical sampling.
a) Appropriate
b) Not appropriate
26. Sampling risk can lead to two types of erroneous conclusions one of them is when in case of test of controls, controls appear to be more effective than they actually are which affects _____ and is more likely to lead to an inappropriate audit opinion.
a) Audit efficiency
b) Audit effectiveness
c) Audit quality
27. Sampling risk can lead to two types of erroneous conclusions one of them is when in case of test of details it appears that material misstatements exist when in fact it does not which affects _____.
a) Audit efficiency
b) Audit effectiveness
c) Audit quality

MCQs on Engagement and Quality Control Standards

28. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the _____ will be drawn.

- a) Evidence
- b) Sample
- c) Conclusion
- d) All of the above

29. **Match the following:**

a)	When designing an audit sample, the auditor's consideration includes	1	Application of: ➤ Statistically based formula, or ➤ Exercise of professional judgment
b)	Statistical Sampling	2	➤ Purpose of audit procedure. ➤ Characteristics of population.
c)	Sample size determined by	3	Each sampling unit has known probability of being selected

30. **Match the following:**

a)	Auditor's Objective	1	Risk that the auditor's conclusion based on sample may be different from the conclusion if the entire population were subjected to same audit procedure.
b)	Audit Sampling	2	To provide a reasonable basis to draw conclusions about the population from which the sample is selected when using audit sampling.
c)	Sampling Risk	3	Application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection to provide a reasonable basis on which to draw conclusions about entire population.

SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Select True or False:

1. An understanding of the risks of material misstatement for accounting estimates is included in the overall understanding of the entity and its environment.
 - a) True
 - b) False
2. Fair value accounting estimates, are affected by events or conditions subsequent to the date at which the measurement is estimated for purposes of the financial statements.
 - a) True
 - b) False
3. An immaterial accounting estimate will result in immaterial misstatement irrespective of the estimation uncertainty associated with the estimation.
 - a) True
 - b) False
4. Management's point estimate means the amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.
 - a) True
 - b) False
5. For accounting estimates that give rise to significant risks, the auditor is not required to evaluate the adequacy of the disclosure of their estimation uncertainty in the financial statements in the context of the applicable financial reporting framework.
 - a) True
 - b) False
6. In developing a point estimate or a range to evaluate management's point estimate, the auditor will use his independent assumptions and methods and ignore those used by the management.
 - a) True
 - b) False

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7. During the audit, the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify.
 - a) True
 - b) False
8. Review of the outcome of accounting estimates included in the prior period financial statements is not intended to call into question the judgments made in the prior periods that were based on information available at that time.
 - a) True
 - b) False
9. Indicators of possible management bias themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates.
 - a) True
 - b) False

Fill in the Blanks:

10. The audit documentation shall include _____.
 - a) Management's point estimate
 - b) Indicators of possible management bias
11. A difference between the outcome of an accounting estimate and the amount originally recognized or disclosed in the financial statements does not necessarily represent a _____ of the financial statements.
 - a) Error
 - b) Fraud
 - c) Misstatement
 - d) Fault
12. The auditor shall obtain _____ from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.
 - a) Written Representations
 - b) Oral Confirmation
13. Some accounting estimates involve relatively low estimation uncertainty and may give rise to _____ risks of material misstatements.
 - a) Higher
 - b) Lower
 - c) No

MCQs on Engagement and Quality Control Standards

14. The audit documentation shall include the basis for the auditor's conclusions about the _____ of accounting estimates and their disclosure that give rise to significant risks.
- a) Reasonableness
 - b) Correctness
15. Fair value accounting estimates where the model used to measure the accounting estimate is well-known or generally accepted, provided that the assumptions or inputs to the model are observable, will have _____ estimation uncertainty.
- a) Higher
 - b) Lower
16. The below are examples of cases with _____ estimation uncertainty:
- I. Accounting estimates relating to the outcome of litigation.
 - II. Fair value accounting estimates for derivative financial instruments not publicly traded.
- Solution:**
- a) Higher
 - b) Lower
17. Where there is intention to mislead by the management, management bias is _____ in nature.
- a) Fraudulent
 - b) Inherent
18. The measurement objective of accounting estimates can vary depending on the applicable financial reporting framework and the _____ being reported.
- a) Underlying transaction
 - b) Financial item
19. In some cases, estimation uncertainty associated with an accounting estimate may be so _____ that the recognition criteria in the applicable financial reporting framework are not met and the accounting estimate cannot be made.
- a) High
 - b) Great
20. The susceptibility of an accounting estimate to management bias increases with the _____ involved in making it.
- a) Subjectivity
 - b) Complexity

Choose the correct option from the following:

21. Factors on which management makes the accounting estimates, and an understanding of the data on which they are based, include:
- a) Relevant controls
 - b) Whether management has used an expert
 - c) The assumptions underlying the accounting estimates
 - d) All of the above
22. Auditor's range means amount or range of amounts derived from audit evidence:
- a) For evaluating management's point estimate
 - b) For helping the management make the estimate
 - c) For helping the management develop a range for the estimate
23. Which of the following is not an example of accounting estimates:
- a) Allowance for doubtful accounts
 - b) Depreciation method
 - c) Interest on fixed deposits
 - d) Warranty obligations
24. Which of the following is not an example of fair value accounting estimates:
- a) Share Based Payment
 - b) Foreign Exchange Difference
 - c) Property or equipment held for disposal
 - d) Complex financial instruments, which are not traded in an active and open market
25. In responding to the assessed risks of material misstatement, the auditor while taking account of the nature of the accounting estimate shall:
- I. Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
 - II. Test how management made the accounting estimate and the data on which it is based.
 - III. Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
 - IV. Develop a point estimate or a range to evaluate management's point estimate.

Choose the correct option:

- a) II & III Only
- b) I & IV Only
- c) Any one of the above
- d) All of the above

MCQs on Engagement and Quality Control Standards

26. In testing how management made the accounting estimate and the data on which it is based, the auditor shall evaluate whether:
- I. The method of measurement used is appropriate in the circumstances
 - II. The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework.

Choose the correct option:

- a) Either I or II
 - b) All of the above
 - c) None of the above
27. Management's identification of transactions, events and conditions that give rise to the need for accounting estimates is likely to be based on:
- I. Management's knowledge of the entity's business and the industry in which it operates.
 - II. Management's knowledge of the implementation of business strategies in the current period.
 - III. Where applicable, management's cumulative experience of preparing the entity's financial statements in prior periods.

Choose the correct option:

- a) Any one or more of the above
 - b) None of the above
 - c) All of the above
28. In auditing accounting estimates that give rise to significant risks, the auditor's further substantive procedures are focused on the evaluation of:
- I. How management has assessed the effect of estimation uncertainty on the accounting estimate, and the effect such uncertainty may have on the appropriateness of the recognition of the accounting estimate in the financial statements
 - II. The adequacy of related disclosures
 - III. The adequacy of internal controls

Choose the correct option:

- a) I & II Only
- b) None of the Above
- c) All of the Above

MCQs on Engagement and Quality Control Standards

29. Match the following terms to their definitions:

a)	Accounting Estimates	1	The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
b)	Estimation uncertainty	2	A lack of neutrality by management in the preparation and presentation of information.
c)	Management bias	3	An approximation of a monetary amount in the absence of a precise means of measurement.
d)	Measurement objective for fair value Accounting Estimates	4	To forecast the outcome of one or more transactions, events or conditions.

SA 550 - Related Parties

Select True or False:

1. The auditor has to conclude whether financial statements achieve true and fair view and are not misleading only when financial reporting framework establishes the related party requirements.
 - a) True
 - b) False
2. Significant related party transactions identified outside the entity's normal course of business give rise to normal risk of material misstatement.
 - a) True
 - b) False
3. Identification of the entity's related parties is primarily the auditor's responsibility.
 - a) True
 - b) False
4. The inherent limitations on the auditor's ability to detect material misstatements are lesser in the case of related parties.
 - a) True
 - b) False
5. The auditor is not required to perform further audit procedures for significant related party transactions outside the entity's normal course of business.
 - a) True
 - b) False
6. In all instances, the auditor should obtain sufficient appropriate audit evidence that related party transactions were conducted on terms equivalent to an arm's length transaction.
 - a) True
 - b) False
7. The auditor should ensure that the disclosures in the financial statements for related party relationships and transactions are as required by the applicable financial reporting framework.
 - a) True
 - b) False
8. The controls over identification of related party relationships and transactions should be considered by the auditor while performing his risk assessment regarding related parties.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

9. The risk of management override of controls is higher if management has relationships that involve control or significant influence with parties with which the entity does business because these relationships may present management with greater incentives and opportunities to perpetrate fraud.
 - a) True
 - b) False
10. Having identified significant related party transactions outside the normal course of business, the auditor need not inquire into the business rationale of the transactions or the terms and conditions on which the transactions have been entered.
 - a) True
 - b) False
11. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions.
 - a) True
 - b) False
12. A business rationale from the related party's perspective that appears inconsistent with the nature of its business may represent a fraud risk factor.
 - a) True
 - b) False
13. Significant related party transactions without due authorization and approval by management, may indicate risks of material misstatement due to error or fraud.
 - a) True
 - b) False
14. Where the financial reporting framework requires disclosure of related party transactions which are not on arm's length basis, the non-disclosure of related party transactions in the financial statements is an implicit assertion that related party transactions are at arm's length basis.
 - a) True
 - b) False
15. In an audit of consolidated financial statements, the group engagement team should provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.
 - a) True
 - b) False

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16. In considering materiality for evaluating misstatements, along with the recorded amount of the transaction, the auditor should also consider other specific relevant factors, such as the nature of the related party relationship.
- a) True
 - b) False

Choose the correct option from the following:

17. If auditor identifies the previously unidentified or undisclosed related parties or related party transactions then:
- a) Promptly communicate relevant information to other members of engagement team
 - b) Perform appropriate substantive audit procedures relating to newly identified related parties or significant related party transactions
 - c) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor
 - d) All of the above
18. The auditor shall inquire of management and perform appropriate risk assessment procedures to obtain understanding whether management has established controls to:
- a) Identify, account for and disclose related party relationships and transactions in accordance with the applicable financial reporting framework
 - b) Authorize and approve significant transactions and arrangements with related parties
 - c) Authorize and approve significant transactions and arrangements outside normal course of business.
 - d) All of the above
19. Domination of management by a single person or small group of persons without compensating controls is:
- a) Best in practice
 - b) More controls at top level
 - c) Fraud risk factor
 - d) None of the above
20. Management's support for assertion that related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction may include:
- a) Comparing terms of related party transaction to those of identical or similar transactions with one or more unrelated parties or to known market terms
 - b) Engaging an external expert to determine market value & to confirm market terms and conditions
 - c) All of the above
 - d) None of the above

MCQs on Engagement and Quality Control Standards

21. The auditor should inquire of management regarding:
- a) Identity of the entity's related parties and nature of relationship between the entity and these related parties
 - b) Transactions entered into with the related parties
 - c) Both of the above
 - d) None of the above
22. The auditor should inspect the following for indications of existence of related party relationships or transactions:
- a) Bank, legal and third party confirmations
 - b) Minutes of meetings of shareholders and of those charged with governance
 - c) Both of the above
 - d) None of the above
23. On getting to know of related party information, the auditor should:
- a) Share the relevant information with other members of engagement team
 - b) Ignore the related party information if it is not included in the financial statements
 - c) Share the information with the auditor of the related party
24. Where the auditor identifies arrangements or information suggesting related party relationships or transactions not disclosed by management, the auditor should:
- a) Determine the existence of those relationships or transactions and perform audit procedures
 - b) Communicate the relevant information to other members of the engagement team
 - c) Reconsider the risk that other related parties or significant related party relationships may exist, and evaluate the implications for the audit for non disclosure by management
 - d) All of the above
25. The responsibility for substantiating an assertion that a related party transaction was conducted on arm's length basis is that of:
- a) Management
 - b) Auditor
 - c) Both (a) and (b)
26. Disclosures of related party transactions may not be understandable if:
- a) Business rationale and effects of transactions on financial statements are unclear or misstated

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- b) Key terms, conditions or other important elements of transactions necessary for understanding them are not appropriately disclosed
- c) Both (a) and (b)
- d) None of the above

Choose all the correct options from the following:

27. If the applicable financial reporting framework establishes related party requirements, the auditor is required to:
- a) Request management to identify all the transactions with newly identified related parties for further evaluation
 - b) Obtain the list and go with the disclosure provided by the management
 - c) Inquire reasons for failure of entity's controls to identify or disclose related party relationships and transactions
 - d) All of the above
28. Auditor is required to obtain an understanding of related party relationships and transactions to:
- a) To improve the business relationship with the related parties
 - b) Recognize fraud risk factors
 - c) Conclude whether financial statements achieve true and fair presentation (in case of fair presentation frameworks) or are not misleading (in case of compliance framework)
 - d) All of the above
29. Match the following words in the left column with the appropriate meaning in the right column.

a)	Arm's Length Transaction	1	A party as defined in applicable financial reporting framework.
b)	Related Party	2	Related Party has voted for significant business decision taken by management.
c)	Indicator of dominant influence	3	Transaction conducted on such terms & conditions as between a willing buyer and seller who are unrelated and acting independently and pursuing their own best interest.

SA 560 - Subsequent Events

Select True or False:

1. When management restricts the amendment of the financial statements to the effects of the subsequent event, the auditor is permitted to restrict the audit procedures to that amendment.
 - a) True
 - b) False
2. The auditor is required to perform audit procedures designed to obtain sufficient appropriate audit evidence that all subsequent events that require adjustment of, or disclosure in, the financial statements have been identified.
 - a) True
 - b) False
3. The auditor should also perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.
 - a) True
 - b) False
4. For identification of subsequent events that might affect the financial statements, the auditor's procedures should include reading the entity's latest subsequent interim financial statements, if any.
 - a) True
 - b) False
5. The auditor has to consider all the events which occur between the date of the financial statements and the date of the auditor's report.
 - a) True
 - b) False
6. When events requiring adjustment of, or disclosure in, the financial statements are identified, the auditor shall determine whether each such event is appropriately reflected in those financial statements.
 - a) True
 - b) False
7. If the auditor has performed the procedures required under SA 560 for ensuring appropriate adjustment or disclosure of the subsequent events, there is no need of obtaining written representation from those charged with governance.
 - a) True
 - b) False

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8. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.
 - a) True
 - b) False
9. When the auditor amends the auditor's report to include an additional date restricted to that amendment, the date of the auditor's report on the financial statements prior to subsequent amendment by the management should be changed.
 - a) True
 - b) False
10. When the management has issued the financial statements despite the auditor's notification not to issue the financial statements to third parties, the auditor may consider to seek legal advice.
 - a) True
 - b) False
11. The date that the audited financial statements are issued must be at or later than the date of the auditor's report.
 - a) True
 - b) False
12. In case of entities, such as, Central/State governments and related government entities which are prevented from issuing amended financial statements by law or regulation, the appropriate course of action for the auditor may be to report to the appropriate statutory body.
 - a) True
 - b) False

Fill in the Blanks:

13. The 'date of the financial statements' as per SA 560 is the date of the end of the _____ covered by the financial statements.
 - a) latest period
 - b) earliest period
14. The 'date of approval of the financial statements' as per SA 560 is the date on which all the statements that comprise the financial statements, including the related notes, have been _____ and those with the _____ have asserted that they have taken responsibility for those financial statements.
 - a) prepared; recognised authority
 - b) approved; responsibility

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15. The 'date of the auditor's report' as per SA 560 is the date the auditor dates the report on the financial statements in accordance with ____ .
- a) SA 700(Revised)
 - b) SA 705(Revised)
16. The 'date the financial statements are issued' as per SA 560 is the date that the auditor's report and audited financial statements are made available to ____ .
- a) Board of Directors
 - b) Third parties
17. When an additional date is included in the auditor's report to inform users that the auditor's procedures subsequent to the original auditor's report date were restricted only to the subsequent amendment of the financial statements, it is called ____ .
- a) Dual dating
 - b) Duplicate dating

Choose the correct option from the following:

18. Subsequent events are the events:
- a) Occurring between the date of the financial statements and the date of the auditor's report
 - b) Facts that become known to the auditor after the date of the auditor's report.
 - c) Both (a) and (b)
 - d) Only (a)
19. Which of the following procedures shall form part of the subsequent events testing procedures:
- a) Understanding of management's procedures for identification of subsequent events
 - b) Inquiring of management for occurrence of any subsequent events which might affect the financial statements
 - c) Reading minutes of meetings held post the date of the financial statements
 - d) All of the above
20. When the auditor becomes aware of some facts which had he known at the date of the auditor's report, may have caused him to amend his report, the auditor shall
- a) Discuss the matter with management and, where appropriate, those charged with governance
 - b) Determine whether the financial statements need amendment
 - c) If the financial statements require amendment, enquire how management intends to address the matter in the financial statements
 - d) All of the above

MCQs on Engagement and Quality Control Standards

21. Which of the following is the date of approval of the financial statements:
- a) The date the auditor dates the report on the financial statements
 - b) The date that the auditor's report and audited financial statements are made available to third parties
 - c) The date on which the recognised authority have asserted that they have taken responsibility for the financial statements
 - d) None of the above

Choose all the correct options from the following:

22. When the management amends the financial statements, which were already issued, what audit procedures is the auditor required to perform?
- a) Carry out the audit procedures necessary to gain sufficient appropriate audit evidence over the event.
 - b) Extend the audit procedures to the date of the new auditor's report.
 - c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.
 - d) Auditor is not required to perform any procedures once the financial statements are issued, even if those are subsequently amended.
23. Which of the following statements are correct about performing audit procedures to identify subsequent event:
- a) The procedures are to be performed for the period between the date of financial statements & date of auditor's report or as near as practicable.
 - b) Obtain written representation from the management that events have been adjusted or disclosed as per applicable financial reporting framework.
 - c) Perform additional procedures on matters which have already yielded satisfactory conclusions.
 - d) The auditor has to perform procedures in respect of all the facts which would have an impact on the auditor's report.

Choose all the incorrect options from the following:

24. Which of the following statements is **incorrect** about date of auditor's report:
- a) The date of the auditor's report cannot be before the date on which sufficient appropriate audit evidence has been obtained.
 - b) Date of auditor's report is the date of the end of the last period covered by the financial statements.
 - c) Date of auditor's report can be earlier than the date of approval of financial statements.
 - d) Date of auditor's report is the date the auditor dates the report on the financial statements in accordance with SA 700(Revised).

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25. Arrange the following events in chronological order of their occurrence:
- a) Financial statements and the auditor's report are issued to third parties.
 - b) Auditor's report is signed and issued to the entity.
 - c) Financial statements are prepared by the management.
 - d) Approval of financial statements by the entity's management.

SA 570(Revised)- Going Concern

Select True or False:

1. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
 - a) True
 - b) False
2. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant.
 - a) True
 - b) False
3. The absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report means a guarantee as to the entity's ability to continue as a going concern.
 - a) True
 - b) False
4. The auditor need not remain alert during the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - a) True
 - b) False
5. The auditor need not inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.
 - a) True
 - b) False
6. Where there are events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall communicate the same to those charged with governance, if all those charged with governance are not involved in managing the entity.
 - a) True
 - b) False

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7. A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter in accordance with SA 701.
 - a) True
 - b) False
8. An entity's inability to pay creditors on due dates or inability to comply with the terms of loan agreements may signify that a material uncertainty about the entity's ability to continue as a going concern exists.
 - a) True
 - b) False
9. Beyond the period assessed by management, which would be at least twelve months from the date of the financial statements, except for making inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - a) True
 - b) False
10. The phrase "significant uncertainty" used in some financial reporting frameworks is the same as "material uncertainty" used in SA 570(Revised).
 - a) True
 - b) False
11. The auditor is not responsible for rectifying the lack of analysis by management to support its assessment for concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.
 - a) True
 - b) False
12. In case there is significant delay in approval of financial statements by management or those charged with governance, after the date of the financial statements, the auditor should inquire reasons for delay and if the delay relates to going concern assessment, perform additional audit procedures and consider effect on auditor's conclusion regarding existence of material uncertainty.
 - a) True
 - b) False

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Fill in the Blanks:

13. When the use of the going concern basis of accounting is _____, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
 - a) Appropriate
 - b) Inappropriate
14. When performing risk assessment procedures as required by SA 315, the auditor shall consider whether _____ exist that may cast significant doubt on the entity's ability to continue as a going concern.
 - a) Conditions
 - b) Transactions
15. A material uncertainty exists when the _____ of its potential impact and _____ of occurrence is such that it requires appropriate disclosure of the nature and implications of the uncertainty necessary for the fair presentation of the financial statements.
 - a) Magnitude; likelihood
 - b) Level; implication
 - c) Intensity; frequency
16. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the _____ for the auditor's report.
 - a) Consequences
 - b) Implications
17. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express _____.
 - a) An unmodified opinion
 - b) A modified opinion
18. The auditor shall remain _____ throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - a) Alert
 - b) Vigilant
19. When the management is required, or elects to prepare the financial statements on another basis (e.g., liquidation basis), the auditor shall express _____ highlighting alternative basis provided disclosure is adequate.
 - a) Unmodified opinion along with emphasis of matter paragraph
 - b) Qualified or adverse opinion

Choose the correct option from the following:

20. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment. Such period shall be:
- a) Less than twelve months from the date of financial statements
 - b) More than twelve months from the date of financial statements
 - c) At least twelve months from the date of financial statements
 - d) Equal to twelve months from the date of financial statements
21. Which of the following factors are relevant to the judgement involved in management's assessment of the entity's ability to continue as a going concern?
- a) The degree of uncertainty associated with the outcome of an event or condition
 - b) The size and complexity of the entity and the nature and condition of its business
 - c) Judgment about the future is based on information available at the time at which the judgment is made
 - d) All of the above
22. The auditor's responsibilities in relation to assessment of going concern basis of accounting are to:
- a) Obtain sufficient appropriate audit evidence regarding appropriateness of use of going concern basis of accounting in the preparation of the financial statements
 - b) Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, based on the evidence obtained
 - c) Conclude on whether a material uncertainty exists about the entity's ability to continue as a going concern
 - d) All of the above
23. When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
- a) Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
 - b) Request management to make its assessment of entity's ability to continue as a going concern
 - c) Evaluate management's plans for future actions, and the data and assumptions underlying the cash flow projections
 - d) All of the above

MCQs on Engagement and Quality Control Standards

24. When the management's use of the going concern basis of accounting is appropriate but a material uncertainty exists, the auditor shall determine whether the financial statements:
- a) Disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
 - b) Disclose management's plans to deal with these events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
 - c) Disclose that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
 - d) All of the above
25. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall:
- a) Express an adverse opinion
 - b) Express a qualified opinion
 - c) Express a disclaimer of opinion
 - d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter
26. If the use of going concern basis of accounting in the preparation of financial statements is considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall:
- a) Express an adverse opinion
 - b) Express a qualified opinion
 - c) Express a disclaimer of opinion
 - d) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter
27. If the use of going concern basis of accounting in the preparation of financial statements is considered appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall
- a) Express an adverse opinion or a qualified opinion as per SA 705(Revised).
 - b) Express a disclaimer of opinion.
 - c) Express an unmodified opinion and include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" to highlight the note disclosing the matter.
 - d) Express an unmodified opinion and consider including an Emphasis of Matter paragraph to highlight the note disclosing the matter.

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28. Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:
- a) Net liability or net current liability position.
 - b) Cancellation of company's production license due to change on government policies.
 - c) Non-declaration of dividend to equity shareholders.
 - d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
29. The "Material Uncertainty Related to Going Concern" section included in the auditor's report should:
- a) Draw attention to the note in the financial statements that discloses the material uncertainty
 - b) State that those events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern
 - c) State that the auditor's opinion is not modified in respect of the matter
 - d) All of the above
30. The procedure for the audit of a smaller entity is generally:
- a) Evaluating owner-manger's ability to meet the obligation under support arrangement
 - b) Discuss medium and long-term financing of the entity with management
 - c) Both (a) and (b) above
 - d) SA 570(Revised) is not applicable for a smaller entity
31. While performing analysis of the cash flow forecast prepared by the entity, the auditor should:
- a) Evaluate reliability of underlying data generated to prepare the forecast
 - b) Determine whether there is adequate support for assumptions underlying forecast
 - c) Both (a) and (b) above
 - d) Only (b) above
32. Where management's assumptions include continued support by third parties and such support is important to an entity's ability to continue as a going concern, the auditor's procedures should:
- a) Consider requesting written confirmation from those third parties
 - b) Obtain evidence of their ability to provide such support
 - c) Both (a) and (b) above
 - d) Only (b) above

SA 580- Written Representations

Select True or False:

1. Auditor's report can be dated before the date of the written representations.
 - a) True
 - b) False
2. Management may approach relevant experts – actuaries, internal counsel, staff engineers who have specialized knowledge relating to the matters about which written representations are requested.
 - a) True
 - b) False
3. Auditor may request management to provide a written representation that it has communicated to the auditor all deficiencies in internal control of which management is aware.
 - a) True
 - b) False
4. The expression of management's responsibilities in law or regulation is a substitute for the requested written representations.
 - a) True
 - b) False
5. If the management does not provide one or more of the requested written representations, the auditor should consider issuing an unmodified audit opinion.
 - a) True
 - b) False
6. The auditor can accept written representation made by management using qualifying language "to the best of its knowledge and belief", if such representation is made by those with appropriate responsibilities and knowledge of the matters included in the representations.
 - a) True
 - b) False
7. 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.
 - a) True
 - b) False

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8. During the course of audit, if a written representation is obtained about a specific assertion in the financial statements, the auditor is not required to obtain an updated written representation as at the date of the auditor's report.
 - a) True
 - b) False
9. In the case of change in management during the year, the auditor is not required to obtain written representations on matters prior to the date of change in management.
 - a) True
 - b) False
10. The auditor may revise his risk assessment of the audit in case of identified inconsistencies between the audit evidence obtained from other sources and the written representations provided by management.
 - a) True
 - b) False
11. The auditor may consider withdrawing from the engagement in case of concerns on the competence, integrity or ethical values of the management.
 - a) True
 - b) False
12. If the management provides a modified written representation, then the auditor's opinion may also be modified.
 - a) True
 - b) False
13. It is sufficient if the auditor obtains written representations on the matters described in SA 580, and other Standards on Auditing are not required to be considered.
 - a) True
 - b) False
14. In case of issues relating to the management's competence and integrity, the auditor may still conclude that the written representations are reliable.
 - a) True
 - b) False
15. The auditor may communicate to management, a threshold amount for the purposes of the requested written representations.
 - a) True
 - b) False

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16. The written representation should be obtained for all periods referred to in the auditor's report.
- a) True
 - b) False

Fill in the blanks:

17. The auditor shall _____ if management does not provide written representations on their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor.
- a) Disclaim an opinion
 - b) express adverse opinion
18. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more _____ may exist.
- a) Significant issues
 - b) Significant risks

Choose the correct option from the following:

19. Written Representations about management's responsibilities include:
- a) Preparation of financial statements in accordance with the applicable financial reporting framework
 - b) Information provided and completeness of transactions
 - c) Description of management's responsibilities in the written representations
 - d) All of the above
20. Written representation should be obtained from the management with regard to:
- a) Preparation of the financial statements
 - b) Information provided to the auditor and completeness of transactions
 - c) Description of management's responsibilities
 - d) Both (a) and (b)
 - e) None of the above
21. Written representation should be in the form of:
- a) A letter
 - b) A presentation
 - c) An email
 - d) All of the above

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22. Where the written representations obtained are not consistent with other audit evidence:
- a) The auditor should perform additional audit procedures
 - b) The auditor should obtain updated written representation to make it consistent with the audit evidence
 - c) The auditor should discard the audit evidence
 - d) All of the above
23. Written representations should be requested from:
- a) CEO and CFO or other equivalent person in entities
 - b) CCO and CEO or other equivalent person in entities
 - c) CCO and CFO or other equivalent person in entities

Choose the incorrect option from the following:

24. Written representations:
- I. A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.
 - II. Include financial statements, the assertion therein, or supporting books and records.

Choose the incorrect option:

- a) Only I
 - b) Only II
 - c) Both I and II
 - d) None of I and II
25. Which of the following statement is incorrect?
- a) Auditor's responsibility is to obtain written representations from management and, where appropriate those charged with the governance
 - b) Written representations are sufficient appropriate audit evidence
 - c) Both of the above
26. Arrange the following audit procedures in proper order, in case of requested written representations not provided:
- a) Take appropriate actions including determining possible effect on audit opinion.
 - b) Re-evaluate integrity of management.
 - c) Discuss matter with management.
 - d) Evaluate effect on reliability of representations (oral or written) and audit evidence.

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27. Match the following:

a)	Written Representation means	1	Qualifying language to the effect that representations are made to the best of its knowledge and belief.
b)	Those responsible for preparation and presentation of the financial statements depends on	2	Written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.
c)	Management may include	3	The governance structure of the entity and relevant law or regulation.

28. Match the following:

a)	Written Representations about management's responsibilities includes	1	Representation letter addressed to the auditor.
b)	Additional Written Representations includes	2	a) Preparation of the financial statements b) Information provided and completeness of transactions.
c)	Form of Written Representation	3	Management has disclosed all known deficiencies in internal controls to the auditor.
d)	If written representations are inconsistent with other audit evidence	4	The auditor shall perform further audit procedures to resolve inconsistency.

SA 600 - Using the Work of Another Auditor

Select True or False:

1. Principal Auditor is not required to visit component and examine books of account.
 - a) True
 - b) False
2. Principal Auditor may require Other Auditor to answer a detailed questionnaire.
 - a) True
 - b) False
3. Principal auditor's report should state clearly the number of divisions/branches/subsidiaries or other components audited by other auditor.
 - a) True
 - b) False
4. Sufficient liaison between the principal auditor and the other auditor is not mandatory.
 - a) True
 - b) False
5. Principal Auditor is not required to consider the professional competence of other auditor if the other auditor is a member of ICAI.
 - a) True
 - b) False
6. The principal auditor always performs supplemental tests of the records or the financial statements of the component.
 - a) True
 - b) False
7. Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.
 - a) True
 - b) False
8. The nature, timing and extent of principal auditor's procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

9. The principal auditor would not be responsible in respect of the work entrusted to the other auditor, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditor.
- a) True
 - b) False

Fill in the blanks:

10. When the principal auditor concludes, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a _____.
- a) Qualified opinion
 - b) Unqualified opinion
 - c) Disclaimer of opinion
 - d) Qualified or Disclaimer of Opinion
11. The principal auditor should obtain _____, that the work of other auditor is adequate for his purposes.
- a) Written representation
 - b) Audit evidence
 - c) Sufficient appropriate audit evidence
 - d) Declaration
12. If the principal auditor requires the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties, the other auditor _____ respond to such questionnaire.
- a) Should
 - b) May
13. The principal auditor should _____ the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.
- a) Advise
 - b) Communicate
 - c) Discuss
14. The other auditor, knowing the context in which his work is to be used by the principal auditor, should _____ with the principal auditor.
- a) Coordinate
 - b) Cooperate

MCQs on Engagement and Quality Control Standards

15. When the principal auditor uses the work of another auditor, the principal auditor should _____ how the work of the other auditor will affect the audit.
- a) Consider
 - b) Determine

Choose the correct option from the following:

16. The Principal Auditor may discuss audit findings of other auditor with:
- a) Only with Other Auditor of component
 - b) Only with Management of component
 - c) Other auditor and the management of component.
17. This Standard does not cover:
- I. Joint audits
 - II. Relationship with predecessor auditor

Choose the correct option:

- a) I only
 - b) II only
 - c) I & II both
18. Auditor responsible for reporting on financial information of an entity when it includes financial information of one or more components audited by another auditor is:
- a) Principal Auditor
 - b) Other Auditor
19. The following has to be documented by principal auditor:
- I. Names of the other auditors
 - II. Components' significance to the financial information of the entity as a whole
 - III. Conclusions reached

Choose the correct option:

- a) I only
- b) I & II
- c) II & III
- d) All of the above

MCQs on Engagement and Quality Control Standards

20. Is a modification required in principal auditor's report when the other auditor issues, or intends to issue, a modified auditor's report?
- a) Yes, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting.
 - b) No, the principal auditor does not have to modify his report.
21. On what basis the auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor:-
- I. The materiality of the portion of the financial information which the principal auditor audits;
 - II. The principal auditor's degree of knowledge regarding the business of the components;
 - III. The risk of material misstatements in the financial information of the components audited by the other auditor;
 - IV. The performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

Choose the correct option:

- a) None of the Above
 - b) I & II Only
 - c) II & III Only
 - d) All of the Above
22. When the principal auditor concludes that the financial information of a component is immaterial,
- a) The procedures outlined in this SA do not apply
 - b) The procedures outlined in this SA always apply
 - c) Depends on the auditor's judgement
23. As per SA 600, component means:
- a) A division, branch, subsidiary, joint venture, associated enterprises or other entity
 - b) A division or a branch
 - c) Subsidiary, joint venture or associated enterprises
 - d) Subsidiaries

MCQs on Engagement and Quality Control Standards

24. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:
- a) Advise the other auditor of the use that is to be made of the other auditor's work
 - b) Inform the other auditor of matters such as areas requiring special consideration
 - c) Procedures for the identification of inter-component transactions that may require disclosure
 - d) Advise the other auditor of the significant accounting, auditing and reporting requirements
 - e) None of Above
 - f) All of above

25. **Match the following:**

a)	Principal Auditor's Procedure	1	Auditor responsible for reporting on financial information of a component.
b)	Principal Auditor	2	Obtain sufficient appropriate evidence that work of other auditor is adequate.
c)	Other Auditor	3	Auditor responsible for reporting on financial information of an entity where that entity has a component.

SA 610(Revised) - Using the Work of Internal Auditors

Select True or False

1. This SA deals with direct assistance instances where the internal auditors perform audit procedures under the direction, supervision and review of the external auditor.
 - a) True
 - b) False
2. The external auditor's responsibility is reduced by the external auditor's use of the work of the internal audit function.
 - a) True
 - b) False
3. An external auditor is not required to review the scope of the internal audit function.
 - a) True
 - b) False
4. Irrespective of the legal and regulatory framework, if external auditor uses work of the internal audit function, external auditor is required to include in audit documentation, the working papers of the internal audit function.
 - a) True
 - b) False
5. Internal auditor shares the responsibility of the opinion expressed by the external auditor.
 - a) True
 - b) False
6. The external auditor shall, in communicating with those charged with governance, an overview of the planned scope and timing of the audit in accordance with SA 260(Revised), communicate how the external auditor has planned to use the work of the internal audit function.
 - a) True
 - b) False
7. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. The objectives of internal audit function will always be consistent across entities irrespective of the size and structure of the entity and the requirements of management.
 - a) True
 - b) False
9. An external auditor may rely on internal audit function but the external auditor is not required to inform the internal auditors of any significant matters arising in the statutory audit that could affect the internal audit function.
 - a) True
 - b) False
10. The internal audit function cannot be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
 - a) True
 - b) False
11. If the internal auditor is professionally qualified, the external auditor is not required to evaluate the technical competence and proficiency of the internal auditor.
 - a) True
 - b) False
12. The manner in which the internal auditor plans, supervises, reviews and documents his work does not impact the external auditor.
 - a) True
 - b) False
13. The manner in which internal auditor selects samples is not relevant for an external auditor.
 - a) True
 - b) False

Fill in the blanks:

14. The external auditor has a ____ responsibility while using the work of internal auditor.
 - a) Joint
 - b) Joint and several
 - c) Sole

MCQs on Engagement and Quality Control Standards

Choose the correct option from the following:

15. If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:
- I. The evaluation of:
 - i. Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;
 - ii. The level of competence of the function;
 - iii. Whether the function applies a systematic and disciplined approach, including quality control.
 - II. The nature and extent of the work used and the basis for that decision
 - III. The audit procedures performed by the external auditor to evaluate the adequacy of the work used.

Solution:

- a) I & II
 - b) II & III
 - c) I & III
 - d) All of the Above
16. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:
- I. The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
 - II. The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
 - III. Who reviewed the work performed and the date and extent of that review in accordance with SA 230.

Solution:

- a) I & II
- b) II & III
- c) I & III
- d) All of the Above

17. Internal Audit Function includes:-

- I. Activities relating to Governance
- II. Activities Relating to Risk Management
- III. Activities Relating to Internal Control

Solution:

- a) I & II
- b) II & III
- c) I & III
- d) All of the Above

18. Activities Relating to Internal Control include:-

- I. Evaluation of internal control.
- II. Examination of financial and operating information.
- III. Review of operating activities.
- IV. Review of compliance with laws and regulations.

Solution:

- a) I & III
- b) II & IV
- c) III & IV
- d) II & III
- e) All of the Above

19. The external auditor shall not use the work of the internal audit function if the external auditor determines that:

- I. The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
- II. The function lacks sufficient competence;
- III. The function does not apply a systematic and disciplined approach, including quality control.

Solution:

- a) Any of the above is true
- b) I and II are true
- c) II and III are true
- d) I and III are true

20. What makes the coordination effective between an external auditor and an internal auditor?

- I. Discussions take place at appropriate intervals;
- II. The external auditor has access to relevant internal audit reports and communication of significant matters noted by the internal auditors relevant for the work of the external auditor;

MCQs on Engagement and Quality Control Standards

- III. The external auditor informs the internal auditors of any significant matters that may affect the internal audit function.

Solution:

- a) I and II
 - b) I and III
 - c) II and III
 - d) All of the above
21. Examples of work of the internal audit function that can be used by the external auditor include the following:
- I. Testing of the operating effectiveness of controls.
 - II. Substantive procedures involving limited judgment.
 - III. Observations of inventory counts.
 - IV. Tracing transactions through the information system relevant to financial reporting.
 - V. Testing of compliance with regulatory requirements.

Solution:

- a) I, II, III,V
 - b) II III & IV
 - c) IV,V & II
 - d) All of the Above
22. In discussing the planned use of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:
- I. The timing of such work;
 - II. The extent of audit coverage;
 - III. Materiality and performance materiality;
 - IV. Proposed methods of item selection and sample sizes;

Solution:

- a) I, II & III
- b) II, III & IV
- c) I & II
- d) All of the Above

SA 620 - Using the Work of an Auditor's Expert

Select True or False:

1. This SA deals with the situations where the engagement team includes a member with expertise in areas related to accounting or auditing.
 - a) True
 - b) False
2. The auditor's responsibility is reduced by the auditor's use of the work of an auditor's expert.
 - a) True
 - b) False
3. The risk of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the financial statements.
 - a) True
 - b) False
4. It is the responsibility of the external auditor to determine the objectivity of the auditor's expert.
 - a) True
 - b) False
5. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert.
 - a) True
 - b) False
6. Auditor's expert will always be external in relation to the auditor.
 - a) True
 - b) False
7. When an auditor's expert's work involves the use of source data that is significant to that expert's work, the auditor needs to perform procedures to test that data.
 - a) True
 - b) False
8. When an auditor's expert's work involves the use of source data that is significant to that expert's work, the auditor need not check the completeness of the source data.
 - a) True
 - b) False

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9. When an auditor's expert's work involves the use of significant assumptions and methods, those assumptions and methods need to be consistent with the requirements of the applicable financial reporting framework.
- a) True
 - b) False
10. An auditor's internal expert may be a partner or staff, including temporary staff, of the auditor's firm itself, and therefore is subject to the quality control policies and procedures of that firm in accordance with SQC 1.
- a) True
 - b) False
11. An auditor's external expert is not a member of the engagement team and is also subject to quality control policies and procedures in accordance with SQC 1.
- a) True
 - b) False
12. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements.
- a) True
 - b) False
13. The auditor shall evaluate the competence and capability of auditor's expert as well as the objectivity of the expert.
- a) True
 - b) False

Fill in the blanks:

14. Reference to auditor's expert in the auditor's report _____ the responsibility of the auditor for the opinion.
- a) Reduces
 - b) Increases
 - c) Does not reduce
15. An auditor's expert may be either a _____ or auditor's _____.
- a) Management's expert, external expert
 - b) Auditor's internal expert, external expert
 - c) Management's expert, internal expert

MCQs on Engagement and Quality Control Standards

16. The auditor shall not refer to the work of auditor's expert in an auditor's report containing an unmodified opinion unless required by _____.
a) Management
b) Law or regulation
c) Audit committee
d) Board of directors
17. If the auditor determines that the work of the auditor's expert is not adequate for his purposes, the auditor shall agree with that expert on the nature and extent of _____ work to be performed by that expert.
a) Additional
b) Further
18. In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be _____ even where this involves a specialised area of accounting or auditing.
a) Straightforward
b) Simple

Choose the correct option from the following:

19. The auditor should agree, in writing when appropriate, on the following matters with the auditor's expert:
- I. The nature, scope and objectives of that expert's work.
 - II. The respective roles and responsibilities of the auditor and that expert.
 - III. The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert.
 - IV. The need for the auditor's expert to observe confidentiality requirements.

Choose the correct option:

- a) I, II and III only
 - b) I, II & IV only
 - c) All of the above matters
 - d) II, III, IV only
20. For the purposes of this SA, following are considered as experts:
- I. Expert in complex modeling for valuing financial instruments.
 - II. Expert in taxation law.
 - III. Expert in application of Accounting Standard on deferred taxes.

Choose the correct option:

- (a) All of the above
- (b) I & II
- (c) I & III

MCQs on Engagement and Quality Control Standards

21. Auditor has to evaluate auditor's expert on the basis of following:

- I. Competence
- II. Capability
- III. Objectivity

Choose the correct option:

- a) I & II
- b) I & III
- c) I, II and III

22. Interests and relationships that may be relevant to determine the objectivity of the auditor's expert include:

- I. Financial interests.
- II. Business and personal relationships.
- III. Provision of other services by the expert

Choose the correct option:

- a) Any one is sufficient to be checked
- b) All are required to be checked, as applicable
- c) All are required to be checked

23. The auditor using the work of an auditor's expert, having followed this SA, concludes that the work of that expert is inadequate for the auditor's purposes. He will

- I. Engage another expert
- II. Perform additional procedures
- III. Express modified opinion

Choose the correct option:

- a) All of the above
- b) I and II
- c) II and III
- d) Combination of above, as may be necessary

MCQs on Engagement and Quality Control Standards

24. In determining the nature, timing and extent of auditor's procedures, the auditor shall consider matters including:
- I. The nature of the matter to which that expert's work relates.
 - II. The risks of material misstatement in the matter to which that expert's work relates.
 - III. The significance of that expert's work in the context of the audit.
 - IV. The auditor's knowledge of and experience with previous work performed by that expert.
 - V. Whether that expert is subject to the auditor's firm's quality control policies and procedures.

Choose the correct option:

- a) I, II, III only
 - b) II & IV only
 - c) I, III, V only
 - d) All of the above
25. Expertise in a field other than accounting or auditing may include expertise in relation to matters such as:
- I. The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
 - II. The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
 - III. The estimation of oil and gas reserves.
 - IV. The valuation of environmental liabilities, and site clean-up costs.
 - V. The interpretation of contracts, laws and regulations.
 - VI. The analysis of complex or unusual tax compliance issues.

Choose the correct option:

- a) II, IV & VI only
- b) I, III & V only
- c) None of the above
- d) All of the above

MCQs on Engagement and Quality Control Standards

26. Match the following:

a)	SA 620 deals with the auditor's responsibility	1	Estimation of oil and gas reserves.
b)	Example of matters of use of auditor's expert	2	To use the work of an auditor's expert.
c)	Expertise means	3	Skills, knowledge and experience in a particular field.

27. Match the following:

a)	Capability means	1	Respective roles and responsibilities of auditor and auditor's expert.
b)	Agreement with auditor's expert by auditor includes	2	Relevance and reasonableness of expert's findings and conclusion.
c)	Auditor shall evaluate adequacy of the auditor's expert's work including	3	Ability to exercise competence in circumstances of engagement.

SA 700(Revised) - Forming an Opinion and Reporting on Financial Statements

Select True or False:

1. In case of financial statements prepared in accordance with compliance framework, auditor is required to evaluate whether financial statements achieve fair presentation.
 - a) True
 - b) False
2. SA 700(Revised) deals with all types of auditor's opinion.
 - a) True
 - b) False
3. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature or how it is presented shall be covered by the auditor's opinion.
 - a) True
 - b) False
4. The auditor's report shall be in writing. A written report encompasses reports issued in hard copy format and those using an electronic medium.
 - a) True
 - b) False
5. SA 700(Revised) specifies minimum elements of the auditor's report and the order in which these elements should be included.
 - a) True
 - b) False
6. Basis for opinion paragraph should be included in audit reports only if the opinion is modified.
 - a) True
 - b) False

Choose the correct option from the following:

7. Under which section in the auditor's report is the introductory paragraph stating, 'we have audited the financial statements of _____', is to be included?
 - a) Auditor's responsibilities for the audit of the Financial Statements paragraph
 - b) Basis for Opinion paragraph
 - c) Responsibilities of Management for the Financial Statements paragraph
 - d) Opinion paragraph

MCQs on Engagement and Quality Control Standards

8. The elements of an audit report as stated in SA 700(Revised) apply to:
- a) General purpose financial statements
 - b) Special purpose financial statements
 - c) Single financial statement
 - d) All of the above
9. Does the requirement of SA 700(Revised) apply for the review engagements of financial statements/financial results for the period commencing on or after 1 April 2018?
- a) Yes, auditor should comply with requirements of SA 700 for all engagements including review engagements.
 - b) No, auditor should comply with the requirements of review standards SRE 2400 or SRE 2410 as may be applicable. SA 700(Revised) does not apply to review engagements.
10. Audit report on general purpose financial statements of a company is addressed to:
- a) Those charged with governance
 - b) Management
 - c) Board of Directors
 - d) Members of the company
11. Responsibility for the preparation of the financial statements as per applicable financial reporting framework is required to be disclosed under which of the following sections in the auditor's report?
- a) Under basis for opinion paragraph
 - b) Under opinion paragraph since the opinion is to be on the financial statements
 - c) Under auditor's responsibility paragraph since auditor is responsible for auditing the financial statements
 - d) Under management's responsibility paragraph since management is responsible for the preparation of the financial statements as per applicable financial reporting framework
12. The management's responsibility paragraph includes a statement that management is responsible for design, implementation and maintenance of internal financial controls and that they were operating effectively. Should this paragraph be amended if the internal financial controls are not operating effectively?
- a) Auditor should modify the management's responsibility paragraph appropriately.
 - b) Management's responsibility paragraph is not required to be amended. The auditors' opinion on internal financial controls should be modified appropriately.

MCQs on Engagement and Quality Control Standards

13. What is the significance of the date of the auditor's report?
- a) There is no significance of date of auditor's report and it is not mandatory that the report should be dated.
 - b) Date of the auditor's report informs the user of the auditor's report that the auditor has considered subsequent events up to that date in making his audit report and has obtained sufficient appropriate audit evidence to support his opinion.
14. Can an auditor sign the auditor's report at a place other than the place where the registered office of the entity is situated?
- a) No, place of signature should be the same location where the registered office of the entity is situated.
 - b) Yes, an auditor can sign at a place which is different from the registered office of the entity and ordinarily, location as per SA 700 (Revised) is the place where audit report is signed.
15. Can an auditor in India conduct an audit in accordance with International Standards on Auditing (ISA) in addition to Standards on Auditing (SA) issued by ICAI?
- a) No, auditor cannot conduct an audit under both SA and ISA.
 - b) Yes, auditor's report may refer to Standards on Auditing in addition to the International Standards on Auditing provided (i) there is no conflict between ISA and SA that would lead to different opinion or not include an emphasis of matter or other matter paragraph where particularly required by SA; and (ii) each of the elements set out in paragraph 49(a)-(n) of SA 700(Revised) are included in such report.

Choose all the correct options from the following:

16. What terms can be used to express an unmodified opinion on financial statements prepared in accordance with a fair presentation framework?
- a) Present fairly, in all material respects
 - b) With the foregoing explanation
 - c) Give a true and fair view
 - d) Subject to
17. In which of the following circumstances, an auditor cannot give an unmodified opinion?
- a) When the auditor reaches a conclusion that the financial statements taken as a whole are not free from material misstatement
 - b) When due to non-availability of sufficient appropriate audit evidence, the auditor does not have the ability to conclude that the financial statements, taken as a whole, are free from material misstatement
 - c) When the accompanying financial statements give a true and fair view in accordance with the applicable financial reporting framework
 - d) When the financial statements are prepared using International Financial Reporting Standards (IFRS)

MCQs on Engagement and Quality Control Standards

18. SA 700(Revised) introduces some new elements of audit report as compared to the pre-revised standard. These include:
- a) Going concern
 - b) Key audit matters
 - c) Other matter
 - d) Auditor's responsibility for the audit of the financial statements
19. As per SA 700(Revised), which of the following are correct?
- a) The first section of the audit report should be the opinion paragraph
 - b) Basis for opinion paragraph should be placed after the opinion paragraph
 - c) Report on other legal and regulatory requirements is the last section of the audit report to be included after the auditor's responsibilities paragraph
 - d) In case of modified opinion, basis for modification paragraph should be placed before the opinion paragraph
20. Which of the following statements are correct in case of financial statements prepared in accordance with fair presentation framework:
- a) Fair presentation framework acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.
 - b) Fair presentation framework acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework and such departures are expected to be necessary only in extremely rare circumstances.
 - c) When expressing an unmodified opinion, the auditor should state that the accompanying financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
 - d) The term "fair presentation framework" is used is used to refer to a financial reporting framework that requires compliance with the requirements of the framework.
21. The description of the auditor's responsibility for the audit of financial statements can be included:
- a) In the auditor's report
 - b) In an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix
 - c) 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 applicable auditing standards expressly permit the auditor to do so
 - d) In the engagement letter and in such case the audit report should refer to the engagement letter

MCQs on Engagement and Quality Control Standards

22. Which of the following statements are correct in respect of supplementary information that is not required by the applicable financial reporting framework but is provided voluntarily by the management or required by a law or regulation and the management (or law/ regulation) requires such information not to be subjected to audit?
- a) Such information should be covered by the auditor's opinion
 - b) It is not required to differentiate such information from the audited financial statements
 - c) Auditor should evaluate whether such information is presented in such a way that sufficiently and clearly differentiates it from audited financial statements
 - d) If such information is not differentiated from audited financial statements, auditor should explain in his report that such information is unaudited
23. Which of the following information is inter-alia required to be included in the auditor's responsibility section in the auditor's report?
- a) Statement that the preparation of the financial statements as per applicable reporting framework is responsibility of management
 - b) The objectives of the auditor
 - c) Statement that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists
 - d) Statement about auditor being independent as per relevant ethical requirements
24. Which of the following aspects are required to be included in the basis for opinion section in the auditor's report?
- a) Statement that the audit was conducted in accordance with Standards on Auditing
 - b) Statement that the financial statements have been audited
 - c) Statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit
 - d) Statement whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion

MCQs on Engagement and Quality Control Standards

25. How can an auditor describe materiality with respect to misstatements due to fraud or errors under the section of auditor's responsibility?
- a) Auditor may describe that misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements
 - b) Auditor may provide a definition or description of materiality in accordance with the applicable financial reporting framework
 - c) There is no concept of materiality as auditor has to provide reasonable assurance and accordingly no reference should be made to materiality
 - d) Either of the option (a) or (b) above
26. Which of the following statements are correct in case of financial statements prepared in accordance with compliance framework:
- a) It acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework
 - b) It acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework and such departures are expected to be necessary only in extremely rare circumstances
 - c) Auditor is not required to evaluate whether financial statements achieve fair presentation
 - d) The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (a) or (b) above

SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

Select True or False:

1. Communicating key audit matters is not a separate opinion on individual matters.
 - a) True
 - b) False
2. A material uncertainty related to going concern should be communicated as a key audit matter.
 - a) True
 - b) False
3. Auditor's report can have both key audit matters section and emphasis of matter paragraph.
 - a) True
 - b) False
4. Communicating key audit matters in auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole.
 - a) True
 - b) False
5. SA 701 applies to audits of quarterly financial statements under SEBI LODR Regulations 2015.
 - a) True
 - b) False
6. Key audit matters should not be communicated in case of adverse opinion.
 - a) True
 - b) False
7. Key audit matters may be communicated in case of qualified opinion.
 - a) True
 - b) False
8. A matter requiring modification of auditor's opinion cannot be communicated as key audit matter.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

9. A matter giving rise to a modified opinion in accordance with SA 705(Revised), is by its nature, a key audit matter.
 - a) True
 - b) False
10. Auditor is not required to include a reference to the “Section – material uncertainty related to going concern” in the key audit matters section.
 - a) True
 - b) False
11. If the auditor determines that there are no key audit matters to communicate, key audit matters section is still required in the auditor’s report.
 - a) True
 - b) False
12. SA 706(Revised) provides further guidance on the relationship between key audit matters and other matter paragraph in accordance with that SA.
 - a) True
 - b) False
13. SA 701 does not require the auditor to update key audit matters included in the prior period’s auditor’s report.
 - a) True
 - b) False
14. It is not useful for the auditor to consider whether a matter that was a key audit matter in the audit of the prior period continues to be a key audit matter in the audit of the current period.
 - a) True
 - b) False
15. It is not appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity.
 - a) True
 - b) False
16. Original information about the entity is the responsibility of the entity’s management and those charged with governance.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

17. In case of listed entities, the auditor is required to communicate at least one key audit matter in the auditor's report.
- a) True
 - b) False
18. Under key audit matters section, individual key audit matters may be organized in order of relative importance, based on auditor's judgment or may correspond to the manner in which matters are disclosed in the financial statements.
- a) True
 - b) False
19. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.
- a) True
 - b) False

Fill in the Blanks:

20. Purpose of communicating key audit matters is to _____ the communicative value of the auditor's report.
- a) Increase
 - b) Enhance
21. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant _____ judgment in the audited financial statements.
- a) Management
 - b) Auditor
22. Auditor shall describe each key audit matter using an appropriate _____ in the key audit matters section.
- a) Heading
 - b) Subheading
23. Auditor shall describe each key audit matter in the auditor's report unless law or regulation _____ public disclosure about the matter.
- a) Precludes
 - b) Prohibits
24. The _____ language in key audit matters section shall state that key audit matters are those matters that in the auditor's professional judgment were of most significance in the audit of the financial statements of the current period.
- a) Opening
 - b) Introductory

MCQs on Engagement and Quality Control Standards

25. Auditor's decision making process in determining key audit matters is designed to select a _____ number of matters from the matters communicated with those charged with governance.
- a) Smaller
 - b) Limited
26. Areas of significant auditor attention often relate to areas of _____ and significant management judgment in the financial statements and therefore often involve difficult or complex auditor judgments.
- a) Subjectivity
 - b) Complexity
27. Auditor may develop a _____ view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters.
- a) Initial
 - b) Preliminary
28. The _____ of presentation of individual matters within the key audit matters section is a material of professional judgment.
- a) Order
 - b) Sequence
29. Management or those charged with governance may decide to include _____ disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report.
- a) New or improved
 - b) New or enhanced
 - c) New or additional

Choose the incorrect option from the following:

30. Communicating key audit matters in the auditor's report is:
- a) Not a substitute for the disclosures in financial statements required by the applicable financial reporting framework.
 - b) Not a substitute for the disclosures necessary to achieve fair presentation.
 - c) Substitute for including an Emphasis of Matter paragraph.
 - d) Not a substitute for the auditor expressing a modified opinion.

MCQs on Engagement and Quality Control Standards

31. Description of each key audit matter in the “key audit matters section” needs to cover following aspects:
- a) Reference to related disclosures, if any, in the financial statements.
 - b) Explanation on the matter given by management.
 - c) How the matter was addressed in the audit.
 - d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.

SA 705(Revised) - Modifications to the Opinion in the Independent Auditor's Report

Choose the correct option from the following:

1. The decision regarding the appropriateness of the type of modified opinion depends upon:
 - a) The nature of the matter giving rise to the modification - whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated
 - b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements
 - c) Both (a) and (b)
 - d) None of the above
2. Can a misstatement be considered to have a pervasive effect if the impact of misstatement is confined to specific elements, accounts or items of the financial statements representing a substantial proportion of the financial statements? For example, consider a situation when the misstatement is only in valuing inventory of a major raw material at cost instead of at net realisable value and when clear evidence is available that the fair value of the material was substantially lower than cost and the selling price of the finished product is pegged to current raw material prices, and the difference in valuation, if booked, could wipe out a substantial portion of the profit before tax of the entity.
 - a) Yes. If a material misstatement/possible misstatement pertains to an amount(s) in the financial statements and is confined to specific components, accounts or items of the financial statements, it is pervasive if it represents or could represent a substantial portion of the financial statements.
 - b) No. A material misstatement/possible misstatement is pervasive when it pertains to an amount(s) in the financial statements and is not confined to specific components, accounts or items of the financial statements.
3. Can the auditor express a modified opinion in case of inability to obtain sufficient appropriate audit evidence from circumstances beyond the control of the entity?
 - a) Yes. Limitation on scope of audit may arise from circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work or limitations imposed by management
 - b) No. Circumstances beyond the control of the entity do not represent a limitation on scope of audit

MCQs on Engagement and Quality Control Standards

4. What is the appropriate nature of opinion in case the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in the aggregate, are both material and pervasive to the financial statements?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
5. What is the appropriate nature of opinion in case the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
6. What is the appropriate nature of opinion in case the auditor having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in the aggregate, are material but not pervasive to the financial statements?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
7. What is the appropriate nature of opinion in case the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
8. While expressing a qualified opinion, which of the following phrases is appropriate to use.
 - a) 'Except for'
 - b) 'Subject to'
 - c) 'Read with the above'
 - d) Any of the above

MCQs on Engagement and Quality Control Standards

9. If an auditor concludes that his overall opinion on financial statements is either a disclaimer or adverse opinion, can the auditor give in the same report an unmodified opinion in respect of a single financial statement or specific account or element or item of a financial statement?
- a) Yes
 - b) No
10. One of the elements of the audit report on the financial statements as per SA 700(Revised) is the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. Should this statement be included in case of disclaimer of audit opinion:
- a) Yes, the statement should be included
 - b) The description should be amended to state that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements
 - c) No, the statement should not be included
 - d) Depends on the matter(s) giving rise to disclaimer of opinion
11. Material misstatement of the financial statements may arise in relation to:
- a) The appropriateness of the selected accounting policies
 - b) The application of the selected accounting policies
 - c) The appropriateness or adequacy of disclosures in the financial statements
 - d) All of the above
12. When the auditor disclaims an opinion on the financial statements, can Key Audit Matters be stated in the auditor's report of an entity for the audit of which SA 701 applies?
- a) Yes. Key Audit Matters should be reported in all cases including when the auditor disclaims an audit opinion
 - b) No. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report should not include Key Audit Matters
13. An auditor has disclaimed the audit opinion or has given an adverse opinion on overall financial statements. The auditor is aware of another matter that would have required a modification to the opinion. Shall the auditor describe and give effects of that other matter in the Basis for Opinion section?
- a) Yes
 - b) No

MCQs on Engagement and Quality Control Standards

14. If a modified opinion is expected, the communication by the auditor with those charged with governance should include:
- a) The circumstances that led to the expected modification
 - b) The wording of the modification.
 - c) Both (a) and (b)
 - d) Either of (a) or (b)
15. While reporting on the Consolidated Financial Statements, what is the responsibility of the principal auditor with respect to observations of component auditors?
- a) Principal auditor should mandatorily reproduce all the comments (Qualification/ Emphasis of Matter / Other Matter) of component auditors
 - b) Principal auditor should mandatorily reproduce all Qualifications of component auditors but is not required to reproduce Emphasis of Matter/ Other Matter of component auditors
 - c) Principal auditor is not required to consider the comments of component auditors
 - d) Principal auditor should consider the observations of component auditors as per the requirements of SA 600
16. What is the appropriate heading for the Opinion section, if the auditor modifies the audit opinion?
- a) 'Opinion'
 - b) 'Modified opinion'
 - c) 'Qualified Opinion', 'Adverse Opinion', or 'Disclaimer of Opinion', as appropriate
 - d) Either (a) or (b) above
17. The auditor has modified the opinion as a result of an inability to obtain sufficient appropriate audit evidence. Should the auditor include the reasons for that inability in the Basis for Opinion section?
- a) Yes
 - b) No
18. What should be the appropriate heading for the Basis for Opinion section, if the auditor modifies the audit opinion?
- a) 'Basis for Opinion'
 - b) 'Basis for Modified opinion'
 - c) 'Basis for Qualified Opinion', 'Basis for Adverse Opinion', or 'Basis for Disclaimer of Opinion', as appropriate
 - d) Either of option 2 or option 3 above

MCQs on Engagement and Quality Control Standards

19. In case of disclaimer of opinion on the financial statements, should the auditor include Other Information section in accordance with SA 720(Revised) in the auditor's report?
- a) Yes, Other Information section should be included in all cases including when the auditor disclaims an audit opinion
 - b) No, unless required by law or regulation
20. Material misstatement(s) or possible misstatement(s) would be considered to be pervasive, if in the auditor's judgment such material misstatement(s) or possible misstatement(s):
- a) Is not confined to specific elements, accounts or items of the financial statements
 - b) If so confined, represent or could represent a substantial proportion of the financial statements
 - c) In relation to disclosures, are fundamental to users' understanding of the financial statements
 - d) Any of the above

Choose all the correct options from the following:

21. What are the circumstances requiring modification of audit opinion?
- a) The auditor concludes that the financial statements as a whole are not free from material misstatement.
 - b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
 - c) The auditor concludes that the financial statements as a whole are free from material misstatement but considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
 - d) The auditor concludes that the financial statements as a whole are free from material misstatement but considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit.

SA 706(Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Select True or False:

1. Emphasis of Matter paragraph in the auditor's report represents a "modified" opinion.
 - a) True
 - b) False

Fill in the blanks:

2. "Emphasis of Matter" paragraph is given by an auditor to highlight matters disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is _____ to users' understanding of the financial statements.
 - a) Fundamental
 - b) Relevant
 - c) Complex

Choose the correct option from the following:

3. Emphasis of Matter paragraph can be given by an auditor for:
 - a) Expressing a qualified opinion or adverse opinion or disclaiming an opinion
 - b) Disclosures in financial statements that are required by the applicable financial reporting framework
 - c) Key Audit Matters
 - d) Matter disclosed in financial statements which is fundamental to the user's understanding of the financial statements
4. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in auditor's report, auditor should communicate this expectation to those charged with governance and provide them with the proposed wording.
 - a) Yes
 - b) No
 - c) Depends on the discretion of the auditor
 - d) Yes but proposed wording should not be shared

MCQs on Engagement and Quality Control Standards

5. When an auditor includes an Emphasis of matter paragraph in auditor's report, he should:
 - a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"
 - b) Include in the paragraph a clear reference to the matter being emphasized and where relevant disclosures that fully describe the matter can be found in the financial statements
 - c) Indicate that auditor's opinion is not modified in respect of the matter emphasized
 - d) All of above
6. What should be the placement of an Emphasis of Matter paragraph in situation where the auditor's report also includes Key Audit Matters section?
 - a) Emphasis of Matter paragraph should be presented before the Key Audit Matters section
 - b) Emphasis of Matter paragraph should be presented after the Key Audit Matters section
 - c) Emphasis of Matter paragraph may be presented before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph
 - d) Auditor cannot include an Emphasis of Matter paragraph when Key Audit Matters section is also included in the auditor's report
7. Emphasis of Matter paragraph is required to be included within a separate section of auditor's report with the heading "Emphasis of Matter".
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities
8. Other Matter Paragraph is required to be included within a separate section of auditor's report with the heading "Other Matter" or other appropriate heading.
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities
9. If the financial statements are prepared in accordance with a special purpose framework, can the auditor include an 'other matter paragraph' in the auditor's report.
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities

MCQs on Engagement and Quality Control Standards

10. Prior period financial statements were audited by a predecessor auditor and the existing auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures. How should the existing auditor highlight this fact in his audit report for the current year?
- a) The auditor should include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements
 - b) The auditor should include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities relating to corresponding figures
11. Is the auditor required to include Emphasis of Matter Paragraph in the auditor's report when the financial statements are prepared in accordance with a special purpose framework?
- a) The auditor should include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework
 - b) It is advisable but not necessary for the auditor to include an Emphasis of Matter when financial statements are prepared in accordance with special purpose framework
 - c) The auditor should not include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework
 - d) The auditor should include an Other Matter paragraph when financial statements are prepared in accordance with special purpose framework
12. Is the auditor required to include Emphasis of Matter Paragraph (where considered appropriate) in the auditor's report when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation?
- a) Yes, the auditor is required to include an Emphasis of Matter Paragraph in such situations
 - b) No, auditor is not required to include an Emphasis of Matter in such situations
 - c) It is advisable but not necessary
 - d) A separate reporting should be made to the regulator for this matter
13. Is it advisable for an auditor to highlight all significant matters and transactions that affect the financial statements as emphasis of matter paragraphs?
- a) Yes, it is advisable to highlight all the significant matters and transactions as emphasis of matter paragraphs
 - b) No, widespread use of emphasis of paragraphs may diminish effectiveness of the auditor's communication about such matters

MCQs on Engagement and Quality Control Standards

14. Should matters described in Emphasis of Matter paragraph also be reported as Key Audit Matters?
- a) Auditor should consider all emphasis of matters paragraphs as key audit matters
 - b) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the key audit matter section should cross refer to the emphasis of matter paragraph
 - c) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the emphasis of matter paragraph should cross refer to the key audit matter section
 - d) If matters that are determined to be key audit matters are also, in the auditor's judgment, fundamental to users' understanding of the financial statements, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements
15. What is the difference between "Other Matter" paragraph and Emphasis of Matter paragraph?
- a) Emphasis of Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Whereas Other Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor's judgment is relevant to user's understanding of the audit or auditor's responsibility or auditor's report.
 - b) Other Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements whereas Emphasis of Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor's judgment it is necessary to bring them to the users' attention.
 - c) There is no difference between Emphasis of Matter paragraph and Other Matter paragraph and both can be used interchangeably.
16. Emphasis of Matter paragraph can be used if an auditor has a disagreement with the management about the recognition, measurement, disclosure or presentation of a transaction or event reflected in the financial statements:
- a) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter
 - b) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter provided that the matter is appropriately disclosed by the management in the financial statements

MCQs on Engagement and Quality Control Standards

- c) SA 706(Revised) does not apply in such situations and auditor should consider the requirements of SA 705(Revised) in this regard
 - d) Either of the approach in Option (b) or Option (c) is acceptable
17. Other Matter paragraph may be issued:
- a) To enhance users' understanding of an audit
 - b) If it is relevant to users' understanding of the auditor's responsibilities or the auditor's report
 - c) Either of the above circumstances
 - d) None of the above circumstances
18. In the following circumstances, identify whether auditor is required to include Other Matter Paragraph in the auditor's report:
- a) If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so
 - b) The statement that the nature, timing and extent of the audit procedures performed comply with auditing standards
 - c) The auditor has identified significant deficiency in internal control
 - d) A matter that is required to be presented in the financial statements
19. Can an auditor include an Other Matter paragraph for the following matters?
- a) Any matter that is required to be presented or disclosed in the financial statements
 - b) Any information that the auditor is prohibited from providing by law, regulation or other professional Standards
 - c) Information that is required to be provided by management
 - d) None of the above
20. When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities in the auditor's report
- a) It should be included in the Report on Other Legal and Regulatory Requirements section
 - b) It may be included in the Report on Other Legal and Regulatory Requirements section
21. In cases where the auditor's report is intended for specific users and thus a restriction on distribution and use is included in the auditor's report, can the auditor include an Emphasis of Matter paragraph?
- a) Yes, auditor may include an Emphasis of Matter paragraph because such matter is fundamental to users' understanding of the financial statements
 - b) No, the auditor may consider necessary to include an Other Matter paragraph as the matter relates to auditor's report and is not related to disclosure in the financial statements

MCQs on Engagement and Quality Control Standards

22. While reporting on the consolidated financial statements of a company, an auditor has relied on the work of component auditor for a significant component. How should the matter be reported in the auditor's report on the consolidated financial statements of the company?
- a) The auditor should include an Emphasis of Matter paragraph to alert the users about placing reliance on the work of component auditor
 - b) The auditor should include an Other Matter paragraph to alert the users about placing reliance on the work of component auditor
 - c) Either of the above
 - d) There is no requirement for the parent auditor to state reliance on the component auditor in the audit report on consolidated financial statements
23. There is material uncertainty regarding the entity's ability to continue as going concern and adequate disclosures are made in financial statements. In such a situation, the matter should be reported as –
- a) Other Matter Paragraph
 - b) Emphasis of Matter Paragraph
 - c) No implication on report
 - d) SA 706(Revised) does not apply in such a situation and the reporting should be done as per requirements of SA 570(Revised), Going Concern
24. In which of the following situations an auditor may include an Other Matter paragraph in the auditor's report?
- a) Two sets of general purpose financial statements are prepared by the company (one under Indian Accounting Standards and other under IFRS) and the two frameworks are acceptable in their respective circumstances. If included, the Other Matter paragraph refers to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements
 - b) Preparation of consolidated financial statements and separate financial statements of a same entity for same reporting period under same accounting framework
25. Consider a situation where the auditor is unable (for example due to legal requirements) to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive. How can the auditor report this including why it is not possible for the auditor to withdraw from the engagement?
- a) The auditor may include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements
 - b) The auditor may include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities

SA 710 - Comparative Information—Corresponding Figures and Comparative Financial Statements

Select True or False

1. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply.
 - a) True
 - b) False
2. The auditor's opinion on the financial statements for corresponding figures refers to each period for which financial statements are presented.
 - a) True
 - b) False
3. Where prior period financial statements were not audited, the auditor should request the management to disclose this fact on the face of the current period financial statements with respect to the corresponding figures.
 - a) True
 - b) False
4. By including Other Matter paragraph that comparative financial statements are unaudited, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.
 - a) True
 - b) False
5. In case of corresponding figures approach, the auditor's opinion should not specifically refer to corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures.
 - a) True
 - b) False
6. Typically, financial reporting frameworks in India use the corresponding figures approach for general purpose financial statements.
 - a) True
 - b) False
7. Auditor shall modify his opinion on the current period's financial statements, if the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

Fill in the blanks:

8. For corresponding figures, if the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and if that is not the case, the auditor shall express _____ in the auditor's report on current financial statements modified with respect to corresponding figures included therein.
- a) Qualified opinion
 - b) Adverse opinion
 - c) Qualified or adverse opinion
9. _____ means the amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
- a) Comparative information
 - b) Corresponding figures
 - c) Comparative financial statements
10. In case of comparative financial statements, the level of information included in those comparative financial statements is comparable with that of the financial statements of _____.
- a) Prior period
 - b) Future period
 - c) Current period
11. If the prior period financial statements were not audited, the auditor shall state the same in _____.
- a) Key audit matter section
 - b) Emphasis of matter paragraph
 - c) Going concern paragraph
 - d) Other matter paragraph
12. The auditor should obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable _____.
- a) Accounting Standard
 - b) Financial reporting framework
 - c) Laws and regulations

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13. In the case of comparative financial statements, the written representations are requested for _____ periods referred to in the auditor's opinion.
- a) Prior
 - b) All
 - c) Current
14. In the case of corresponding figures, the written representations are requested for the financial statements of the _____ period only because the auditor's opinion is on those financial statements, which include the corresponding figures.
- a) Prior
 - b) All
 - c) Current

Choose the correct option from the following:

15. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall
- I. Communicate misstatement with the appropriate level of management
 - II. Communicate misstatement with Those Charged With Governance
 - III. Request that predecessor auditor be informed

Solution:

- a) I only
 - b) II & III
 - c) I & III
 - d) I, II and III
16. When prior period financial statements were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:
- I. The financial statements of the prior period were audited by a predecessor auditor;
 - II. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor;
 - III. Date of that report;
 - IV. Auditor's responsibility;

Solution:

- a) I, II and III
- b) I, III and IV
- c) II, III and IV
- d) I, II, III and IV

MCQs on Engagement and Quality Control Standards

17. There are two different broad approaches to the auditor's reporting responsibilities in respect of comparative information:
- a) Corresponding figures and financial statements of current period
 - b) Comparative financial statements and corresponding figures
18. Objectives of the auditor under SA 710 are:
- I. To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework.
 - II. To report in accordance with the auditor's reporting responsibilities.
- Solution:**
- a) I and II
 - b) I or II
 - c) None of the Above
19. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in:
- a) Emphasis of Matter Paragraph
 - b) Other Matter Paragraph
 - c) Any of the Above
 - d) No such disclosure is required
20. **Match the following:**

a)	Scope of the SA	1	Each period for which financial statements are presented.
b)	The auditor's opinion for comparative financial statements refers to	2	Comparable with that information of the financial statements of current period.
c)	The level of information included in comparative financial statements	3	Auditor's responsibilities regarding comparative information in an audit of financial statements.

SA 720(Revised) - The Auditor's Responsibilities Relating to Other Information

Select True or False:

1. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
 - a) True
 - b) False
2. The auditor's opinion on the financial statements covers the other information.
 - a) True
 - b) False
3. This SA does not require auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
 - a) True
 - b) False
4. This SA requires auditor to reconcile other information with financial statements.
 - a) True
 - b) False
5. This SA applies to securities offering documents including prospectuses.
 - a) True
 - b) False
6. This SA does not require auditor to obtain assurance about other information.
 - a) True
 - b) False
7. Other information includes the disclosures given in financial statements.
 - a) True
 - b) False
8. Auditor's responsibilities relating to other information (including applicable reporting responsibilities) apply regardless of whether other information is obtained by auditor prior to or after the date of auditor's report.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

9. Reporting requirements of this SA are different for listed entities and unlisted corporate entities.
 - a) True
 - b) False
10. Reporting requirements of this SA are applicable to unlisted non-corporate entities.
 - a) True
 - b) False
11. In case of audits of unlisted corporate entities, other information section is required in auditor's report, when at the date of the auditor's report, the auditor expects to obtain the other information.
 - a) True
 - b) False
12. Annual report may also be prepared for a period less than or more than a year.
 - a) True
 - b) False
13. In case of audits of listed entities, other information section in the auditor's report will include identification of other information expected to be obtained after the date of auditor's report.
 - a) True
 - b) False
14. When other information is obtained after the date of auditor's report, auditor is required to update the procedures performance in accordance with paragraphs 6 & 7 of SA 560.
 - a) True
 - b) False
15. Other information section cannot be given in auditor's report in case of adverse opinion.
 - a) True
 - b) False
16. A report prepared to comply with a specific regulatory reporting objective is not annual report.
 - a) True
 - b) False
17. In case of audits of unlisted corporate entities, other information section in the auditor's report will include identification of other information expected to be obtained after the date of auditor's report.
 - a) True
 - b) False

Fill in the Blanks:

18. _____ may impose additional obligations on auditor in relation to other information that are beyond the scope of this SA.
- a) Management
 - b) Law or Regulation
19. This SA may also _____ the auditor in complying with relevant ethical requirements that require the auditor to avoid being associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished negligently, or omits or obscures any information required to be included where such omission or obscurity would be misleading.
- a) Help
 - b) Assist
20. Auditor shall make _____ arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report.
- a) Necessary
 - b) Appropriate
21. Auditor is required to document final version of the other information on which he has performed the _____ required under this SA.
- a) Procedures
 - b) Work
22. While reading the other information in accordance with requirements of this SA, auditor shall remain alert for _____ that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.
- a) Indications
 - b) Possibility
23. If, as a result of performing the procedures required by this SA, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with _____.
- a) SA 705(Revised)
 - b) Other Standards on Auditing
24. A document may meet the definition of annual report irrespective of the _____ in which it is made available to users.
- a) Form
 - b) Manner

MCQs on Engagement and Quality Control Standards

25. If auditor concludes that a material misstatement of other information exists, auditor shall request _____ to correct other Information.
- a) Management
 - b) Those Charged with Governance
26. The auditor is not _____ from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.
- a) Prohibited
 - b) Precluded

Choose the correct option from the following:

27. The auditor is required to consider whether there is:
- a) Material inconsistency between other information and financial statements
 - b) Material inconsistency between other information and auditor's knowledge obtained in the audit
 - c) Only (a)
 - d) Both (a) and (b)
28. In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report:
- a) Auditor has obtained some or all of the other information
 - b) Auditor has obtained all of the other information
 - c) Auditor has obtained or expects to obtain the other information
 - d) Auditor has obtained some of the other information
29. In case of audits of unlisted corporate entities, other information section is required in auditor's report when at the date of auditor's report:
- a) Auditor has obtained some or all of the other information
 - b) Auditor has obtained all of the other information
 - c) Auditor has obtained or expects to obtain the other information
 - d) Auditor has obtained some of the other information
30. Other information section is not permitted in auditor's report in case of:
- a) Qualified or adverse opinion
 - b) Qualified or disclaimer of opinion
 - c) Disclaimer of opinion
 - d) Adverse or disclaimer of opinion

SA 800 - Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Select True or False:

1. SA 800 overrides the requirement of all the other Standards on Auditing.
 - a) True
 - b) False
2. The special purpose framework may be a fair presentation framework or a compliance framework.
 - a) True
 - b) False
3. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.
 - a) True
 - b) False
4. SA 800 deals with expressing an opinion on the effectiveness of the entity's internal controls.
 - a) True
 - b) False
5. The financial statements prepared in accordance with special purpose framework do not include related notes.
 - a) True
 - b) False
6. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares.
 - a) True
 - b) False
7. Application of some of the requirements of the Standards on Auditing in an audit of special purpose financial statements may not require special consideration by the auditor.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. The auditor needs to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
 - a) True
 - b) False
9. Those charged with governance are always responsible for overseeing the preparation of special purpose financial statements.
 - a) True
 - b) False
10. The special purpose financial statements may be used for purposes other than those for which they were intended.
 - a) True
 - b) False
11. When forming an opinion and reporting on special purpose financial statements, the auditor need not apply the requirements in SA 700(Revised).
 - a) True
 - b) False
12. In some circumstances, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework.
 - a) True
 - b) False
13. Where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organization or by law or regulation, it is necessary to comply with all the requirements of that framework.
 - a) True
 - b) False

Fill in the blanks:

14. The auditor may consider it appropriate to indicate that the auditor's report is intended solely for the _____.
 - a) Central government
 - b) Specific users
 - c) Intended users

MCQs on Engagement and Quality Control Standards

15. The auditor's report on special purpose financial statements shall include an _____ alerting the users of the auditor's report that the financial statements are prepared in accordance with special purpose framework.
- a) Emphasis of matter paragraph
 - b) Other Matter paragraph
 - c) Key Audit matters section
16. SA 800 deals with _____ considerations that may be relevant in the circumstances of the engagement.
- a) General
 - b) Special
 - c) Specific
17. According to SA 800, "Special purpose framework" is the financial reporting framework designed to meet the financial information needs of _____.
- a) Central government
 - b) Specific users
 - c) Intended users
18. In the case of an auditor's report on special purpose financial statements, the auditor's report shall also describe the _____ for which the financial statements are prepared.
- a) Objective
 - b) Purpose
 - c) Intend
 - d) Applicable standard
19. In the case of special purpose financial statements, the financial information needs of the _____ are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.
- a) Central government
 - b) Specific users
 - c) Intended users
20. An interpretation is _____ when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.
- a) Not significant
 - b) Significant
 - c) Material
 - d) Non-material

MCQs on Engagement and Quality Control Standards

Choose the correct option from the following:

21. SA 800 is applicable on financial statements prepared in accordance with:
- a) General Purpose Framework
 - b) Special Purpose Framework
 - c) Both a & b
 - d) None of the above
22. Examples of special purpose frameworks are:
- I. The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors,
 - II. The financial reporting provisions established by a regulator to meet the requirements of that regulator.
 - III. The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

Solution:

- a) Only I
 - b) Only II
 - c) Only III
 - d) All of the above
23. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be:
- a) Applicable financial reporting framework
 - b) General purpose financial statements
 - c) Special purpose financial statements
 - d) None of the above
24. In an audit of special purpose financial statements, the auditor shall obtain an understanding of:
- I. The purpose for which the financial statements are prepared;
 - II. The intended users; and
 - III. The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

Solution:

- a) Only I
 - b) Only II
 - c) I and II
 - d) I, II and III
25. Financial statements prepared for filing with income tax authorities are considered as:
- a) Specific purpose financial statements
 - b) General purpose financial statements
 - c) Special purpose financial statements
 - d) None of the above
26. Distribution and use of the auditor's report on special purpose financial statements are:
- a) Not restricted
 - b) Restricted
 - c) Limited
 - d) Confined

SA 805 - Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Select True or False

1. SA 805 overrides all the requirements of other Standards on Auditing.
 - a) True
 - b) False
2. SA 805 apply to the report of component auditor, issued as result of work performed on the financial information of a component at the request of a group engagement team for purpose of an audit of group financial statements.
 - a) True
 - b) False
3. SA 805 deals with expressing an opinion on the effectiveness of the entity's internal control.
 - a) True
 - b) False
4. SA 805 requires the auditor to comply all the Standards on Auditing in the series 100-700 which are relevant to the audit.
 - a) True
 - b) False
5. If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.
 - a) True
 - b) False
6. Compliance with all SAs are required irrespective of the fact that the auditor is also engaged to audit the entity's complete set of financial statements.
 - a) True
 - b) False
7. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. When only a specific element of a financial statement is the subject of the audit, SAs such as SA 240, SA 550 and SA 570(Revised) are not, in principle, relevant.
 - a) True
 - b) False
9. The auditor can use the audit evidence obtained as part of the audit of the entity's complete set of financial statements while giving an opinion on single financial statement or a specific element of a financial statement.
 - a) True
 - b) False
10. The materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements.
 - a) True
 - b) False
11. A single financial statement or a specific element of a financial statement does not include related notes.
 - a) True
 - b) False
12. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements of SA 700(Revised), adapted as necessary in circumstances of the engagement.
 - a) True
 - b) False
13. Single financial statement is not deemed to constitute a major portion of complete set of financial statements.
 - a) True
 - b) False
14. A single financial statement or a specific element of a financial statement shall always be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standard setting organisation for the preparation of a complete set of financial statements.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

15. When auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph then, audit report on a single financial statement or on a specific element of those financial statements may also contain modified opinion, Emphasis of Matter paragraph or an Other Matter paragraph if the auditor deems it appropriate.
- a) True
 - b) False

Fill in the blanks:

16. SA 805 deals with _____ considerations that may be relevant in the circumstances of the engagement.
- a) General
 - b) Special
 - c) Specific

Choose the correct option from the following:

17. SA 805 deals with special considerations in the application of SAs in 100-700 series to an audit of a:
- a) Single financial statement or a specific element, account or item of a financial statement
 - b) Engagement to report on summary financial statements
 - c) Engagement to review summary financial statements
 - d) None of the above
18. Single financial statement or a specific element, account or item of a financial statement may be prepared in accordance with:
- a) General Purpose Framework
 - b) Special Purpose Framework
 - c) Both (a) & (b)
 - d) None of the above
19. Single financial statement may be:
- I. Balance sheet
 - II. Profit and loss account
 - III. Cash flow statement

Solution:

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

20. “Element of a financial statement” or “element” means:

- I. Element
- II. Account
- III. Item of a financial statement

Solution:

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

21. The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement is to address appropriately the special considerations that are relevant to:

- I. The acceptance of the engagement;
- II. The planning and performance of that engagement; and
- III. Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement

Solution:

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

22. Examples of specific elements, accounts or items of a financial statement:

- I. A schedule of externally managed assets and income of a private pension plan, including related notes.
- II. A schedule of net tangible assets, including related notes.
- III. A schedule of disbursements in relation to a lease property, including explanatory notes.

Solution:

- a) Only I
- b) Only II
- c) Only III
- d) All of the above

MCQs on Engagement and Quality Control Standards

23. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with SAs may not be practicable, the auditor may:
- a) Express a qualified opinion in his audit report
 - b) Discuss with management whether another type of engagement might be more practicable
 - c) Withdraw from the engagement
 - d) All of the above
24. If the auditor expresses an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, what type of audit opinion the auditor may issue for single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.
- I. Disclaimer of opinion
 - II. Unmodified opinion
 - III. Modified opinion
 - IV. Adverse opinion

Solution:

- a) Only I
 - b) Only II
 - c) Only IV
 - d) I or III or IV
25. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
- I. The auditor is not prohibited by law or regulation from doing so;
 - II. That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
 - III. The specific element does not constitute a major portion of the entity's complete set of financial statements.

Solution:

- a) Only I
- b) Only II
- c) Both I and II
- d) All of the above

SA 810 - Engagements to Report on Summary Financial Statements

Select True or False:

1. SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with Standards on Auditing by that same auditor.
 - a) True
 - b) False
2. Any document that contains the summary financial statements and that indicates that the auditor has reported on them should contain the auditor's report on those summary financial statements.
 - a) True
 - b) False
3. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in this SA, then procedures prescribed in this SA are not necessary.
 - a) True
 - b) False
4. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements.
 - a) True
 - b) False
5. The addressee of the summary financial statements may not be the same as the addressee of the auditor's report on the audited financial statements.
 - a) True
 - b) False
6. It is necessary that the auditor's report on the summary financial statements needs to be qualified if the auditor's report on the audited financial statements is qualified.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

7. If there is an unreasonable omission of comparatives in the summary financial statements, which are there in the audited financial statements, the auditor shall determine the effect of this unreasonable omission on the auditor's report on the summary financial statements.
 - a) True
 - b) False
8. If the summary financial statements contain comparatives that were reported on by another auditor, auditor's report on summary financial statements cannot contain matters specified in SA 710.
 - a) True
 - b) False
9. When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements.
 - a) True
 - b) False
10. In case of adverse or disclaimer of opinion given in the auditor's report on the audited financial statements, the auditor can express an opinion on the summary financial statements.
 - a) True
 - b) False

Fill in the blanks:

11. The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with _____, of the financial statements from which the summary financial statements are derived.
 - a) Applicable Financial Reporting Framework
 - b) Accounting Standards
 - c) Standards on Auditing
12. Auditor shall determine the acceptability of _____.
 - a) Applied Criteria
 - b) Audit Criteria

MCQs on Engagement and Quality Control Standards

13. The auditor shall evaluate whether the summary financial statements adequately disclose their summarised nature and identify the _____.
- a) Summary financial statements
 - b) Audited financial statements
 - c) Historical financial information
14. If the auditor identifies any _____ between the summary financial statements and other information included in a document containing the summary financial statements, then the auditor shall determine whether the summary financial statements or the other information needs to be revised.
- a) Inconsistency
 - b) Material Inconsistency
 - c) Deviation

Choose the correct option from the following:

15. The criteria applied by the management in the preparation of the summary financial statements is called:
- a) Audit Criteria
 - b) Applied Criteria
 - c) Suitable Criteria
 - d) Established Criteria
16. Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time is called:
- a) Summary Financial Statements
 - b) Elements of Financial Statements
 - c) Special Purpose Financial Statements
 - d) General Purpose Financial Statements
17. Summary Financial Statements are derived from:
- a) Audited Financial Statements
 - b) Unaudited Financial Statements
 - c) Both of the Above
 - d) None of the Above
18. Who is eligible to be appointed as the auditor for summary financial statements:
- a) Chartered Accountant eligible to be appointed as auditor
 - b) Auditor of the historical financial statements
 - c) Any professional
 - d) Any person

MCQs on Engagement and Quality Control Standards

19. Before accepting an engagement to report on summary financial statements, the auditor shall:
- a) Determine whether the applied criteria are acceptable
 - b) Obtain the agreement of management that it acknowledges and understands its responsibility on summary financial statements regarding their preparation, availability to intended users, auditor's report and its opinion.
 - c) Both of the Above
 - d) None of the Above
20. In case the auditor does not accept the engagement to report on summary financial statements due to applied criteria being unacceptable or inability to obtain agreement of management, is he still required to accept and report on the summary financial statements?
- a) Yes, if required by the intended users of the summary financial statements
 - b) Yes, if required by those charged with governance
 - c) Yes, if required by law or regulation
 - d) No, he is not required to accept the engagement
21. When summary financial statements are not accompanied by the audited financial statements, the auditor shall evaluate whether they describe clearly:
- a) From whom or where the audited financial statements are available
 - b) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements
 - c) Either (a) or (b)
 - d) None of the above
22. What are the factors affecting evaluation of availability of audited financial statements to intended users?
- a) Whether they describe clearly from whom or where the audited financial statements are available
 - b) Whether audited financial statements are on public record
 - c) Whether management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements
 - d) All of the above
23. In case the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, is the auditor still required to accept the engagement?
- a) Yes, if required by the intended users of the summary financial statements
 - b) Yes, if required by those charged with governance
 - c) Yes, if required by law or regulation
 - d) No, he is not required to accept the engagement

MCQs on Engagement and Quality Control Standards

24. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to other elements of auditor's report:
- a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion
 - b) Describe the basis for that adverse opinion or disclaimer of opinion
 - c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements
 - d) All of the above
25. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express:
- a) A qualified opinion on the summary financial statements
 - b) An adverse opinion on the summary financial statements
 - c) Disclaimer of opinion on the summary financial statements
 - d) An unmodified opinion on the summary financial statements
 - e) Both (a) and (b)
 - f) None of the above
26. When the auditor's report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to other elements:
- a) State that the auditor's report on the audited financial statements contains a qualified opinion
 - b) Describe the basis for that qualified opinion on the audited financial statements and that qualified opinion
 - c) Describe the effect of qualified opinion on the summary financial statements, if any
 - d) All of the above
27. In case any unaudited supplementary information is presented with summary financial statements by the management, which is not clearly differentiated from summary financial statements, the auditor should:
- a) Express qualified opinion on the summary financial statements
 - b) Explain in the auditor's report on summary financial statements that such information is not covered by the report
 - c) Both of the above
 - d) None of the above

MCQs on Engagement and Quality Control Standards

28. Factors that may affect the auditor's determination of acceptability of the applied criteria while engaging to report on the summary financial statements include:
- a) The nature of the entity
 - b) The purpose of the summary financial statements
 - c) The information needs of the intended users of the summary financial statements
 - d) All of the above
29. In case the auditor is engaged to report on the financial statements of an entity, but not on the summary financial statements of that entity, and the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall:
- a) Ensure that the reference to the auditor is made in context of the auditor's report on the audited financial statements only
 - b) Ensure that the statement does not give the impression that the auditor has reported on the summary financial statements
 - c) Both of the above
 - d) None of the above

SRE 2400(Revised) - Engagements to Review Historical Financial Statements

Select True or False

1. This SRE is not applicable for reviews performed by independent auditor of the entity's financial statements.
 - a) True
 - b) False
2. This SRE requires practitioner to perform inquiries and analytical procedures only.
 - a) True
 - b) False
3. The practitioner's conclusion as per this SRE is expressed in negative form.
 - a) True
 - b) False
4. Basis for Conclusion Paragraph is required in case of unmodified conclusion.
 - a) True
 - b) False
5. The agreed terms of review engagement shall include a statement that the engagement is not an audit.
 - a) True
 - b) False
6. Practitioner's inquiries of management and others within the entity shall include the identification of related parties and related party transactions including the purpose of those transactions.
 - a) True
 - b) False
7. If the practitioner is not satisfied as to any of the matters set out in the preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance and if changes cannot be made to satisfy the practitioner as to those matters, the practitioner in any case has to accept the proposed engagement.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Basis for Conclusion Paragraph is given before the conclusion paragraph in case of modified conclusion.
 - a) True
 - b) False
9. The practitioner shall not date the review report prior to the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements.
 - a) True
 - b) False
10. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for such change.
 - a) True
 - b) False
11. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement.
 - a) True
 - b) False
12. In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability to obtain sufficient appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient appropriate evidence.
 - a) True
 - b) False
13. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is not required to seek the written agreement from management, and those charged with governance where appropriate, required under this SRE that they acknowledge and understand their responsibilities set out in this SRE.
 - a) True
 - b) False
14. Reviews of financial statements may be required for entities that are exempt from requirements specified in law or regulation for mandatory audit.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

15. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.
- a) True
 - b) False

Fill in the blanks:

16. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to _____ on the financial statements in accordance with this SRE.
- a) Conclude
 - b) Report
17. Practitioner shall not accept review engagement if practitioner is not satisfied that there is a _____ purpose for the engagement.
- a) Reasonable
 - b) Rational
18. In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are _____ for the purpose of performing the analytical procedures.
- a) Sufficient
 - b) Adequate
19. The practitioner shall revise _____ for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially.
- a) Objectivity
 - b) Terms of the Review Engagement
 - c) Performance Materiality
 - d) Materiality
20. The practitioner shall express an _____ conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects in accordance with the applicable financial reporting framework.
- a) Modified
 - b) Unmodified
 - c) No

MCQs on Engagement and Quality Control Standards

21. If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:
- I. A _____ conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements;
 - II. An _____ conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.

Solution:

- a) Qualified, Adverse
 - b) Unmodified, Qualified
22. If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall:
- I. Express a _____ conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive;
 - II. Express a _____ conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Solution:

- a) Unmodified, Qualified
 - b) Qualified, Disclaimer of
23. In some cases, when the review is performed pursuant to the specific law or regulation applicable to the entity, such law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are _____ different from the requirements of this SRE.
- a) Generally
 - b) Significantly

Choose the correct option from the following:

24. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner is required to:
- a) Discuss the matter with management and those charged with governance
 - b) Take legal advice
 - c) Design and perform additional procedures sufficient to enable practitioner to conclude on the matter

MCQs on Engagement and Quality Control Standards

25. Prior to accepting a review engagement, the practitioner shall:
- I. Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable.
 - II. In the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users
 - III. Obtain the agreement of management that it acknowledges and understands its responsibilities for preparation of financial statements in accordance with applicable financial reporting framework

Solution:

- a) I & III Only
 - b) None of the Above
 - c) All of the Above
 - d) II & III Only
26. When shall the practitioner express a modified conclusion in the practitioner's report on the financial statements as a whole:
- I. The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated.
 - II. The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.
 - III. When the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

Solution:

- a) I & II Only
- b) All of the Above
- c) None of the Above

MCQs on Engagement and Quality Control Standards

27. The practitioner shall withdraw from the engagement if the following conditions are present:
- I. Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements;
 - II. The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive;
 - III. Withdrawal is possible under applicable law or regulation.

Solution:

- a) I & II Only
- b) All of the Above
- c) None of the Above
- d) I & III Only

SRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity

Select True or False:

1. A review of interim financial information provides a basis for expressing an opinion whether the financial information gives a true and fair view.
 - a) True
 - b) False
2. The auditor should issue a written report that contains a statement that the auditor is responsible for expressing a conclusion based on the review.
 - a) True
 - b) False
3. In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with Standards on Auditing, does not have to obtain an understanding of the entity and its environment, including its internal control.
 - a) True
 - b) False
4. The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records.
 - a) True
 - b) False
5. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.
 - a) True
 - b) False
6. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

7. The auditor is not required to read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.
 - a) True
 - b) False
8. The auditor is required to obtain management representation letter for review of interim financial information.
 - a) True
 - b) False
9. Review report issued in accordance with SRE 2410 must contain a statement that scope of review is substantially less than audit.
 - a) True
 - b) False
10. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing.
 - a) True
 - b) False

Fill in the blanks:

11. SRE 2410 deals with the review of interim financial information by _____.
 - a) Independent Auditor
 - b) Other Practitioner
12. The auditor should express _____ when a matter has come to auditor's attention that causes auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.
 - a) Qualified conclusion
 - b) Adverse conclusion
 - c) Qualified or Adverse conclusion
13. In case of material uncertainty regarding entity's ability to continue as a going concern and adequate disclosure made in the interim financial information, the auditor should _____.
 - a) Add emphasis of matter paragraph
 - b) Express a qualified or adverse conclusion as appropriate

MCQs on Engagement and Quality Control Standards

14. The auditor should make _____, primarily of persons who are responsible for accounting and financial matters.
- a) Observation
 - b) Inquiries
15. The auditor should _____ whether the management has changed its assessment of the entity's ability to continue as a going concern.
- a) Observe
 - b) Obtain written representation
 - c) Inquire
 - d) Investigate
16. When the effect of the departure from the applicable financial reporting framework is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses _____ conclusion.
- a) Disclaimer of
 - b) Adverse
 - c) No

Choose the correct option from the following:

17. The auditor should exercise professional skepticism while:
- a) Planning review
 - b) Performing review
 - c) Planning and Performing review
18. Nature and extent of inquiries and analytical and other review procedures applied by auditor depends on:
- I. Understanding of entity and its environment including its internal control
 - II. Materiality considerations
 - III. Results of risk assessment relating to preceding audit
 - IV. Internal control policies adopted by the management

Which of the following is correct:

- a) I and III
- b) I, II and III
- c) II, III and IV
- d) only I

MCQs on Engagement and Quality Control Standards

19. When, in the auditor's judgment, those charged with governance do not respond appropriately within the reasonable period of time, the auditor should consider:
- I. Whether to modify the report
 - II. The possibility of withdrawing from the engagement
 - III. Possibility of resigning from appointment to audit the annual financial statements.

Which of the following is correct:

- a) I, II and III
 - b) only I
 - c) I or II and III
20. In case of material uncertainty regarding entity's ability to continue as a going concern and adequate disclosure not made in the interim financial information, the auditor should:
- I. Add emphasis of matter paragraph
 - II. Express a qualified or adverse conclusion as appropriate
 - III. Include specific reference to fact of such material uncertainty

Which of the following is correct:

- a) I, II and III
 - b) only I
 - c) II and III
 - d) I and III
21. When the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:
- I. Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation
 - II. Consider the adequacy of the disclosure about such matters in the interim financial information

Which of the following is correct:

- a) I only
 - b) II only
 - c) Both of the above
22. If the auditor is unable to complete the review, the auditor should:
- a) Communicate in writing to appropriate level of management and to those charged with governance the reason why review cannot be completed
 - b) Consider whether it is appropriate to issue a report
 - c) Both (a) & (b)
 - d) Either (a) or (b)

MCQs on Engagement and Quality Control Standards

23. If the auditor's preliminary knowledge of the engagement circumstances indicates inability to complete review due to limitation on scope of the auditor's review imposed by management, the auditor:
- Should accept the review engagement
 - Should communicate this fact to those charged with governance
 - Should not accept the review engagement
 - Both (a) & (b)
24. Arrange following audit procedures in sequence, if after accepting the engagement, management imposes a limitation on the scope of the review, the auditor:
- Considers legal and regulatory responsibilities
 - Requests removal of limitation
 - If management refuses, communicate in writing to appropriate level of management and those charged with governance the reason why engagement cannot be completed.

25. **Match the followings:**

a)	Interim financial information is prepared and presented in accordance with an applicable financial reporting framework. Financial Information, here refers to	1	Interim financial information is prepared and presented as per applicable financial reporting framework.
b)	Agreed terms of engagement are recorded in engagement letter that	2	Financial statements prepared for a period shorter than financial year.
c)	The auditor should obtain written representation from management that	3	Helps to avoid misunderstandings regarding nature of engagement.

SAE 3400 - The Examination of Prospective Financial Information

Select True or False:

1. SAE 3400 does not apply to the examination of prospective financial information expressed in general or narrative terms.
 - a) True
 - b) False
2. The purpose of SAE 3400 is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.
 - a) True
 - b) False
3. Auditor will be able to express an opinion if the results of prospective financial information will be achieved or if they are free from material misstatement.
 - a) True
 - b) False
4. Prospective financial information relates to events and actions that have occurred and might occur.
 - a) True
 - b) False
5. When the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range.
 - a) True
 - b) False
6. In the case of a projection, the prospective financial information has been prepared for (intended use), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur.
 - a) True
 - b) False
7. The auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out in accordance with SAE 3400.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. The period of time covered by the prospective financial information should not extend beyond 12 months from the date of historical financial statements.
 - a) True
 - b) False
9. The management is also responsible for identification and disclosure of uncontrollable factors, outstanding litigations, commitments, or any other material factors that are likely to affect the prospective financial information.
 - a) True
 - b) False
10. The principles laid down in other Standards on Auditing should be used by the auditor, to the extent practicable, in applying SAE 3400.
 - a) True
 - b) False
11. "Forecast" means prospective financial information prepared on the basis of best-estimate assumptions or hypothetical assumptions.
 - a) True
 - b) False

Fill in the blanks:

12. "Prospective financial information" means financial information based on _____ about events that may occur in the future and possible actions by an entity.
 - a) Assumptions
 - b) Forecast
13. Prospective Financial Information is highly _____ in nature.
 - a) Subjective
 - b) Speculative
14. The auditor can provide only a _____ level of assurance on the reasonableness of management's assumptions.
 - a) Moderate
 - b) Limited
15. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future-oriented and, therefore, _____ in nature, as distinct from the evidence ordinarily available in the examination of historical financial information.
 - a) Subjective
 - b) Speculative

MCQs on Engagement and Quality Control Standards

16. The auditor should obtain a _____ level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.
- a) Sufficient
 - b) Legitimate
17. The auditor would need to be satisfied that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no _____ they are clearly unrealistic.
- a) Indication
 - b) Reason to believe

Choose the correct option from the following:

18. Prospective financial information can be in the form of:
- a) A forecast
 - b) A projection
 - c) A combination of both
 - d) All of the above
19. Before accepting an engagement to examine prospective financial information, the auditor would consider:
- a) The intended use of the information
 - b) The nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions
 - c) Whether the information will be for general or limited distribution
 - d) All of the above
20. Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared:
- a) As an internal management tool
 - b) For distribution to third parties
 - c) For submission to third parties
 - d) All of the above
21. When determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:
- a) The knowledge obtained during any previous engagements
 - b) Management's competence regarding the preparation of prospective financial information
 - c) The extent to which the prospective financial information is affected by the management's judgment
 - d) All of the above

MCQs on Engagement and Quality Control Standards

22. The working papers in accordance with SAE 3400 will include:
- a) The sources of information
 - b) Basis of forecasts and the assumptions made in arriving the forecasts
 - c) Hypothetical assumptions, evidence supporting the assumptions
 - d) All of the above
23. Factors that are relevant to the auditor's consideration of the period of time covered by the prospective financial information:
- a) The operating cycle
 - b) The degree of reliability of assumptions
 - c) The needs of users
 - d) All of the above

SAE 3402 - Assurance Reports on Controls At a Service Organisation

Select True or False:

1. SAE 3402 deals with the assurance engagement undertaken by a professional accountant in public practice to report on controls at a service organization.
 - a) True
 - b) False
2. SAE 3402 applies only when the service organization is responsible for, or otherwise able to make an assertion about the suitable designs of control.
 - a) True
 - b) False
3. Complementary user entity controls means controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives stated in the service organization's description of its system, are identified in that description.
 - a) True
 - b) False
4. In assessing the suitability of the criteria to evaluate the service organization's description of its system, the service auditor shall determine that in the case of a type 1 report, whether description includes relevant details of changes to service organization's system during the period covered by description.
 - a) True
 - b) False
5. The service auditor shall not represent compliance with SAE 3402 unless the service auditor has complied with the requirements of SAE 3402 and the requirements of the Framework for Assurance Engagements.
 - a) True
 - b) False
6. Where this SAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

7. If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.
 - a) True
 - b) False
8. Subservice organisation is used by the user entity to perform some services.
 - a) True
 - b) False
9. When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls.
 - a) True
 - b) False
10. The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement.
 - a) True
 - b) False
11. SAE 3402 deals with assurance engagements to report only on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting.
 - a) True
 - b) False
12. In performing an engagement in accordance with SAE 3402, the Code of Ethics of the ICAI does not require the service auditor to be independent from each user entity.
 - a) True
 - b) False
13. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods provides a basis for a reduction in testing, if it is supplemented with evidence obtained during the current period.
 - a) True
 - b) False
14. If the work of internal audit function has been used, the service auditor shall not make reference to that work in service auditor's opinion section of the service auditor's assurance report.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

Fill in the blanks:

15. As required by Framework for Assurance Engagements, the service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a _____ report, in evaluating whether controls are operating effectively.
- a) Type 2
 - b) Type 1
16. The service auditor shall determine, through other procedures in combination with _____ whether the service organization's system has been implemented.
- a) Observation
 - b) Inquiries
 - c) Inspection

Choose the correct option from the following:

17. Service auditor should comply with:
- a) Requirements of SAE 3402
 - b) Requirements of the Framework for Assurance Engagements
 - c) Ethical requirements including independence relating to assurance engagements
 - d) All of the above
18. The objectives of the service auditor are to obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
- a) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period
 - b) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period
 - c) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period
 - d) All of the above

MCQs on Engagement and Quality Control Standards

19. Before agreeing to accept, or continue, an engagement the service auditor shall determine whether:
- a) The service auditor has the capabilities and competence to perform the engagement
 - b) The criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors
 - c) The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors
 - d) All of the above
20. Before agreeing to accept, or continue, an engagement the service auditor shall obtain the agreement of the service organization that it acknowledges and understands its responsibility:
- a) For the preparation of the description of its system, and accompanying service organization's assertion, including the completeness, accuracy and method of presentation of that description and assertion
 - b) To have a reasonable basis for the service organization's assertion accompanying the description of its system
 - c) For stating in the service organization's assertion the criteria it used to prepare the description of its system
 - d) All of the above
21. The service auditor shall obtain and read the service organization's description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented, including whether:
- a) Control objectives stated in the service organization's description of its system are reasonable in the circumstances
 - b) Controls identified in that description were implemented
 - c) Complementary user entity controls, if any, are adequately described
 - d) All of the above
22. SAE 3402 deals with:
- a) Direct reporting engagements
 - b) Assertion based engagements
 - c) Assertion based engagements and direct reporting engagements

MCQs on Engagement and Quality Control Standards

23. Before agreeing to accept or continue an engagement, the service auditor shall determine whether the criteria to be applied by the service organization to prepare the description of its system will be:
- a) Suitable
 - b) Suitable and available to user entities and their auditors
 - c) Suitable and available to user entities
 - d) Suitable and available to user auditors

SAE 3420 - Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

Select True or False:

1. SAE 3420 deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus.
 - a) True
 - b) False
2. The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.
 - a) True
 - b) False
3. When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria.
 - a) True
 - b) False
4. The practitioner shall not represent compliance with this SAE unless the practitioner has complied with the requirements of both this SAE and the Framework for Assurance Engagements.
 - a) True
 - b) False
5. If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate.
 - a) True
 - b) False
6. SAE 3420 deals with circumstances where pro forma financial information is provided as part of entity's financial statements pursuant to the requirements of an applicable financial reporting framework.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

7. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they cannot be developed by the responsible party.
 - a) True
 - b) False
8. Factually supportable adjustments are capable of objective determination.
 - a) True
 - b) False
9. Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction.
 - a) True
 - b) False

Fill in the blanks:

10. In an engagement performed under this SAE, the _____ has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the _____.
 - a) Responsible party, Practitioner
 - b) Practitioner, Responsible party
11. SAE 3420 does not deal with _____ in which the practitioner is engaged by the entity to compile its historical financial statements.
 - a) Non-assurance engagements
 - b) Assurance engagements
12. Pro forma financial information _____ the entity's actual financial position, financial performance, or cash flows.
 - a) Does not represent
 - b) Represents
13. This engagement does not involve the practitioner updating or reissuing any reports or opinions on any _____ financial information used in compiling the pro forma financial information.
 - a) Interim
 - b) Historical
 - c) Unadjusted
14. Pro forma financial information is accompanied by related _____.
 - a) Disclosures
 - b) Explanatory notes

MCQs on Engagement and Quality Control Standards

15. It is also necessary that the pro forma adjustments be factually supportable in order to provide a _____ basis for the pro forma financial information.
- a) Reasonable
 - b) Reliable
16. In many cases, the source from which the unadjusted financial information has been extracted will be _____ financial information such as annual or interim financial statements.
- a) Audited or reviewed
 - b) Published

Choose the correct option from the following:

17. Steps involved in compilation of pro forma financial information process include:
- a) Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source
 - b) Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented
 - c) Presenting the resulting pro forma financial information with accompanying disclosures
 - d) All of the above
18. Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:
- a) Determine that the practitioner has the capabilities and competence to perform the engagement
 - b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended
 - c) Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE
 - d) All of the above

MCQs on Engagement and Quality Control Standards

19. The practitioner shall obtain the agreement of the responsible party that it acknowledges and understands its responsibility for providing the practitioner with:
- a) Access to all information such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria
 - b) Additional information that the practitioner may request from the responsible party for the purpose of the engagement
 - c) Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria
 - d) All of the above
20. When the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria then he should express:
- a) Modified opinion
 - b) Unmodified opinion
 - c) Emphasis of matter paragraph
 - d) Disclaimer of opinion
21. The pro forma adjustments should be:
- a) Directly attributable to the event or transaction
 - b) Factually supportable
 - c) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework
 - d) All of the above
22. The practitioner shall obtain an understanding of:
- a) The event or transaction in respect of which the pro forma financial information is being compiled
 - b) How the responsible party has compiled the pro forma financial information
 - c) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.
 - d) All of the above

MCQs on Engagement and Quality Control Standards

23. The practitioner shall evaluate the presentation of the pro forma financial information. This shall include consideration of:
- a) The overall presentation and structure of the pro forma financial information, including whether it is clearly labeled to distinguish it from historical or other financial information
 - b) Whether the pro forma financial information and related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading
 - c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed
 - d) All of the above
24. In some circumstances, the practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes, then he should include in practitioner's report:
- a) Other matter paragraph
 - b) Key audit matters section
 - c) Emphasis of matter paragraph
25. The practitioner's report shall include the following basic elements:
- a) Introductory paragraphs
 - b) A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria
 - c) A description of the practitioner's responsibilities
 - d) All of the above

SRS 4400 - Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

Select True or False:

1. The purpose of SRS 4400 is to establish standards and provide guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.
 - a) True
 - b) False
2. The principles laid down in the other SAs, issued by the Institute of Chartered Accountants of India, may be used by the auditor, to the extent practicable, in applying this SRS.
 - a) True
 - b) False
3. The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
 - a) True
 - b) False
4. The auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with this SRS and the terms of the engagement.
 - a) True
 - b) False
5. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.
 - a) True
 - b) False
6. The report on an agreed-upon procedures engagement should clearly mention that audit or review has been performed.
 - a) True
 - b) False
7. The auditor should conduct an agreed-upon procedure engagement in accordance with this SRS and the terms of the engagement.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.
 - a) True
 - b) False
9. As per SRS 4400 it is possible in certain circumstances that the report of the engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available to a wider range of entities or individuals.
 - a) True
 - b) False
10. This SRS is directed towards engagements regarding financial information. However, it may provide useful guidance for engagements to perform agreed-upon procedures regarding non-financial information; provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base his findings.
 - a) True
 - b) False
11. Independence is a requirement for agreed-upon procedures engagement.
 - a) True
 - b) False
12. Where the limitation on distribution of the report of factual findings is in conflict with the legal requirements, if any, the auditor would not accept the engagement.
 - a) True
 - b) False
13. In certain circumstances, the auditor may not be able to discuss the procedures with all the parties who will receive the report.
 - a) True
 - b) False

Fill in the blanks:

14. As per SRS 4400 in an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of _____, based on _____ performed on specified subject matter of specified elements, accounts or items of a financial statement.
 - a) Factual findings, specified procedures
 - b) Actual findings, analytical procedures
15. SRS 4400 is directed towards engagements regarding _____.
 - a) Financial Information
 - b) Financial statements

MCQs on Engagement and Quality Control Standards

16. As the auditor simply provides a report of the _____ of agreed upon procedures, no assurance is expressed by him in his report. Instead, users of the report assess for themselves the procedures and the findings reported by the auditor and draw their own conclusions from the work done by the _____.
- a) Factual findings, auditor
 - b) Actual findings, management
17. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the _____.
- a) Results
 - b) Factual findings

Choose the correct option from the following:

18. The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement. Matters to be agreed include the following:
- a) Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed
 - b) Identification of the financial information to which the agreed-upon procedures will be applied
 - c) Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement
 - d) All of the above
19. The procedures applied in an engagement to perform agreed-upon procedures may include:
- a) Inquiry and analysis
 - b) Recomputation, comparison and other clerical accuracy checks
 - c) Obtaining confirmations
 - d) All of the above
20. The report of factual findings should contain:
- a) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied
 - b) A statement that the procedures performed were those agreed-upon with the recipient
 - c) A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements
 - d) All of the above

SRS 4410(Revised) - Compilation Engagements

Select True or False:

1. A compilation engagement is not an assurance engagement.
 - a) True
 - b) False
2. A compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation.
 - a) True
 - b) False
3. The practitioner is not required to comply with relevant ethical requirements and professional judgement.
 - a) True
 - b) False
4. The practitioner shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing, if the practitioner is unable to complete the engagement because management has failed to provide records, documents, explanations or other information, including significant judgments, as requested.
 - a) True
 - b) False
5. If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner is not required to withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.
 - a) True
 - b) False
6. A deficiency in the firm's system of quality control necessarily indicates that a compilation engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.
 - a) True
 - b) False

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7. A practitioner may also be engaged to undertake certain other activities on behalf of management, additional to the compilation engagement. SRS 4410 does not address such additional activities that the practitioner may perform to assist management in other areas, in advance of compiling the entity's financial statements.
 - a) True
 - b) False
8. The practitioner is not entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis.
 - a) True
 - b) False
9. If the financial information is prepared using a special purpose financial reporting framework, the practitioner's report shall include an explanatory paragraph that describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information.
 - a) True
 - b) False
10. The practitioner may decide not to send a new engagement letter or other written agreement each period.
 - a) True
 - b) False
11. If the practitioner becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the practitioner may, as appropriate, suggest a more appropriate presentation under the applicable financial reporting framework, or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework, and to avoid the financial information being misleading.
 - a) True
 - b) False

Fill in the blanks:

12. A compilation engagement is an engagement in which a practitioner applies _____ expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework.
 - a) Accounting and financial reporting
 - b) Auditing and financial reporting
 - c) Taxation and financial reporting

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13. The practitioner shall obtain an acknowledgement from management or those charged with governance, as appropriate, that they have _____ the final version of the compiled financial information.
 - a) Taken responsibility for
 - b) Approved
14. The practitioner shall _____ the report on the date the practitioner has completed the compilation engagement in accordance with this SRS.
 - a) Date
 - b) Sign
15. The practitioner is required to obtain the agreement of management, or where applicable those charged with governance, on management's responsibilities in relation to both the _____ and the compilation engagement as a condition precedent to accepting the engagement.
 - a) Financial information
 - b) Non-financial Information
 - c) Internal Controls
16. If the description of the applicable financial reporting framework in the compiled financial information makes reference to the established framework with significant departures, the practitioner may need to consider whether the reference to the established framework is _____ in the circumstances of the engagement.
 - a) Misleading
 - b) Appropriate

Choose the correct option from the following:

17. Financial information that is the subject of a compilation engagement may be required for:
 - a) To comply with mandatory periodic financial reporting requirements established in law or regulation, if any
 - b) For management or those charged with governance, prepared on a basis appropriate for their particular purposes
 - c) For periodic financial reporting undertaken for external parties under a contract or other form of agreement
 - d) All of the above
18. Which of the following is not the responsibility of engagement partner with respect to a compilation engagement:
 - a) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements.

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- b) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement.
 - c) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements.
 - d) Retaining responsibility for the financial information and the basis on which it is prepared and presented, including application of the judgment required for the preparation and presentation of the financial information, including the selection and application of appropriate accounting policies and, where needed, developing reasonable accounting estimates.
19. The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:
- a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable
 - b) Identification of the applicable financial reporting framework
 - c) The objective and scope of the compilation engagement
 - d) The expected form and content of the practitioner's report
 - e) All of the above
20. The practitioner shall obtain an understanding of the following matters sufficient to be able to perform the compilation engagement:
- a) The entity's business and operations
 - b) The entity's accounting system and accounting records
 - c) The applicable financial reporting framework including its application in the entity's industry
 - d) All of the above
21. In which of the following cases the practitioner shall propose appropriate amendments to management, if becomes aware during the course of the engagement:
- I. The compiled financial information does not adequately refer to or describe the applicable financial reporting framework.
 - II. Amendments to the compiled financial information are required for the financial information not to be materially misstated.
 - III. The compiled financial information is otherwise misleading.

Solution:

- a) I and II
- b) II and III
- c) I and III
- d) None of the above
- e) I, II and III

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22. The following shall be included in the engagement documentation by the practitioner:
- a) Significant matters arising during the compilation engagement and how those matters were addressed by the practitioner
 - b) A record of how the compiled financial information reconciles with the underlying records, documents, explanations and other information, provided by management
 - c) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, has acknowledged their responsibility, and the practitioner's report
 - d) All of the Above
23. An important purpose of the practitioner's report is to:
- a) Clearly communicate the nature of the compilation engagement, and the practitioner's role and responsibilities in the engagement
 - b) To express an opinion or conclusion on the financial information in any form
 - c) Both a and b
 - d) None of the above
24. SRS 4410 may be applied adapted as necessary, when the practitioner is engaged to assist management in the following cases:
- I. Non-financial Information
 - II. Pro forma financial information
 - III. Prospective financial information, including financial budgets or forecasts.

Solution:

- a) I only
 - b) I and III
 - c) I and II
 - d) All of the above
25. Which of the following are elements of practitioner's report issued for the compilation engagement:
- a) The report title
 - b) A statement that the practitioner has compiled the financial information based on information provided by management
 - c) A description of what a compilation engagement entails in accordance with this SRS
 - d) All of the above

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26. Which of the following is an example of matters on which practitioner may assist the management with significant judgements:
- a) Estimating the useful life of fixed assets
 - b) Ascertaining the condition of inventory
 - c) Both (a) and (b)
 - d) None of the above
27. With respect to withdrawal from compilation engagement, the professional and legal responsibilities of the practitioner may include the following:
- a) Reporting to the appointing authority
 - b) Reporting to the regulatory authority
 - c) Seeking legal advice
 - d) Describing the facts in the compilation report
 - e) All of the above
28. The documentation required by SRS 4410, serves a number of purposes, including the following:
- a) Providing a record of matters of continuing relevance to future compilation engagements
 - b) Enabling the engagement team, as applicable, to be accountable for its work, including recording the completion of the engagement
 - c) Both (a) and (b)
 - d) None of the above

Answers of Multiple Choice Questions

1. SQC 1 - Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

1	b	6	a	11	c	16	d
2	a	7	a	12	d	17	d
3	a	8	b	13	b	18	b
4	a	9	b	14	c	19	a
5	b	10	b	15	c		

2. SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

1	b	6	a	11	c	16	a
2	b	7	b	12	d	17	c
3	b	8	d	13	c	18	a
4	b	9	a	14	d	19	b & c
5	b	10	b	15	b	20	a & d

3. SA 210 - Agreeing the Terms of Audit Engagements

1	a	6	a	11	f	16	d
2	a	7	a	12	c	17	d
3	b	8	a	13	b	18	a, b & d
4	a	9	c	14	a	19	a & b
5	a	10	d	15	d	20	d

4. SA 220 - Quality Control for an Audit of Financial Statements

1	a	6	a	11	a	16	a	21	c
2	a	7	a	12	a	17	b	22	d
3	b	8	b	13	a	18	a		
4	a	9	a	14	a	19	a		
5	b	10	a	15	b	20	a		

5. SA 230 - Audit Documentation

1	b	6	a	11	a	16	a	21	a	26	e	31	d
2	b	7	b	12	b	17	b	22	a	27	b	32	a
3	a	8	a	13	a	18	c	23	b	28	c	33	a,c,e & f
4	b	9	a	14	a	19	b	24	a	29	d		
5	a	10	b	15	a	20	b	25	e	30	d		

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6. SA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

1	a	6	b	11	b	16	a	21	a	26	c	31	d	36	c
2	a	7	b	12	a	17	a	22	a	27	d	32	d		
3	a	8	a	13	a	18	a	23	b	28	d	33	b		
4	a	9	a	14	a	19	a	24	c	29	a	34	d		
5	b	10	a	15	a	20	a	25	d	30	c	35	d		

7. SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements

1	b	6	a	11	a	16	a	21	a	26	d	31	d		
2	b	7	a	12	a	17	a	22	a	27	c				
3	a	8	b	13	b	18	b	23	a	28	c				
4	a	9	a	14	a	19	a	24	b	29	d				
5	a	10	b	15	a	20	a	25	b	30	c				

8. SA 260(Revised) - Communication with Those Charged with Governance

1	b	7	b	13	a	19	b	25	b	31	a	37	a		
2	a	8	a	14	a	20	a	26	a	32	a	38	e		
3	a	9	b	15	a	21	a	27	b	33	b				
4	a	10	a	16	a	22	b	28	b	34	a				
5	b	11	a	17	b	23	a	29	a	35	a				
6	a	12	a	18	a	24	a	30	b	36	a				

9. SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

1	b	6	b	11	b	16	b	21	c	26	a				
2	b	7	b	12	a	17	a	22	a						
3	a	8	b	13	a	18	e	23	c						
4	a	9	a	14	b	19	b	24	a						
5	b	10	a	15	b	20	d	25	a						

10. SA 299(Revised) - Joint Audit of Financial Statements

1	b	6	b	11	a	16	c								
2	a	7	b	12	a	17	c								
3	a	8	a	13	a	18	a								
4	b	9	b	14	a	19	c								
5	a	10	a	15	a	20	d								

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11. SA 300 - Planning an Audit of Financial Statements

1	a	6	b	11	d	16	d
2	a	7	b	12	d	17	d
3	b	8	c	13	a	18	c
4	a	9	b	14	d	19	d
5	a	10	d	15	d	20	c

12. SA 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

1	a	6	a	11	a	16	b	21	d	26	d
2	a	7	b	12	c	17	c	22	d	27	c
3	a	8	a	13	d	18	d	23	e	28	e
4	b	9	a	14	a	19	d	24	c		
5	a	10	a	15	c	20	c	25	d		

13. SA 320 - Materiality in Planning and Performing an Audit

1	a	6	b	11	b	16	b	21	d
2	b	7	b	12	d	17	b		
3	b	8	b	13	c	18	c		
4	a	9	a	14	d	19	b		
5	b	10	a	15	c	20	c		

14. SA 330 - The Auditor's Responses to Assessed Risks

1	a	6	b	11	a	16	a	21	c	26	c	31	a-3 b-1 c-4 d-2
2	b	7	b	12	b	17	a	22	d	27	b		
3	b	8	b	13	a	18	b	23	c	28	a		
4	a	9	a	14	a	19	b	24	c	29	d		
5	b	10	a	15	b	20	d	25	c	30	c		

15. SA 402 - Audit Considerations Relating to an Entity Using a Service Organisation

1	a	6	b	11	b	16	c	21	b
2	b	7	b	12	a	17	b		
3	a	8	b	13	a	18	c		
4	b	9	a	14	b	19	c		
5	a	10	a	15	b	20	c		

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16. SA 450 - Evaluation of Misstatements Identified During the Audit

1	a	6	a	11	b	16	c
2	b	7	a	12	d	17	e
3	b	8	b	13	c	18	d
4	a	9	a	14	b	19	d
5	a	10	b	15	d	20	d

17. SA 500 - Audit Evidence

1	a	6	b	11	a	16	c	21	b
2	a	7	c	12	b	17	b	22	b
3	a	8	d	13	a	18	d	23	d, a, b, c
4	b	9	b	14	a	19	d	24	a & c
5	a	10	a	15	b	20	b	25	a, c & d

18. SA 501 - Audit Evidence—Specific Considerations for Selected Items

1	b	6	c	11	b	16	c
2	a	7	c	12	e	17	b
3	a	8	c	13	a	18	a & b
4	b	9	b	14	d		
5	a	10	d	15	c		

19. SA 505 - External Confirmations

1	a	6	a	11	b	16	a & d	21	a
2	a	7	b	12	b	17	a	22	a
3	b	8	a	13	d	18	c	23	a
4	b	9	a	14	a	19	d	24	c,b,d,a
5	b	10	a	15	a	20	b		

20. SA 510 - Initial Audit Engagements – Opening Balances

1	a	6	a	11	b	16	b	21	b
2	a	7	a	12	b	17	b	22	c, a, b
3	b	8	a	13	a	18	a	23	a,c & d
4	b	9	a	14	a	19	e		
5	a	10	a	15	a	20	d		

21. SA 520 - Analytical Procedures

1	a	7	b	13	a	19	c	24	a-2 b-3 c-1
2	a	8	a	14	a	20	a		
3	a	9	b	15	b	21	a		
4	a	10	c	16	d	22	d		
5	b	11	a	17	a	23	b, d, c, e, a		
6	a	12	b	18	d				

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22. SA 530 - Audit Sampling

1	a	7	b	13	a	19	b	25	b	29	a-2
2	a	8	a	14	a	20	a	26	b		b-3
3	a	9	a	15	a	21	a	27	a	30	c-1
4	b	10	a	16	a	22	a				a-2
5	b	11	a	17	b	23	b	28	b		b-3
6	a	12	b	18	b	24	b				c-1

23. SA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

1	a	7	a	13	b	19	b	25	d	29	a-3
2	a	8	a	14	a	20	a	26	b		b-1
3	b	9	b	15	b	21	d	27	a		c-2
4	a	10	b	16	a	22	a				d-4
5	b	11	c	17	a	23	c	28	a		
6	b	12	a	18	b	24	b				

24. SA 550 - Related Parties

1	b	6	b	11	a	16	a	21	c	26	c
2	b	7	a	12	a	17	d	22	c	27	a & c
3	b	8	a	13	a	18	d	23	a	28	b & c
4	b	9	a	14	a	19	c	24	d	29	a-3
5	b	10	b	15	a	20	c	25	a		b-1
											c-2

25. SA 560 - Subsequent Events

1	a	6	a	11	a	16	b	21	c
2	a	7	b	12	a	17	a	22	a,b,c
3	b	8	a	13	a	18	c	23	a,b & d
4	a	9	b	14	a	19	d	24	b & c
5	b	10	a	15	a	20	d	25	c,d,b,a

26. SA 570(Revised) - Going Concern

1	a	6	a	11	a	16	b	21	d	26	d	31	c
2	a	7	a	12	a	17	a	22	d	27	a	32	c
3	b	8	a	13	a	18	a	23	d	28	c		
4	b	9	a	14	a	19	a	24	d	29	d		
5	b	10	a	15	a	20	c	25	a	30	c		

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27. SA 580 - Written Representations

1	b	7	a	13	b	19	d	25	b	28	a-2 b-3 c-1 d-4
2	a	8	b	14	a	20	d	26	c, b, d, a		
3	a	9	b	15	a	21	a				
4	b	10	a	16	a	22	a	27	a-2 b-3 c-1		
5	b	11	a	17	a	23	a				
6	a	12	a	18	a	24	b				

28. SA 600 - Using the Work of Another Auditor

1	b	7	a	13	a	19	d	25	a-2 b-3 c-1
2	a	8	a	14	a	20	a		
3	a	9	a	15	b	21	d		
4	b	10	d	16	c	22	a		
5	a	11	c	17	c	23	a		
6	b	12	a	18	a	24	f		

29. SA 610(Revised) - Using the Work of Internal Auditors

1	a	6	a	11	b	16	d	21	d
2	b	7	a	12	b	17	d	22	d
3	b	8	b	13	b	18	e		
4	b	9	b	14	c	19	a		
5	b	10	b	15	d	20	d		

30. SA 620 - Using the Work of an Auditor's Expert

1	b	6	b	11	b	16	b	21	c	26	a-2 b-1 c-3
2	b	7	a	12	a	17	b	22	b		
3	a	8	b	13	a	18	a	23	d		
4	a	9	a	14	c	19	c	24	d	27	a-3 b-1 c-2
5	a	10	a	15	b	20	b	25	d		

31. SA 700(Revised) - Forming an Opinion and Reporting on Financial Statements

1	b	6	b	11	d	16	a & c	21	a,b & c	26	c & d
2	b	7	d	12	b	17	a & b	22	c & d		
3	a	8	d	13	b	18	a & b	23	b & c		
4	a	9	b	14	b	19	a,b & c	24	a,c & d		
5	a	10	d	15	b	20	a,b & d	25	a,b & d		

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32. SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report

1	a	6	b	11	a	16	a	21	a	26	b	31	b
2	b	7	a	12	b	17	b	22	b	27	b		
3	a	8	a	13	a	18	a	23	a	28	a		
4	a	9	a	14	b	19	a	24	b	29	b		
5	b	10	b	15	b	20	b	25	a	30	c		

33. SA 705(Revised) - Modifications to the Opinion in the Independent Auditor's Report

1	c	6	b	11	d	16	c	21	a & b
2	a	7	b	12	b	17	a		
3	a	8	a	13	a	18	c		
4	c	9	b	14	c	19	b		
5	d	10	b	15	d	20	d		

34. SA 706(Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

1	b	6	c	11	a	16	c	21	b
2	a	7	a	12	a	17	c	22	b
3	d	8	a	13	b	18	a	23	d
4	a	9	b	14	d	19	d	24	a
5	d	10	b	15	a	20	b	25	b

35. SA 710 - Comparative Information—Corresponding Figures and Comparative Financial Statements

1	a	7	a	13	b	19	b
2	b	8	c	14	c	20	a-3 b-1 c-2
3	a	9	a	15	d		
4	b	10	c	16	a		
5	a	11	d	17	b		
6	a	12	b	18	a		

36. SA 720(Revised) - The Auditor's Responsibilities Relating to Other Information

1	a	6	a	11	b	16	a	21	b	26	b
2	b	7	b	12	a	17	b	22	a	27	d
3	a	8	b	13	a	18	b	23	b	28	c
4	b	9	a	14	b	19	b	24	b	29	a
5	b	10	b	15	b	20	b	25	a	30	c

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37. SA 800 - Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

1	b	6	a	11	b	16	b	21	b	26	b
2	a	7	b	12	a	17	b	22	d		
3	a	8	a	13	b	18	b	23	c		
4	b	9	b	14	b	19	c	24	d		
5	b	10	a	15	a	20	b	25	b		

38. SA 805 - Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

1	b	6	a	11	b	16	b	21	d
2	b	7	a	12	a	17	a	22	d
3	b	8	b	13	b	18	c	23	b
4	a	9	a	14	b	19	d	24	d
5	a	10	a	15	a	20	d	25	d

39. SA 810 - Engagements to Report on Summary Financial Statements

1	a	6	b	11	c	16	a	21	c	26	d
2	a	7	a	12	a	17	a	22	d	27	b
3	b	8	b	13	b	18	b	23	c	28	d
4	a	9	a	14	b	19	c	24	d	29	c
5	a	10	b	15	b	20	c	25	b		

40. SRE 2400(Revised) - Engagements to Review Historical Financial Statements

1	a	6	a	11	a	16	a	21	a	26	a
2	b	7	b	12	a	17	b	22	b	27	b
3	a	8	a	13	b	18	b	23	b		
4	b	9	a	14	a	19	d	24	c		
5	a	10	a	15	a	20	b	25	c		

41. SRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity

1	b	7	b	13	a	19	c	25	a-2 b-3 c-1
2	a	8	a	14	b	20	c		
3	b	9	a	15	c	21	c		
4	a	10	a	16	b	22	c		
5	a	11	a	17	c	23	c		
6	a	12	c	18	b	24	b, c, a		

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42. SAE 3400 - The Examination of Prospective Financial Information

1	a	6	a	11	b	16	a	21	d
2	a	7	a	12	a	17	b	22	d
3	b	8	b	13	a	18	d	23	d
4	b	9	a	14	a	19	d		
5	a	10	a	15	b	20	d		

43. SAE 3402 - Assurance Reports on Controls At a Service Organisation

1	a	6	a	11	b	16	b	21	d
2	a	7	a	12	a	17	d	22	b
3	a	8	b	13	b	18	d	23	b
4	b	9	a	14	a	19	d		
5	a	10	a	15	a	20	d		

44. SAE 3420 - Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

1	a	6	b	11	a	16	b	21	d
2	a	7	b	12	a	17	d	22	d
3	a	8	a	13	b	18	d	23	d
4	a	9	a	14	b	19	d	24	c
5	a	10	b	15	b	20	b	25	d

45. SRS 4400 - Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

1	a	6	b	11	b	16	a
2	a	7	a	12	a	17	a
3	a	8	a	13	a	18	d
4	a	9	a	14	a	19	d
5	a	10	a	15	a	20	d

46. SRS 4410(Revised) - Compilation Engagements

1	a	6	b	11	a	16	a	21	e	26	c
2	a	7	a	12	a	17	d	22	d	27	e
3	b	8	b	13	a	18	d	23	a	28	c
4	a	9	a	14	a	19	e	24	d		
5	b	10	a	15	a	20	d	25	d		