

WT 5 (Ch. 9, 10 & 11)

Instructions: Part A comprises of MCQ.

Part B comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (a) (2 Marks)
Q.2 (a) (2 Marks)
Q.3 (c) (1 Mark)
Q.4 (b) (1 Mark)
Q.5 (b) (1 Mark)

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt Any two from the rest.

Q.1(a): Additional Procedures When the Practitioner Becomes Aware that the F.S. may be Materially Misstated:

- SRE 2400 “Engagements to Review Historical Financial Statements” deals with the practitioner’s responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity’s F.S. Accordingly,
- If the practitioner becomes aware of matters that causes him to believe the F.S. may be materially misstated, he shall design and perform additional procedures sufficient to enable the practitioner to:
 - (a) Conclude that the matters are not likely to cause the F.S. as a whole to be materially misstated; or
 - (b) Determine that the matters cause the F.S. as a whole to be materially misstated. **(2 Marks)**
- Additional procedures may be:
 - (a) Additional inquiry or analytical procedures being performed in greater detail or being focused on the affected items; or
 - (b) Other types of procedures, for example, substantive test of details or external confirmations.

(2 Marks)

Q.1(b): Considerations in assessing presentation and disclosure of prospective financial information (PFI) and underlying assumptions:

As per SAE 3400 “The Examination of Prospective Financial Information”, when assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, the auditor will need to consider whether:

- (1) the presentation of PFI is informative and not misleading;
- (2) the accounting policies are clearly disclosed in the notes to the PFI;
- (3) the assumptions are adequately disclosed in the notes to the PFI. It needs to be clear whether assumptions represent management’s best-estimates or are hypothetical;
- (4) the date as of which the PFI was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
- (5) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the PFI are expressed in terms of a range; and
- (6) there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements and whether reason for the change and the effect of such change on the PFI has been adequately disclosed.

(1 Mark for each correct point - Any four points)

Q.2: Compilation of Financial Information: www.altclasses.in

As per SRS 4410 “Compilation Engagement”, if, in the course of the compilation engagement, the practitioner becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management for the compilation engagement are incomplete, inaccurate or otherwise unsatisfactory, the **practitioner shall bring that to the attention of management and request the additional or corrected information.** (1 Mark)

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, the practitioner shall **withdraw from the engagement and inform management and TCWG of the reasons for withdrawing.** (1 Mark)

If the practitioner becomes aware during the course of the engagement that:

- (a) The compiled financial information does not adequately refer to or describe the applicable FRF;
 - (b) Amendments to the compiled financial information are required for the financial information not to be materially misstated; or
 - (c) The compiled financial information is otherwise misleading,
- the practitioner shall **propose the appropriate amendments to management.** (2 Marks)

If management declines, or does not permit the practitioner to make the proposed amendments to the compiled financial information, the practitioner shall **withdraw from the engagement and inform management and TCWG of the reasons for withdrawing.** (1 Mark)

Q.3: Procedures performed by the auditor to update the understanding of the entity:

1. Reading documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period IFI.
2. Reading the most recent annual and comparable prior period IFI.
3. Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's FS.
4. Considering materiality with reference to the applicable FRF as it relates to IFI to assist in determining nature and extent of procedures to be performed and evaluating effect of misstatements.
5. Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's FS.
6. Considering significant financial accounting & reporting matters that may be of continuing significance such as material weaknesses in I.C.
7. Considering results of any audit procedures performed with respect to the current year's FS.
8. Considering results of any internal audit performed and the subsequent actions taken by management.
9. Inquiring of management about the results of management's assessment of the risk that the IFI may be materially misstated as a result of fraud.
10. Inquiring of management about the effect of changes in the entity's business activities.
11. Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of IFI.
12. Inquiring of management of the process by which the IFI has been prepared and the reliability of the underlying accounting records to which the IFI is agreed or reconciled.

(1 Mark for each correct point - Any five points)

- Q.4: (a)** When the user entity uses the services of a service organisation, objectives of auditor of user entity are:
- (a) To obtain an 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, sufficient to identify and assess the risks of material misstatement and
 - (b) To design and perform audit procedures responsive to those risks.

Therefore, it is in line with above requirements, that auditors of STAR Limited require an assurance report from auditors of Little Solutions Private Limited. SA 402 casts such responsibility on user auditors. **(2 Marks)**

(b) In accordance with requirements of SAE 3402, auditors of Little Solutions Private Limited should provide a type 2 report to auditors of STAR Limited. As auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions Pvt. Ltd. throughout the year and type 2 report deals with such matters, type 2 report should be provided by the auditors of the Little Solutions Pvt. Ltd. Type 2 report is a report on the description, design and operating effectiveness of controls at a service organization whereas type 1 report is a report on the description and design of controls at a service organization. **(1 Mark)**

(c) The opinion of auditors of Little Solutions Pvt. Ltd. would state whether, in all material respects, based on suitable criteria:

- The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
- The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period. **(2 Marks)**

