

WT 3 (Chapters 4 and 6)

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (b) (2 Marks)
 Q.2 (d) (2 Marks)
 Q.3 (c) (2 Marks)

Part B (Descriptive Questions)

Q.1 (a) Objective and nature of audit documentation

Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

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

- (i) A sufficient and appropriate record of the basis for the auditor's report; and
- (ii) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. **(2 Marks)**

Nature of Audit Documentation

Audit documentation provides:

- (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. **(2 Marks)**

- (b) (i) Completeness (1 Mark)**
- (ii) Presentation & Disclosure (1 Mark)**

Q.2 Precautions to be taken while applying test check techniques are

- (1) Thorough study of accounting system should be done before adopting sampling.
- (2) Proper study of internal control systems.
- (3) Areas which are not suitable for sampling should be carefully considered. For example: compliance with statutory provisions, transactions of unusual nature etc.
- (4) Proper planning for Sampling methods to be used and explaining the staff.
- (5) Transactions and balances have to be properly classified (stratified).
- (6) Sample size should be appropriately determined.

- (7) Sample should be chosen in unbiased way.
- (8) Errors located in the sample should be analysed properly.

Marking Scheme – 1 Mark for 1 Correct Point (Any four Points)

Q.3 Conditions that should be present to use Negative Confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level:

Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present:

- (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; **(1 Mark)**
- (ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions; **(1 Mark)**
- (iii) A very low exception rate is expected; and **(1 Mark)**
- (iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests. **(1 Mark)**

Q.4 Inspection of Records or documents to obtain information about related party relationship and transactions:

During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the following records or documents that may provide information about related party relationships and transactions, for example:

- (1) Entity income tax returns.
- (2) Information supplied by the entity to regulatory authorities.
- (3) Shareholder registers to identify the entity's principal shareholders.
- (4) Statements of conflicts of interest from management and those charged with governance.
- (5) Records of the entity's investments and those of its pension plans.
- (6) Contracts and agreements with key management or those charged with governance.
- (7) Significant contracts and agreements not in the entity's ordinary course of business.
- (8) Specific invoices and correspondence from the entity's professional advisors.
- (9) Life insurance policies acquired by the entity.
- (10) Significant contracts re-negotiated by the entity during the period.
- (11) Internal auditors' reports.
- (12) Documents associated with the entity's filings with a securities regulator e.g, prospectus.

Marking Scheme – 1 Mark for 1 Correct Point (Four Points)