Mock Test Paper - Series I: July, 2026

Date of Paper: 3rd August, 2026

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

INTERMEDIATE: GROUP – II

PAPER – 5: AUDITING AND ETHICS

SUGGESTED ANSWERS / HINTS

Part I - Multiple Choice Questions

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

Part II - Descriptive Answers

1. (a) Control risk

In accordance with SA-200, control risk is the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Control risk is a risk that internal control existing and operating in an entity would not be efficient enough to stop from happening, or find and then rectify in an appropriate time, any material misstatement relating to a transaction, balance of an account or disclosure required to be made in the financial statements of that entity. Therefore, in a way, it can be said that there exists an inverse relation between control risk and efficiency of internal control of an entity. When efficiency of internal control of an entity is high, the control risk is low and when efficiency of internal control of that entity is low, the control risk is high.

Examples of control risk could include:

- A company has devised control that cash and cheque books should be kept in a locked safe and access is granted to authorized personnel only. There is risk that control is not being followed.
- An entity has devised a control that fire extinguishers and smoke detectors are in place and are in working condition at all times to reduce the risk of damage to inventories caused by fire. There is a risk that fire extinguishers in place are expired and are not being refilled. Similarly, there is a possibility that smoke detectors are not working.
- A company has devised a control relating to petty cash that items of expenditure of only less than ₹10,000 should be routed through imprest system of petty cash. There is a risk that control is not being followed.

In the given case, the deficiencies observed by the auditor indicate that although appropriate internal controls have been designed by the entity, they are not operating effectively. Consequently, the entity is exposed to a higher level of control risk, which the auditor needs to consider while planning and performing further audit procedures.

(b) Objectives of Audit

In conducting audit of financial statements, objectives of auditor in accordance with SA-200 “Overall Objectives of the Independent auditor and the conduct of an audit in accordance with Standards on Auditing” are: -

(i) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

(ii) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

(1) Auditor's objective is to obtain a reasonable assurance whether financial statements as a whole are free from material misstatement whether due to fraud or error.

Reasonable assurance is to be distinguished from absolute assurance. Absolute assurance is a complete assurance or a guarantee that financial statements are free from material misstatements. However, reasonable assurance is not a complete guarantee. Although it is a high-level of assurance but it is not complete assurance.

Audit of financial statements is carried out by the auditor with professional competence and skills in accordance with Standards on Auditing. Audit procedures are applied in accordance with SAs, audit evidence is obtained and evaluated. On basis of that, conclusions are drawn and opinion is formed. It leads to high level of assurance which is called as reasonable assurance but it is not absolute assurance.

(2) Misstatements in financial statements can occur due to fraud or error or both. The auditor seeks to obtain reasonable assurance whether financial statements as a whole are free from material misstatements caused by fraud or error. He has to see effect of misstatements on financial statements as a whole, in totality.

(3) Obtaining reasonable assurance that financial statements as a whole are free from material misstatements enables the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

(4) The opinion is reported and communicated in accordance with audit findings through a written report as required by Standards on Auditing.

In the given case of Zene Biotech Limited, the issues relating to valuation of inventories, recognition of export revenue and unusual payments to suppliers indicate possible risks of material misstatement in the financial statements due to fraud or error. Therefore, the auditor is required to perform audit procedures in accordance with Standards on Auditing and obtain sufficient appropriate audit evidence to achieve reasonable assurance that the financial statements as a whole are free from material misstatement. Based on the audit findings, the auditor is also required to express and communicate his opinion through a written audit report in accordance with the Standards on Auditing.

(c) Purpose of Applying Analytical Procedure: Analytical procedures use comparisons and relationships to assess whether account balances or other data appear reasonable.

The auditor of Rose Ltd. would achieve the following by carrying out the comparison stated in the question:

(i) If balances included in the Statement of Profit and Loss of an entity are compared with those contained in the Statement of Profit and Loss with that of the previous period, it would be possible to find out the reasons for increase or decrease in the amount of profits of those years.

(ii) By setting up certain expenses' ratios on the basis of balances included in the Statement of Profit and Loss, for the year under audit, comparing them with the same ratios for the previous year, it is possible to ascertain the extent of increase or decrease in various items of expenditure in relation to sales and that of trading profit in relation to sales.

(iii) If differences are found to be material, the auditor would ascertain the reasons thereof and assess whether the accounts have been manipulated to inflate or suppress profits.

(iv) It would be possible to identify the existence of unusual transactions, amounts, ratios and trends that might indicate matters that have audit implications.

In the given case of Rose Ltd., the auditor's comparison of current year and previous year figures and computation of various expense ratios would help in identifying reasons for fluctuations in profits and expenses. Further, investigation of material differences and unusual trends would enable the auditor to detect possible manipulation of accounts and identify matters having audit implications, thereby enhancing the effectiveness of the audit.

2. (a) Disclosure in case of Benami Properties held by the Company: Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and the rules made thereunder, the company shall disclose the following:

(a) Details of such property, including year of acquisition,

(b) Amount thereof,

(c) Details of Beneficiaries,

(d) If property is in the books, then reference to the item in the Balance Sheet,

(e) If property is not in the books, then the fact shall be stated with reasons,

(f) Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor, then the details shall be provided,

(g) Nature of proceedings, status of same and company's view on same.

In the given case of Gee Infrastructure Ltd., since proceedings have been initiated under the Benami Transactions (Prohibition) Act, 1988, the company is required to disclose complete particulars of the alleged benami property, beneficiaries, amount involved, reasons for non-recording in the books (if applicable), details of proceedings and management's view thereon, so that users of the financial statements are adequately informed about the matter.

(b) Computation of Drawing Power for CC A/c of S Ltd.

Particulars of current assets		**Amount (₹)**	**DP Amt (₹)**
(A) Stocks:			
Stocks at realizable value		50,000	
Less: Unpaid stocks:			
- Sundry creditors	15000	15000	
Paid for stocks		35000	
Margin @ 20%		7000	28000
(B) Debtors:			
Total Debtors		45000	
Less: Ineligible debtors		5000	
Eligible debtors		40000	
Margin @ 50%		20000	20000
Total Drawing Power			**48000**

The sanctioned limit given in the question is ₹ 45000 whereas drawing power as per the above working is ₹ 48000. So, drawing power would be restricted to sanctioned limit i.e., ₹ 45000.

In the given case, although the drawing power computed on the basis of eligible stocks and debtors amounts to ₹ 48,000, S Ltd. cannot avail credit beyond the sanctioned CC limit of ₹ 45,000. Therefore, the effective drawing power available to the company would be restricted to ₹ 45,000.

(c) The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures.

While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the audit procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.

Further, the auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.

For the purpose of programme construction, the following points should be kept in mind:

(1) Stay within the scope and limitation of the assignment.

(2) Prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.

(3) Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.

(4) Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.

(5) Include the audit objectives for each area and sufficient details which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.

(6) Consider all possibilities of error.

(7) Co-ordinate the procedures to be applied to related items.

In the given case of Ema Energy Limited, the auditor is required to continuously review and modify the audit programme based on evaluation of internal controls, results of audit procedures and practical audit requirements. The auditor must properly plan timing of audit procedures such as inventory observation and verification of cash and securities balances, while ensuring that the audit programme contains clear procedures, audit objectives and coordination instructions so as to obtain sufficient appropriate audit evidence efficiently and effectively.

3. **(a)** In the case of audit of Helping Hands Charitable institution, attention should be paid to the following matters-

(1) General

(i) Studying the **constitution** under which the charitable institution has been set up.

(ii) Verifying whether the institution is being managed in the manner contemplated by the law under which it has been set up.

(iii) Examining the **system of internal check**, especially as regards accounting of amounts collected.

(iv) Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.

(v) Examine the Trust Deed or the Regulations as laid down.

(2) Subscriptions and donations

(i) Ascertaining, if any, the changes made in amount of **annual or life membership** subscription during the year.

(ii) Whether **official receipts** are issued;

(a) confirming that adequate control is imposed over unused receipt books;

(b) obtaining all receipt books covering the period under review;

(c) test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;

(d) obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;

(e) examining the system of internal check regarding moneys received from box collections, flag days, etc. and checking the amount received from representatives, with the correspondence and the official receipts issued; paying special attention to the system of control exercised over collections and the steps taken to ensure that all collections made have been accounted for; and

(f) verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

The auditor should obtain sufficient and appropriate audit evidence to conclude whether the charitable institution is functioning in accordance with its governing documents and applicable laws, whether adequate internal controls exist over collections, and whether all income, subscriptions and donations have been completely accounted for, promptly deposited and properly disclosed in the financial statements.

(b) Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

The auditor shall perform the procedures required above so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following: -

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

(c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's latest subsequent interim financial statements, if any.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report requiring adjustment of, or disclosure in, the financial statements have been identified. Such procedures should cover the period up to the date of the auditor's report, or as near as practicable thereto, and should include obtaining an understanding of management's procedures for identifying subsequent events, making inquiries of management and those charged with governance, reading minutes of relevant meetings, and reviewing the latest interim financial statements, if any.

(c) Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties.

However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

For example

(A) Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.

(B) Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.

(C) Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

In the given case of Perry Industries Limited, although many related party transactions may have been entered into in the normal course of business, the existence of a complex group structure, difficulties in identifying related party transactions through the information system and transactions without adequate consideration increase the risk of material misstatement. Therefore, the auditor should exercise heightened professional skepticism and perform appropriate audit procedures in relation to such related party relationships and transactions.

4. **(a)** Among the various factors to be considered by the auditor while establishing audit strategy, the following are relevant in the given case: -

(i). Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.

Examples are listed as under: -

(1) Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.

(2) The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.

(ii) **Ascertain the nature, timing and extent of resources necessary to perform the engagement.**

Selection of engagement team and assignment of audit work to team members is a significant factor in establishing overall audit strategy. Experienced team members may be assigned in areas where there is higher risk of material misstatement. Similarly, engagement budgeting and devotion of more time to areas of higher risk of material misstatement are to be kept in mind.

In the given case of Gala Telecom Limited, the auditor while establishing audit strategy should consider the results of preliminary engagement activities and relevant knowledge obtained from other engagements performed for the same entity. Further, maintaining professional skepticism and allocating experienced audit personnel and adequate audit resources to high-risk areas would help the auditor conduct the audit effectively and address risks of material misstatement appropriately.

(b) SA 220 is modelled on the lines of SQC 1. It describes the responsibilities of the engagement partner in relation to various matters. In the context of the question, the responsibilities relating to leadership responsibilities for quality on audits and relevant ethical requirements are explained below:

A. **Leadership responsibilities for quality on audits:** Leadership responsibility of an engagement partner is to take responsibility for the overall quality on each audit engagement. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise

(I) The importance to audit quality of: -

(i) Performing work that complies with professional standards and regulatory and legal requirements;

(ii) Complying with the firm's quality control policies and procedures as applicable;

(iii) Issuing auditor's reports that are appropriate in the circumstances; and

(iv) The engagement team's ability to raise concerns without fear of reprisals.

(II) The fact that quality is essential in performing audit engagements.

B. **Relevant ethical requirements:** The responsibilities of an engagement partner in relation to ethical requirements in an audit engagement are as under:

- Identifying a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level.
- Reporting by engagement partner to the relevant persons within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is legally permitted.

(c) **Audit reporting Regarding Corresponding Figures:** When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

1. 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, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

(a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

(b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

2. **If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements** on which an 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 a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified.

3. **Prior Period Financial Statements Not Audited-** If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, 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.

5. (a) SA 700 (Revised)- "Forming an Opinion and Reporting on Financial Statements", deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

The requirements of this SA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This SA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Objective of the Auditor: The objectives of the auditor as per **SA 700 (Revised)** are:

1. To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

2. To express clearly that opinion through a written report that also describes the basis for that opinion.

(b) Trade receivables are an essential part of any organisation's balance sheet, often referred to as debtors. Typically, an invoice is raised and issued to the customer with the invoice amount being recorded as a debtor balance. Until the invoice is paid, the invoice amount is recorded in the organization's balance sheet as accounts receivable. If these balances are not recoverable later on, then these amounts need to be written off as bad and charged in the statement of profit and loss.

It is important to carry out Test of Controls for checking the effectiveness of internal control over sales as a part of the debtors' audit procedure. Following points need to be considered in respect of trade receivables:

- Only bona fide sales lead to trade receivables.
- All such sales are made to approved customers.
- All such sales are properly recorded in the books of accounts.
- Once recorded, the debtors can be settled only by receipt of cash or on the authority of a responsible official.
- Segregation of duties at every point in sales transaction. (accounting for debtors, collecting the payments, sending reminders etc.)
- Debtors are collected on time.
- In case debtors are not collected in time, sending reminders and taking legal actions if required.
- Balances are regularly reviewed.
- A proper system of follow up exists and if necessary, adequate provision for bad debt should be made by preparing adequate ageing schedule of the debtors.

In the given facts, the auditor should evaluate whether the internal controls over trade receivables are designed and operating effectively. An effective system of controls helps ensure that receivables arise only from genuine sales, are recovered on time, and are appropriately monitored and provided for, thereby reducing the risk of material misstatement in the financial statements.

(c) Responsibilities of the auditor

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, 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 cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

The auditor is responsible for obtaining sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and for concluding whether a material uncertainty exists regarding the entity's ability to continue as a going concern. These responsibilities apply even where the applicable financial reporting framework does not expressly require management to perform a going concern assessment. However, because of the inherent limitations of an audit and the uncertainty associated with future events and conditions, the auditor cannot predict future outcomes. Therefore, the absence of any reference to a material uncertainty relating to going concern in the auditor's report should not be construed as a guarantee that the entity will continue as a going concern in the future.

6. (a) The following audit procedures enable the auditor to obtain sufficient appropriate audit evidence regarding the existence, completeness and valuation (including accuracy) of share capital and other equity balances. These procedures also help ensure that changes in the capital structure are duly authorised, correctly recorded and comply with the applicable provisions of the Companies Act, 2013 and other regulatory requirements:

- Tally the period-end share capital balance- authorised, issued and paid up, to the previous year audited financial statements.
- In case there in no change during the year, obtain a written confirmation/ representation from the Company Secretary that there were no changes to entity's capital structure during the year.
- In case there is any change, verify whether the paid up capital as at the period end is within the limits of authorized capital. Authorized capital should be verified by examining MOA.
- Obtain the certified copies of relevant resolutions passed authorising the increase/ decrease in share capital.
- In case of Fresh issue made in the current year, check with compliance of the Companies Act 2013 with regard to:
  - Return of Allotment,
  - Minimum Subscription,
  - minimum application money to be collected,
  - maintenance of separate Bank account,
  - payment of underwriting commission as per Sec 40 etc.
- No shares have been issued at Discount (Sec. 53 of the Companies Act, 2013)
- Check if Shares are issued for cash or for Consideration other than cash.

Example- To promoters for their services,Underwriters for commission payable to them etc.

- Compliance with SEBI regulations and Guidelines.
- Also, obtain and verify copies of forms filed with Ministry of Corporate Affairs (MCA) and with Reserve Bank of India and verify the number of securities issued along with the issue price.
- In case there was increase in share capital, verify whether the Company has accurately calculated the required fee and stamp duty payable to MCA.

The above audit procedures collectively enable the auditor to obtain sufficient appropriate audit evidence regarding the **existence, completeness and valuation (including accuracy) of share capital and other equity balances**. They also help ensure that changes in the capital structure are duly authorised, correctly recorded and comply with the applicable provisions of the Companies Act, 2013 and other regulatory requirements.

(b) **Request from Entity to change the Terms of Audit Engagement-When Reasonable Justification Exists:** A request from the entity for the auditor to change the terms of the audit engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit as originally requested or a restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances. The auditor considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.

A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the audit engagement.

In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.

An example might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.

In the given case, the request of the management is not justified. The proposed change in engagement has been sought after the auditor was unable to obtain sufficient appropriate audit evidence regarding trade receivables and a modified opinion was likely. Such a request appears to be an attempt to avoid the consequences of a qualified opinion or disclaimer of opinion. Therefore, the auditor should not regard the request as having a reasonable justification merely because the available audit evidence is incorrect, incomplete or otherwise unsatisfactory.

(c) At the conclusion of each audit, it is possible that there will be certain findings or exceptions in IT environment and IT controls of the company that need to be assessed and reported to relevant stakeholders including management and those charged with governance viz., Board of directors, Audit committee.

Some points to consider are as follows:

- Are there any weaknesses in IT controls?
- What is the impact of these weaknesses on overall audit?

- Report deficiencies to management – Internal controls memo or Management letter.
- Communicate in writing any significant deficiencies to those Charged with governance.

The auditor needs to assess each finding or exception to determine impact on the audit and evaluate if the exception results in a deficiency in internal control.

A deficiency in internal control exists if a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or the control is missing. Evaluation and assessment of audit findings and control deficiencies involve applying professional judgement that include considerations for quantitative and qualitative measures. Each finding should be looked at individually and in the aggregate by combining with other findings/deficiencies.

In the given case of Digital Solutions Ltd., the auditor should evaluate whether the identified weaknesses in user access controls, privileged user monitoring and change management controls constitute deficiencies in internal control and assess their impact on the audit. The findings should be evaluated both individually and collectively using professional judgement. Any deficiencies identified should be communicated to management through an Internal Controls Memo or Management Letter, while significant deficiencies should be communicated in writing to those charged with governance.

OR

(c) Working papers should provide a sufficient and appropriate record of the basis for the auditor's report and should record the audit plan, the nature, timing and extent of audit procedures performed, the audit evidence obtained, and the conclusions reached thereon.

The form, content and extent of working papers depend on factors such as:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.

- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

In the given case of MP Infrastructure Limited, the auditor is required to maintain appropriate working papers recording the audit plan, procedures performed and conclusions reached. Since the entity is large and complex, significant audit evidence has been obtained, exceptions have been identified and specialised audit tools are being used, the form, content and extent of audit documentation should be sufficiently detailed to support the auditor's conclusions and the audit opinion.