



CA INTER AUDITING & ETHICS NEW COURSE

QUESTION BANK & MCQ BOOK

Book Comprehensively Covers Questions & Answers from

ICAI Latest SM, Past Exams, RTP and MTP, Relevant Old Course Questions Adapted for CA Intermediate New Course

F.A.S.T
first attempt success tutorials

CA INTER
AUDITING
& ETHICS



QUESTION
BANK
&
MCQ BOOK

अब! **Audit** होगा सबसे **Scoring**

www.fast.edu.in

CA INTER



CHAPTER NO.	NAME	QUESTION BANK	MCQ BOOK
1	Nature, Objective & Scope of Audit	01-02	01-07
2	Audit Strategy, Audit Planning And Audit Programme	03-12	08-11
3	Risk Assessment And Internal Control	13-40	12-17
4	Audit Evidence	41-87	18-23
5	Audit of Items of Financial Statements	88-115	24-28
6	Audit Documentation	116-122	29-32
7	Completion and Review	123-134	33-38
8	Audit Report	135-156	39-43
9	Special Features of Audit of Different Type of Entities	157-185	44-47
10	Audit of Banks	186-202	48-51
11	Ethics and Terms of Audit Engagements	203-218	52-54

CHAPTER

1

NATURE, OBJECTIVE AND SCOPE OF AUDIT

CORRECT/INCORRECT TYPE QUESTIONS & ANSWERS

(Comment with short reasons whether following statements are correct or incorrect)

1.	The basic objective of audit does not change with reference to nature, size or form of an entity.
Ans.	Correct: An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. It is clear that the basic objective of auditing, i.e., expression of opinion on financial statements does not change with reference to nature, size or form of an entity.
2.	The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.
Ans.	Correct: As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
3.	The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
Ans.	Correct: As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

Test Your Understanding

4.	Lalji Bhai has purchased shares of a company listed on NSE. The audited financial statements of the company provide picture of healthy financial performance having robust turnover, low debt and good profits. On above basis, he is absolutely satisfied that money invested by him is safe and there is no chance of losing his money . Do audited results and audit reports of companies provide such assurance to investors like Lalji Bhai? Is thinking of Lalji Bhai correct?
Ans.	An audit does not provide assurance to investor in shares regarding safety of his money. Share prices of securities are affected by range of factors. An audit only provides reasonable assurance that financial statements are free from material misstatement whether due to fraud or error. Hence, thinking of Lalji Bhai is not correct.
5.	Good deeds Limited is engaged in business of recycling of wastes from dumping grounds of municipal corporation of Indore to usable manure. It is, in this way, also, helping to make the city clean. During course of audit by Zoha & Zoha, a firm of auditors, it is observed by auditors that company has received a notice from Central Bench of National Green Tribunal for not following certain environmental regulations involving imposition of hefty monetary penalty on the company . The company is yet to reply to the notice. The auditors point out that same is not stated in notes to accounts in financial statements. The company points out that auditors are going beyond scope of their work. Does such a matter fall within scope of audit?
Ans.	Proper disclosure of financial information is well within scope of audit.
6.	A huge fire broke out in NOIDA plant of KT Limited. Plant assets comprising building, machinery and inventories were insured from branch of a public sector insurance company. Apart from an insurance surveyor who was deputed for assessing loss, the regional office of insurance PSU also appointed a CA for verification of books of accounts/ financial records of the company and circumstances surrounding the loss . He was also requested to submit an early report. Would the report by CA in nature of audit report?

Ans.	Appointment of CA for verification of books of accounts/financial records and circumstances surrounding the loss is for a specific objective to determine genuineness of loss and any issue affecting liability of insurance company. It is an investigation and not in nature of audit report.
7.	<p>Zeeba Products is a partnership firm engaged in trading of designer dresses. The firm has appointed JJ & Co, Chartered accountants to audit their accounts for a year. The auditors were satisfied with control systems of firm, carried out required procedures and necessary verifications. In particular, they carried out sample checking of purchases, traced purchase bills to GST portal and also made confirmations from suppliers. They were satisfied with audit evidence obtained by them as part of audit exercise. An audit report was submitted to the firm giving an opinion that financial statements reflected true and fair view of state of affairs of the firm.</p> <p>However, later on, it was discovered that purchase manager responsible for procuring dresses from one location was also booking fake purchases of small values by colluding with unethical dealers. Payments to these dealers were also made in connivance with accountant through banking channel. The partners of firm blame auditors for futile audit exercise. Are partners of firm correct in their view point? Imagine any probable reason for such a situation.</p>
Ans.	It is example of failure of internal controls of the firm. The internal control has not operated due to collusion between employees which is a limitation of internal control itself. The auditor has relied upon internal controls. It is very nature of financial reporting that management is responsible for devising suitable internal controls. This is an inherent limitation of audit .
8.	The management of Exotic Tours and Travels Limited requests its auditor Raja &Co.to provide an assurance report on the financial information for first quarter of a year by skipping required detailed procedures. Can Raja & Co. provide such a report? What would be nature of such a report? Would it be necessary for them to obtain sufficient appropriate evidence in such a case?
Ans.	Such report would be in nature of “review”. However, auditors would have to obtain sufficient appropriate evidence.
9.	<p>CA. P Babu is conducting audit of financial statements of Quick Buy Private Limited. He was not able to obtain external confirmations from certain debtors due to practical difficulties and peculiar circumstances. However, such a procedure is mandated under one of Standards on Auditing.</p> <p>Unable to obtain external confirmations from these debtors, he relied upon sale details to these parties, e-invoices, e-way bills and also traced payments from these parties in bank accounts of the company. He was reasonably satisfied with audit evidence obtained. Is there any other reporting duty cast upon him relating to not following a mandated procedure in one of Standards on Auditing?</p>
Ans.	He is required to document how alternative procedures performed achieve the purpose of required procedure. Reason for departure has to be documented unless it is clear. His report should draw attention to such departure.

Descriptive Questions & Answers

10.	“Choosing of appropriate accounting policies in relation to accounting issues is responsibility of management”. Do you agree? Discuss duty of auditor, if any, in relation to accounting policies.
Ans.	Choosing of appropriate accounting policies is responsibility of management. The role of auditor lies in evaluating selection and consistent application of accounting policies by management- Refer to scope of audit- what it includes.
11.	Assurance engagements are not restricted to audit of financial statements alone. Discuss.
Ans.	Refer to examples on assurance engagements.
12.	An assurance engagement involves a three party relationship. Discuss meaning of three parties in such an engagement.
Ans.	Refer to elements of assurance engagement.
13.	A Chartered Accountant is specifically asked to check accounts whether fraud exists. State with reasons whether it is an example of reasonable assurance engagement.
Ans.	It is not a reasonable assurance engagement. It is in nature of investigation.
14.	An audit does not provide absolute assurance. Discuss how nature of audit procedures itself is one of the reasons due to which audit cannot provide absolute assurance.
Ans.	Refer to second point of inherent limitations of audit.

**CHAPTER
2**

**AUDIT STRATEGY, AUDIT PLANNING
AND AUDIT PROGRAMME**

CORRECT/INCORRECT TYPE QUESTIONS & ANSWERS

(Comment with short reasons whether following statements are correct or incorrect)

1.	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.
Ans.	Correct: Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. 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.
2.	Establishing an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan is prerogative of the management.
Ans.	Incorrect. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
3.	Planning is a discrete phase of an audit.
Ans.	Incorrect. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.
4.	A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.
Ans.	Incorrect: Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable.
5.	The audit plan is more detailed than the overall audit strategy.
Ans.	Correct. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.
6.	<p>Revision in Plan</p> <p>A well designed and drafted audit plan and audit strategy which takes care of all the uncertainties and conditions, need not be changed during the course of audit. (Nov-2018)</p> <p style="text-align: center;">OR</p> <p>The auditor should update and revise the audit plan as and when required, however, the overall audit strategy once established cannot be changed during the course of audit. (MTP-May-2021)</p> <p style="text-align: center;">OR</p> <p>Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same. (May-2022)</p>

Ans.	Incorrect: The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, 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.
7.	It is not necessary for the auditor to periodically review the audit programme. (Nov-2020)
Ans.	Incorrect: There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an obsolete programme and for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.
8.	Mr. W, one of the team members of auditor of Different Limited was of the view that understanding the Internal Control of Different Limited will not help in developing an Audit Programme.
Ans.	Incorrect: Understanding the Internal Control of Different Limited will help in developing an Audit Programme because it will assist the auditor and his team to understand as to how much they can rely on internal control of the company and what audit procedures would be appropriate to be used during the course of audit.
9.	Development of an audit plan is important before the establishment of the overall audit strategy to address the various matters. (RTP-Nov-2022)
Ans.	Incorrect: As per SA-300, "Planning an Audit of Financial Statements", the auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

Test Your Understanding

10.	MG & Co, a firm of auditors, having a standing of 30 years is appointed as a statutory auditor of company engaged in manufacturing of defence equipment. Due to opening of defence sector by government to private players in recent times, many new companies have entered the fray to manufacture sophisticated defence equipment. Considering technical and complex nature of operations, the auditors recognize that involvement of experts in the audit is required. Does consideration for involvement of experts by auditors fall in the domain of planning audit?
Ans.	Consideration for involvement of experts by auditors falls within domain of planning. While planning an audit, auditor would have to consider whether involvement of experts is necessary. In the stated case, company is involved in technical and complex operations. Therefore, while planning an audit, auditors would have to consider whether involvement of expert is necessary.
11.	CA Kartik is planning for audit of a company engaged in manufacturing of cosmetics. Considering nature of operations of the company, he had planned to include testing of controls of the company over purchases, sales and inventories. One fine day, he reaches the corporate office and asks for manuals and required documentation to ensure surprise element in testing. He had never shared with management his intention to carry out above procedures. Is approach of CA Kartik proper?
Ans.	In the case, CA Kartik has reached office of the company without sharing with management his intention to test the controls. The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement without compromising effectiveness of audit. Sharing details of visit to test controls does not compromise effectiveness of audit. It is for the better facilitation and conduct of audit. Therefore, approach of CA Kartik is not proper.
12.	CA Mary, while planning audit of a company, feels that she would inquire from in house legal counsel of the company status of pending litigation matters against the company to identify and assess risks of material misstatements. Considering above description, are you able to identify said procedures? Where these identified procedures are included in planning in accordance with SA-300?

Ans.	These are planned risk assessment procedures to identify and assess risk of material misstatement. The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement. Such planned risk assessment procedures are included in audit plan in accordance with SA-300.
13.	CA Shubhendu is statutory auditor of a social media company. Due to change in information technology regulations by government, it has become mandatory for such companies to constitute "grievance redressal mechanism" for users of social media platform of the company. Failure to comply with regulations can potentially lead to civil and criminal liabilities against the company. Is above factor to be considered by auditor while framing audit strategy?
Ans.	Changes in laws and regulations affecting the company is a factor to be considered while establishing overall audit strategy. There has been change in information technology regulations applicable to the company. Noncompliance of the same can have implications in form of civil and criminal liabilities. Such an important matter concerning changes in laws and regulations is to be considered by auditor while establishing overall audit strategy.
14.	Rohit, undergoing practical training, is part of an engagement team conducting audit of a company engaged in manufacturing of paints. He has been provided with audit programme pertaining to sales. It lists out various items to be checked and verified by him including invoices, rate lists, posting in debtors accounts, correlation of invoices with e-way bills on sample basis etc. During verification, he notices that many e-way bills have been cancelled by the company within 24 hours of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum. Is attitude of Rohit proper?
Ans.	Attitude of Rohit is not proper. The assistants should observe matters objectively and bring significant matters to the notice of supervisor/principal. Reasons for cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner.

Descriptive Questions & Answers

15.	<p>Benefits of Adequate Planning "An adequate planning benefits the audit of financial statements." Discuss. (MTP-Nov-2022, RTP-May-2019, Nov-2018)</p> <p style="text-align: center;">OR</p> <p>Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, adequate planning benefits the audit of financial statements in several ways. Analyze and advise explaining the benefits of adequate planning? (RTP-May-2018)</p> <p style="text-align: center;">OR</p> <p>Engagement partner of Audit Firm MKC AND COMPANY thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning. (RTP-Nov-2019)</p> <p style="text-align: center;">OR</p> <p>Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Explain clearly those ways. (RTP-Dec-2021)</p>
Ans.	<p>Benefits of Planning in the audit of financial statements: Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:</p> <ol style="list-style-type: none"> 1. Helping the auditor to devote appropriate attention to important areas of the audit.

	<ol style="list-style-type: none"> 2. Helping the auditor identify and resolve potential problems on a timely basis. 3. Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner. 4. Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them. 5. Facilitating the direction and supervision of engagement team members and the review of their work. 6. Assisting, where applicable, in coordination of work done by auditors of components and experts.
<p>16.</p>	<p>Overall audit strategy the process of establishing the overall audit strategy assists the auditor</p> <p>Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine such matters as for example – there sources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters. Explain the other three such matters. (RTP-May-2020)</p> <p style="text-align: center;">OR</p> <p>Describe how the process of establishing the overall audit strategy assists the auditor in marshalling his human resources. (May-2019)</p> <p style="text-align: center;">OR</p> <p>“In establishing the overall audit strategy, the auditor shall, among other considerations, ascertain the nature, timing and extent of resources necessary to perform the engagement” Explain those considerations in detail. (MTP-Dec-2021)</p> <p style="text-align: center;">OR</p> <p>The engagement partner of SKC & Co., firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor. (MTP-Nov-2018)</p>
<p>Ans.</p>	<p>The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.</p> <p>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:</p> <ol style="list-style-type: none"> (1) The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters. (2) The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors’ work in the case of group audits, or the audit budget in hours to allocate to high risk areas; (3) When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and (4) How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off -site), and whether to complete engagement quality control reviews.
<p>17.</p>	<p>Audit Strategy (AS)</p> <p>Discuss the relationship between overall audit strategy and audit plan. (Nov-2016)</p>
<p>Ans.</p>	<p>Relationship between the Overall Audit Strategy and the Audit Plan:</p> <ul style="list-style-type: none"> • The audit strategy provides the guidelines for developing the audit plan. It establishes the scope and conduct of the audit procedures and thereby works as basis for developing a detailed audit plan.

	<ul style="list-style-type: none"> Detailed audit plan would include the nature, timing and extent of the audit procedures to obtain sufficient appropriate audit evidence. The audit strategy is prepared before the audit plan. The audit plan contains more details than the overall audit strategy. Audit strategy and audit plan are inter-related because change in one would result into change in the other.
18.	<p>Audit Strategy</p> <p>In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement. (Nov-2019)</p>
Ans.	<p>In establishing the overall audit strategy, auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. The cases by which auditor can ascertain the reporting objectives of the engagement are:</p> <ol style="list-style-type: none"> The entity's timetable for reporting, such as at interim and final stages. The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work. The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance. The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
19.	<p>Audit Strategy</p> <p>W, the auditor of SKM Ltd asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W, also insist him to draw detailed audit procedures also. On the request of auditor W, complete audit strategy as well as audit procedures are prepared by finance head of the company. Subsequently, auditor realizes that effectiveness of the audit is compromised and it was his responsibility to prepare the overall audit strategy. Comment.</p>
Ans.	<p>The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.</p> <p>Conclusion: The Auditor's Responsibility-Keeping in view the content given above, approach of W was wrong and he should have prepared overall audit strategy and detailed audit procedures</p>
20.	<p>Engagement Partner CA Hitesh Kapur of Kapur and Associates wanted to develop an audit plan of Sampurna Fabrics Ltd. Discuss the matters to be described in such an audit plan. (RTP-May-2022)</p>
Ans.	<p>The auditor shall develop an audit plan that shall include a description of :</p> <ol style="list-style-type: none"> 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". 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".

	<p>(iii) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.</p> <p>The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.</p> <p>Example</p> <p>Planning of the auditor’s risk assessment procedures occurs early in the audit process.</p> <p>However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.</p>
21.	<p>AS & AP (Audit Plan)</p> <p>Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes the need to consider certain matters prior to the auditor’s identification and assessment of the risks of material misstatement. Explain clearly stating those matters also. (RTP-May-2021)</p> <p style="text-align: center;">OR</p> <p>Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Analyse and Explain. (Nov-2018, RTP-Nov-2019)</p>
Ans.	<p>In the context of recurring audits, as per SA-300, “Planning an Audit of Financial Statements”, Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor’s identification and assessment of the risks of material misstatement, such matters as:</p> <ol style="list-style-type: none"> 1. The analytical procedures to be applied as risk assessment procedures. 2. Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework. 3. The determination of materiality. 4. The involvement of experts. 5. The performance of other risk assessment procedures.
22.	<p>Discuss how performing preliminary engagement activities as part of planning an audit assists auditor. (SM)</p>
Ans.	<p>Performing preliminary engagement activities assists the auditor in identifying and evaluating events or circumstances that may affect auditor’s ability to plan and perform audit engagement.</p>
23.	<p>Audit Programme</p> <p>Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain? (MTP-May-2022, RTP-May2019, RTP-May-2018)</p>
Ans.	<p>Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all businesses under all circumstances is not practicable. However, it becomes a necessity to specify in detail in the audit programme the nature of work to be done so that no time will be wasted on matters not pertinent to the engagement and any special matter or any specific situation can be taken care of.</p>

24.	<p>M/s. TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has diversified their business into newer areas during the last year. The senior member of the audit team handed over the standard audit programme of earlier years to the audit assistants and instructed them to follow the same. The assistants are conducting the audit accordingly. Whether the attitude of the audit assistants is justified or they are required to keep an open mind ? Guide them. (Dec-2021)</p>
Ans.	<p>The Assistant Engaged – Be Encouraged to Keep an Open Mind: To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme. As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant for the particular concern. Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped. The assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him. He should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit. In the given case, the attitude of assistants of TP & Co. is not justified. They should keep an open mind and go beyond the programme to take care of newer areas of the business of KSR Ltd. into which the Company has diversified.</p>
25.	<p>Audit Programme Arpana Hospitals Ltd having Gross Professional Charges of ₹ 50 crores is engaged in providing healthcare services. STP & Co., a firm of auditors is appointed as its auditors. Advise what special points to be kept in mind for the purpose of construction of an Audit programme. Explain? (RTP-May-2018)</p> <p style="text-align: center;">OR</p> <p>List out the points that should be kept in mind by the auditor for the purpose of constructing an audit programme. (RTP-May-2019, May-2019)</p> <p style="text-align: center;">OR</p> <p>Discuss the points to be considered by auditor for the purpose of constructing an audit programme. (Nov-2019)</p> <p style="text-align: center;">OR</p> <p>XYZ Ltd is a Listed company manufacturing various items for home use. It is making an annual turnover of 200 crore rupees and having 5 factories in Southern India. Your firm has been appointed to audit its accounts throughout the year and submit monthly reporting. Senior partner asks you to develop the audit programme. State the special points to be kept in mind while developing the audit programme. (MTP-May-2018)</p> <p style="text-align: center;">OR</p> <p>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. Explain stating clearly the points to be kept in mind while developing an audit programme. (RTP-Nov-2022)</p> <p style="text-align: center;">OR</p> <p>XYZ & associates are appointed as the statutory auditors of Fisco Ltd. for the FY 2021 -22. While constructing the audit programme, the engagement partner, CA X, should keep in mind various points. List such points. (MTP-Nov-2022)</p>
Ans.	<p>For the purpose of programme construction, the following points should be kept in mind:</p> <ol style="list-style-type: none"> (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

	<p>the specific situation.</p> <p>(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.</p> <p>(6) Consider all possibilities of error.</p> <p>(7) Co-ordinate the procedures to be applied to related items.</p>
26.	<p>Audit Programme</p> <p>Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques.</p> <p>Analyse and explain with the help of example of evidence in respect of Sales. (RTP-May-2020)</p>
Ans.	<p>Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques. What is best evidence for testing the accuracy of any assertion is a matter of expert knowledge and experience. This is the primary task before the auditor when he draws up the audit programme. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.</p> <p>Example</p> <p>Sales are evidenced by:</p> <p>(i) invoices raised by the client;</p> <p>(ii) price list;</p> <p>(iii) forwarding notes to client;</p> <p>(iv) inventory-issue records;</p> <p>(v) sales managers' advice to the inventory section;</p> <p>(vi) acknowledgements of the receipt of goods by the customers; and</p> <p>(vii) collection of money against sales by the client.</p>
27.	<p>Audit Programme</p> <p>"The utility of the audit programme can be retained and enhanced only by keeping the programme and also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed'. Discuss stating clearly the advantages of an audit programme.</p> <p style="text-align: center;">OR</p> <p>Disadvantages of the Use of an Audit Programme (MTP-May-2022, Nov-2018, MTP-Nov-2018)</p>
Ans.	<p>Advantages and Disadvantages of an Audit Programme</p> <p>The advantages of an audit programme are:</p> <p>(a) It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done.</p> <p>(b) It is essential, particularly for major audits, to provide a total perspective of the work to be performed.</p> <p>(c) Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated.</p> <p>(d) Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, such danger is significantly less and the audit can proceed systematically.</p> <p>(e) The assistants, by putting their signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.</p> <p>(f) The principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.</p>

- (g) It serves as a guide for audits to be carried out in the succeeding year.
- (h) A properly drawn up audit programme serves as evidence in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor.

Some disadvantages are also there in the use of audit programmes but most of these can be removed by following some concrete steps.

The disadvantages are:

- (a) The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.
- (b) The programme often tends to become rigid and inflexible following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.
- (c) Inefficient assistants may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
- (d) A hard and fast audit programme may kill the initiative of efficient and enterprising assistants.

All these disadvantages may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.

28. In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. An auditor picks up evidence from a variety of fields. Analyse and explain with the help of examples. **(RTP-Nov-2020)**

Ans. In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. In this process, an auditor would be in a position to identify the evidence that brings the highest satisfaction to him about the appropriateness or otherwise of the assertion.

An auditor picks up evidence from a variety of fields and it is generally of the following broad types:

- (a) Documentary examination,
- (b) Physical examination,
- (c) Statements and explanation of management, officials and employees,
- (d) Statements and explanations of third parties,
- (e) Arithmetical calculations by the auditor,
- (f) State of internal controls and internal checks,
- (g) Inter-relationship of the various accounting data,
- (h) Subsidiary and memorandum records,
- (i) Minutes,
- (j) Subsequent action by the client and by others.

Example

1. For cash in hand, the best evidence is 'count'
2. For investment pledged with a bank, the banker's certificate.
3. For verifying assertions about book debts, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the customers are all evidence: some of these are corroborative, other being complementary. In addition, balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of the assertion.

	The auditor, however, has to place appropriate weight on each piece of evidence and accordingly should prescribe the priority of verification. It is true that in all cases one procedure may not bring the highest satisfaction and it may be dangerous for the auditor to ignore any evidence that is available. By the word “available” we do not mean that the evidence available with the client is the only available evidence. The auditor should know what normally should be available in the context of the transaction having regard to the circumstances and usage.
29.	“Purported disadvantages of an audit programme can be overcome”. Do you agree?
Ans.	Purported disadvantages of audit programme may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.
30.	Discuss how an engagement partner ensures that firm complies with relevant ethical requirements including independence in relation to client. (SM)
Ans.	Refer to point on evaluating compliance with ethical requirements including independence.
31.	An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure. (SM)
Ans.	Refer to point on documentation However ICAI SM does not prescribe such consequences.
32.	SA 300 states that auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Discuss few factors affecting such supervision and review of work of engagement team members. (SM)
Ans.	Refer to point on Planning supervision and review of work of engagement team members

“


NOTES

”

F.A.S.T
first attempt success tutorials

—JOIN—
CA INTER
**ACCOUNTS
&
AUDIT**
by CA. SARTHAK JAIN

 **46th AIR**
Rank Holder in CA Final


135,000+
CA Students
Taught till date

 **221+**
AIRs including
AIR 1 & 2

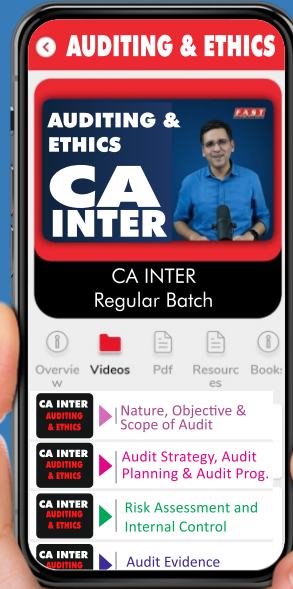
Corp. Office : M-1, Trade Centre,
South Tukoganj, Indore
M.P. (452001)
Contact : 9584510000, 9522564050

Feedback at : hello@casj.live



Want to Buy
Books & Video Lectures
Scan this QR Code
Price : ₹ 600/-

Visit : www.elearn.fast.edu.in



Scan to
Download

**FAST
APP**



Degree in Management
and Administration



Faculty of
Audit and FR
/ Accounts
at CA Final
and
Intermediate
Level



Chief
Mentor
of FAST
TEST
SERIES
& CA Flix



Founder of
FAST Career
Consultants
India's
largest private
CA Placement
Company placing
CA Freshers
across India
at packages
upto 35 Lacs