

Section A: Multiple choice questions

MCQs 1-6 carry 1 mark each and MCQs 7-8 carry 2 marks each. (total 10 marks)

1. Auditor can obtain the knowledge of client's business from –

(a) Discussion with people within client entity	(b) Publication relating to industry	(c) Previous experience	(d) All of these
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2. Preliminary engagement activities shall include –

(a) Performing procedures regarding continuance of client's relationship	(b) Evaluating compliance with ethical requirements including independence	(c) Establishing understanding of terms of audit engagement	(d) All of these
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3. Once the overall audit strategy has been established, _____ 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. (a) (b) (c) (d)

(a) audit strategy	(b) audit plan	(c) audit plan and audit strategy	(d) audit note book
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4. Which of the following is not included in an audit programme normally?

(a) Extent of checking	(b) Date of checking	(c) Nature or type of procedure	(d) Planning of risk assessment procedures
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Read the following scenario and answer mcqs 5-8.

M/s ABC & Associates have been appointed as auditors of Netpro Ltd. for the financial year 2023-24. The team consist of Mr. A & Mr. B, both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Netpro Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Netpro Ltd along with applicable Standard on Auditing. Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. A also briefed the team about the concept of materiality to be applied while planning and performing audit. Based on the above facts, answer the following:-

5. _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.

(a) Audit Programme	(b) Overall Audit Strategy	(c) Completion Memorandum	(d) Audit Plan
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6. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.

Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.

(a) Only Statement 1 is correct

(b) Only Statement 2 is correct

(c) Both Statements 1 & 2 are correct

(d) Both Statements 1 & 2 are incorrect

7. When planning the audit, _____

(a) the auditor considers what would make the financial information materially misstated

(b) the auditor need not consider what would make the financial information materially misstated

Ⓒ the auditor need not consider what would make the financial information materially misstated at planning stage

(d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only

8. Planning an audit involves

(a) establishing the overall audit strategy for the engagement and developing an audit plan

(b) establishing the overall audit plan for the engagement and developing an audit strategy

(c) establishing the overall audit plan for the engagement

(d) developing an audit strategy.

Section B: Descriptive questions (5 marks each)

Question 1: 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.

Answer 1: The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including: -

1. The size and complexity of the entity.
2. The area of the audit.
3. The assessed risks of material misstatement
4. The capabilities and competence of the individual team members performing the audit work

Question 2: 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.

Answer 2: Reporting Objectives, Timing of the Audit, and Nature of Communications:

Auditor can ascertain the Reporting objectives, timings and nature of communication by considering the following:

- 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.

- Communication with auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit of components.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.

Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

Question 3: *Veeru Jai and associates, a firm of chartered accountants is appointed as auditor of a company engaged in manufacturing of semiconductors. After initial strategy formulation and audit planning, a detailed set of instructions has been prepared by team manager and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. The first-year articled assistant in the team is confused about what this detailed set of instruction is called and what points to be considered while constructing the same. Guide him.*

Answer 3: An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.

In the present case, it is given that a detailed set of instructions has been prepared by team manager and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. here, it is referring to the Audit programme.

Further 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.

Question 4: *Planning an audit is necessary to carry it out effectively in a timely manner. Besides ensuring compliance with professional standards, it helps in performing audit engagement effectively. Adequate planning benefits the audit of financial statements in several ways. State the advantages of planning.*

Answer 4: Adequate planning benefits the audit of financial statements in several ways, including the following: -

1. Helping the auditor to devote appropriate attention to important areas of the audit.
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 others such as experts.

Therefore, planning an audit ensures that audit risk is reduced to an acceptable low level. When audit work is adequately and properly planned, it reduces the risk of inappropriate opinion by the auditor.

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