



CA INTER AUDIT

NOV'23

Chapter-2

Audit Strategy, Planning and Programme

**CORRECT INCORRECT
QUESTIONS**



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Preface

Greetings students,

As the author of this question bank, I've taken a thoughtful approach to its construction, prioritizing a competitive spirit in your learning journey.

Correct / Incorrect Questions

The Correct and Incorrect questions/answers are intentionally not kept in sequential order. Why? To encourage analytical thinking without the comfort of knowing the topic heading in advance.

Dedication to Holistic Learning

My dedication to creating content knows no bounds. I've meticulously curated questions from over 20 years of ICAI materials, including Study Material Practice Questions, MTPs, RTPs, and Suggested Answers. The sequencing of chapter topics aligns seamlessly with the ICAI study material. For downloading Complete Question Bank [click here](#)

ADDITIONAL INFORMATION ABOUT COMPLETE QUESTION BANK

Insights from Examiner Comments

Moreover, the inclusion of examiner comments adds a unique dimension. Learning from the mistakes highlighted by ICAI examiners can significantly improve your understanding. This book is not just about questions and answers; it's a tool to help you comprehend common mistakes and guide you on how to avoid and rectify them.

Comprehensive Question Selection Strategy

I've gone a step further. Not only have I kept questions directly related to the current study material, but I've also included additional ones related to previous years with some relevance to the current context. These carry relevance, but I advise focusing on them only after thoroughly covering the main syllabus according to the current study material.

VIDEO LEARNING INITIATIVE



And here's an exciting initiative—I've started creating YouTube videos to help you understand any challenging question or topic. All you need to do is message us on WhatsApp or Telegram using the provided link at the bottom of the page, and I'll promptly create a video to address your request.

Closing Note: Embark on Your Learning Journey

So, dive into this question bank with enthusiasm, and remember, I'm here to support your learning journey every step of the way.

Best regards,
Prof. Vishal Atman

If you require further assistance with your study techniques or any other aspect, don't hesitate to contact us.

You can instantly reach out via WhatsApp by clicking this icon,  or join our Telegram group  to pose questions that could also benefit your peers.



<h1 style="margin: 0;">Chapter 2</h1>	<h1 style="margin: 0;">Audit Strategy, Planning And Programme</h1>
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Part A – Correct Incorrect

Q. 1 State with reasons (in short) whether the following statements are True or False :	
1.	<p>There is no relation between Audit Plans and knowledge of the client’s business</p> <p style="text-align: right;">(RTP IPCC Nov 18)</p> <p>Incorrect</p> <p>The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business</p>
2.	<p>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.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect</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. It’s the responsibility of an Auditor and not the right of management.</p>
3.	<p>The audit plan is more detailed than the overall audit strategy.</p> <p style="text-align: right;">(2 Marks) (Audit / Nov. 2020)</p> <p>Correct</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. 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.</p>
4.	<p>Development of an audit plan is important before the establishment of the overall audit strategy to address the various matters.</p> <p style="text-align: right;">(Inter RTP Nov.2022)</p> <p>Incorrect:</p> <p>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.</p>
5.	<p>Planning is a discrete phase of an audit.</p> <p style="text-align: right;">(MTP May 2023) (2 Marks each, RTP Nov 17) (RTP IPCC Nov 19)</p> <p>Incorrect</p> <p>According to SA-300, “Planning an Audit of F.St.’s”, 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.</p>



<p>6.</p>	<p>Planning is not a discrete phase of an audit, but rather a continual and iterative process. (RTP IPCC Nov 18)</p> <p>Correct</p> <p>According to SA-300, "Planning an Audit of F.St.'s", 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.</p>
<p>7.</p>	<p>The auditor need not discuss elements of planning with the entity's management in any case. (RTP IPCC Nov 19)</p> <p>Incorrect</p> <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.</p>
<p>8.</p>	<p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (MTP Aug-New 2018, 2 Marks)</p> <p>Correct</p> <p>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.</p>
<p>9.</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. (2 Marks, Nov 2018)</p> <p>OR</p> <p>Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same. (MTP May 2023)</p> <p>Incorrect</p> <p>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.</p> <p>Examiner Comment - Few examinees did not mention that as a result of unexpected events, changes in condition, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall strategy and audit plan.</p>
<p>10.</p>	<p>A detailed Audit Programme once prepared for a business can be used for all business under all circumstances. (MTP Oct 2020, 2 Marks) (2 Marks, MTP Oct.,2022)</p> <p>OR</p> <p>Evolving one audit programme applicable to all business under all circumstances is not practicable.</p> <p>Correct</p> <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 business under all circumstances is not practicable</p>
<p>11.</p>	<p>The "documentation of the overall audit strategy" is a record of the audit evidences considered necessary to properly plan the audit and to assign various audit functions to the engagement team. (Inter Sugg. 2023)</p>

12.	<p>Incorrect :</p> <p>The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. Example: The auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.</p>
13.	<p>It is not necessary for the auditor to periodically review the audit programmed.</p> <p style="text-align: right;">(2 Marks) (Audit / Nov. 2020)</p> <p>Incorrect</p> <p>There should be periodic review of the audit programmed 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 programmed and for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.</p>
14.	<p>Under a properly framed audit programme by the auditor, the danger is significantly less and audit can proceed systematically.</p> <p style="text-align: right;">(2 Marks, Nov 2019 – Inter New)</p> <p>Correct : 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. Thus, under a properly framed programme, the danger is significantly less and the audit can proceed systematically.</p>
15.	<p>Materiality is not a matter of size.</p> <p style="text-align: right;">MTP May 2023</p> <p>Incorrect:</p> <p>Financial statements should disclose all 'material items', i.e., the items the knowledge of which might influence the decisions of the user of the financial statement. Materiality is not always a matter of relative size. For example -a small amount lost by fraudulent practices of certain employees can indicate a serious flaw in the enterprise's internal control system requiring immediate attention to avoid greater losses in future. In certain cases, quantitative limits of materiality are specified.</p>
16.	<p>If during the audit it appears as though actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality.</p> <p style="text-align: right;">(2 Marks, MTP Oct.,2022)</p> <p>Correct</p> <p>Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that occurred during the audit, new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures.</p>
17.	<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: right;">(TYK)</p> <p>Incorrect</p> <p>Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that occurred during the audit (for example, a decision to dispose of a major part of the entity's business), new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures.</p>



18.	When Profit before tax from continuing operations is non-volatile, other benchmarks will be appropriate. (Inter Audit Suggested / New Dec. 2021) Incorrect Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.
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OLD Course SM

19.	The concept of materiality is an important and relevant consideration for the auditor in financial statement. (OLD Course SM) (2 Marks, Nov 2018) (2 Marks, MTP Sep.2022) Correct The concept of materiality is fundamental to the process of accounting. It covers all the stages from recording to classification and presentation. It is very important for the auditor who has constantly to judge whether a particular item is material or not and ensure that a material item is disclosed separately and distinctly. Examiner Comment - Examinees explained that it is fundamental to the process of accounting but did not discuss appropriately the need for separate disclosure of material items.
20.	When inherent and control risks are low, an auditor can accept a lower detection risk. (OLD Course SM) (2 Marks each, May 2008) False : SA-320 on "Materiality in Planning and Performing an Audit" states that the auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. After the auditor assesses the inherent and control risks, he should consider the level of detection risk that he is prepared to accept and, based upon his judgment, select appropriate substantive audit procedures. If the auditor does not perform any substantive procedures, detection risk, that is, the risk that the auditor will fail to detect a misstatement, will be high. The auditor reduces detection risk by performing substantive procedures - the more extensive the procedures performed, the lower the detection risk.
21.	There is direct relationship between materiality and the degree of audit risk. (OLD Course SM) (RTP IPCC May 17) (RTP May 2018) Incorrect There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa. For example, the risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.

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