



CA INTER AUDIT

NOV'23

Chapter-2

Audit Strategy, Planning and Programme

MCQs



PROF. VISHAL ĀTMAN






Preface

Before diving into the study material, it's crucial to familiarize yourself with the following guidelines to optimize your learning experience.

- 1. Glossary for Abbreviations :** The study notes contain numerous abbreviations that may initially seem confusing. To alleviate this, we've compiled a comprehensive glossary that elucidates each abbreviation and its corresponding full form. You can download this reference file by [clicking here](#).
- 2. Conceptual Clarity :** Grasping the underlying concepts can sometimes be challenging, affecting your ability to remember the material. Should you encounter difficulties, our YouTube channel offers videos designed to simplify and expedite your learning process.
- 3. One Keyword, One Topic :** It may sound unconventional, but our unique methodology enhances your learning by associating a single keyword with an entire topic. This approach fosters a kind of photographic memory, enabling you to recall and review the subject matter without constantly referring to your notes.
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- 4. Retention and Reproduction :** While understanding a concept is crucial, the ability to retain and subsequently reproduce that knowledge in the CA exams is what truly counts. Be warned—poor retention could jeopardize your performance, leaving you adrift in the turbulent waters of ICAI examinations.

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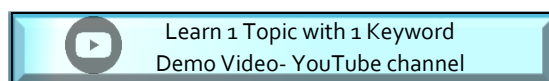


<h1 style="margin: 0;">Chapter 2</h1>	<h1 style="margin: 0;">Audit Strategy, Planning and Programme</h1>
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SA 300

1.	<p>Nature and extent of planning is _____ proportional to size and complexity of the Auditee</p> <p>a. directly b. Inversely c. not d. none of the above</p>
2.	<p>Nature and extent of planning is _____ proportional to past experience and expertise of the auditor.</p> <p>a. directly b. inversely c. not d. none of the above</p>
3.	<p>Nature and extent of planning is _____ proportional to change in circumstances.</p> <p>a. directly b. inversely c. not d. none of the above</p>
4.	<p>Identify the correct one: Planning is not a _____ phase of an audit</p> <p>a. continuous b. discrete c. iterative d. None of the above</p>
5.	<p>Planning activities would be required in entity whose size and complexity are more as compared to an entity whose size and complexity is less.</p> <p>a. More. b. Less.</p>
6.	<p>Identify the correct option:</p> <p>a. Audit strategy means overall audit plan. b. Audit strategy involves overall audit plan. c. Overall audit plan and Audit strategy are not related to each other</p>
7.	<p>Planning does not need to consider:</p> <p>a. The analytical procedures to be applied as risk assessment procedures. b. Obtaining a general understanding of the entity. c. The determination of materiality d. None of the above</p>

1.	a	2.	b	3.	a	4.	b	5.	a	6.	b	7.	d
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8.	Identify the incorrect one: <i>The auditor may decide to discuss elements of planning to facilitate the conduct and management of the audit engagement with:</i>
	a. The audit teams b. Management c. External party of whose confirmation is required
9.	The auditor discusses elements of planning with the management to facilitate the conduct and management of the audit engagement. Thus, the overall audit strategy and the audit plan is the responsibility of:
	a. Auditor b. Both Auditor & Management. c. Both Auditor & Management (only if written consent given) d. Any of the above
10.	Which shall not be involved in discussing the nature and timing of detailed audit procedures?
	a. The engagement partners b. other key members of engagement team c. Audit Staff d. Key management personnel of the entity
11.	Discussing the nature and timing of detailed audit procedures with management may compromise the _____ of the audit by making the audit procedures too predictable.
	a. effectiveness. b. efficiency. c. audit fees. d. auditor's judgement
12.	Identify the incorrect one: <i>The auditor shall undertake the following activities at the beginning of the current audit engagement (preliminary engagement activity):</i>
	a. Acceptance and continuance procedures required by SA 220 b. Evaluating compliance with ethical requirements as required by SA 220. c. Establishing an understanding of the terms of the engagement, as required by SA 210. d. Performing procedures required by SA 240"
13.	Which from the following is not a synonym to another options?
	a. Overall Audit Plan b. Overall Audit Strategy c. Audit plan
14.	Identify the correct one: <i>With respect to audit of historic financial statement, the auditor shall develop an audit plan that shall include audit procedures as per:</i>
	a. SRE 2400. b. SA 330 c. SA 701. d. SAE 3400.
15.	Identify the correct one
	a. The audit plan is more detailed than the overall audit strategy. b. The overall audit strategy is more detailed than the audit plan. c. The overall audit plan is more detailed than the overall audit strategy. d. The overall audit strategy is more detailed than the overall audit plan."
16.	Audit evidence obtained through the performance of substantive procedures _____ the audit evidence obtained through tests of controls
	a. may contradict b. will contradict. c. will never contradict.
17.	Planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures.
	a. True b. False

8.	b	9.	a	10.	d	11.	a	12.	a	13.	b	14.	b	15.	a	16.	a	17.	a
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18.	The auditor cannot begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures. a. True b. False
19.	The auditor may not need to modify the overall audit strategy and audit plan due to: a. result of unexpected events. b. changes in conditions. c. Evidence obtained from results of audit procedures d. None of the above
20.	Determination of Characteristics of Audit falls under: a. Overall Audit Strategy b. Audit Plan c. Both of the above d. None of the above
21.	With the proper overall audit _____ quantity of resources can be effectively allocated. a. strategy b. plan c. masters d. blue print
22.	Which of the following shall not be considered in establishing the overall audit plan? a. The entity's timetable for reporting. b. Significant industry developments. c. Engagement budgeting. d. Which person should do physical verification
23.	The documentation of the _____ is a record of the key decisions considered necessary for making a proper _____ for audit a. overall audit strategy; plan. b. plan; overall audit strategy. c. blue print; game plan d. game plan / blue print
24.	Checklists is a part of audit a. plan b. strategy c. blue print d. game plan
25.	Record of nature, timing and extent of risk assessment procedures is a part of audit _____ a. Plan b. Strategy
26.	Choose the incorrect one: a. The audit strategy is prepared before the audit plan. b. The audit plan is prepared before the audit strategy c. Audit strategy is a broader term than audit plan. d. None of the above
27.	Choose the correct one a. Change in audit strategy would bring about a change in audit plan but change in audit plan would not bring a change in audit strategy. b. Change in audit plan would bring about a change in audit strategy but change in audit strategy would not bring a change in audit c. Change in audit plan would bring about a change in audit strategy and change in audit strategy would bring a change in audit plan. Both are interrelated. d. none of the above

18.	b	19.	d	20.	a	21.	a	22.	d	23.	a	24.	a	25.	a	26.	b	27.	C
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28.	Increase in nature, timing and extent of audit procedure is recommended _____
	a. in case materiality level is high b. in case materiality level is low c. at the judgement of management. d. experienced Audit Staff
29.	Decrease in nature, timing and extend of audit procedure is recommended _____
	a. in case materiality level is high b. in case materiality level is low c. at the judgement of management. d. Inexperienced Audit Staff
30.	An auditor determines lower level of materiality for a particular area, however the article assistant instead of being informed about the lower level of materiality did not perform the procedures carefully and did only test check on important areas. What will be its effect on detection risk?
	a. Detection risk will decrease b. Detection risk will increase c. No impact on detection risk d. None of the above
31.	An auditor determines higher level of materiality for a particular area, however the article assistant instead of being informed about the higher level of materiality performed detailed audit procedures. What will be its effect on detection risk?
	a. Detection risk will decrease b. Detection risk will increase c. No impact on detection risk d. None of the above
32.	Following is not a feature of an audit programme:
	a. Is Prepared to allocate work to team members b. Includes the list of audit procedures and instructions to be followed c. Estimates the duration for completing an audit task d. Tells us about what to do if management does not co-operate
33.	Identify the correct one: Audit programme should be developed taking into consideration the:
	a. Technical set-up of the company and accounting set-up of the company. b. Financial set-up of the company and accounting set-up of the company. c. Accounting set-up of the company, technical set-up of the company and financial set-up of the company. d. Technical set-up of the company and financial set-up of the company"
34.	To ensure a systematic approach to the work overall plan for the audit programme should be drawn up. If any divergence from the audit programme becomes necessary:
	a. The audit programme may be modified. b. First the overall plan should be modified thereafter the audit programme. c. First the audit programme should be modified thereafter audit strategy. d. None of the above.
35.	The framework provided by the overall plan should be strictly adhered to while drawing the audit programme.
	a. True. b. False
36.	If the auditor finds that there has been an extraordinary increase in the amount of book debts or that in the value of stocks as compared to that in the previous year which of the following has to be suitably altered and in which order:
	a. Audit programme and overall audit plan. b. Overall audit plan and audit programme. c. Audit plan and audit programme. d. Audit programme only

28.	b	29.	a	30.	b	31.	a	32.	d	33.	c	34.	b	35.	a	36.	b
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37.	SA 300 deals with – a. Audit planning. b. Identifying ROMM c. Audit engagement. d. None of the above.
38.	The audit plan is _____ detailed than the overall audit strategy. a. Less. b. More c. Equal. d. None of the above.
39.	Planning is a _____ process of audit. a. Discreet. b. Continuous. c. Both discreet and continuous d. None of the above
40.	Planning needs to consider – a. Determination of materiality. b. Analytical procedures to be applied as RAP. c. Obtaining understanding of the entity. d. All of the above
41.	If any modification is necessary in the audit programme – a. First the overall audit strategy needs to be modified, then the audit plan shall be modified. b. The audit programme cannot be modified. c. First the audit plan needs to be modified, then the overall audit programme shall be modified. d. None of the above
42.	Which shall not be involved in discussing the nature and timing of detailed audit procedures? a. Audit staff. b. Audit engagement partners. c. Key management personnel of the entity. d. Key members of audit engagement team
43.	The auditor shall undertake the following activities at the beginning of the current audit engagement except – a. Performing procedures required by SA 240. b. Acceptance and continuance procedure c. Evaluating compliance with ethical requirements as required by SA 220. d. Establishing an understanding of the terms of the engagement, as required by SA 210
44.	The auditor cannot begin the execution of further audit procedures for some classes of transactions, accounts balances and disclosures before planning all remaining further audit procedures. a. True. b. False. c. Cannot say. d. None of the above.
45.	The documentation of the _____ is a record of the key decisions considered necessary for making a proper _____ for audit. a. Blue print; game plan. b. Plan; overall audit strategy. c. Overall audit strategy; blue print. d. Overall audit strategy; plan
46.	Checklist is a part of audit _____ a. Game plan. b. Strategy. c. Plan. d. Report.

37.	a	38.	b	39.	b	40.	d	41.	a	42.	c	43.	a	44.	a	45.	d	46.	c
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47.	Record of nature, timing and extent of risk assessment procedures is a part of audit _____ a. Game plan. b. Strategy. c. Plan. d. Report.
48.	Business risk arises due to – a. External circumstances. b. Internal circumstances. c. Sometimes internal, sometimes external. d. None of the above
49.	Planning is _____ process of an audit 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. a. Continuous b. Discreet c. Neither continuous nor discreet.
50.	The auditor shall develop an audit plan that include a description of: a. The nature, timing and extent of planned risk assessment procedures. b. The nature, timing and extent of planned further audit procedures at the assertion level. c. Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. d. All of the above
51.	Planning should be made to cover, among other things: a. acquiring knowledge of the client's accounting system, policies and internal control procedures b. establishing the expected degree of reliance to be placed on internal control c. coordinating the work to be performed d. all of the above
52.	Which of the following is incorrect? a. In establishing the audit strategy, the auditor shall identify characteristics of the engagement that define its scope. b. The auditor shall develop an audit plan that shall include a description of the nature, timing and extent of risk assessment procedures and further audit procedures which are proposed to be performed. c. The auditor shall establish audit strategy on the basis of overall audit plan. d. The auditor shall update and change the audit strategy and audit plan as necessary during course of the audit.
53.	The overall audit strategy and the audit plan remain the _____ responsibility. a. Auditor's b. Management's c. Client's policy and procedure manual d. Discussion with client
54.	The methodology of audit planning is a. Not prescribed in any law b. Prescribed in Companies Act, 2013 c. Prescribed in Chartered Accountants Act, 1949 d. Prescribed by the appointing authority.
55.	_____ shall be involved in the planning of audit a. Engagement partner b. Other key members of engagement team c. Both (a) and (b) d. Either (a) or (b)
56.	Which of the following is incorrect w.r.t audit programme? a. An audit programme consists of a series of verification procedures to be applied. b. It is desirable in respect of each audit and more particularly for bigger audits an audit programme should be drawn up. c. An audit programme is a summarized plan d. There should be periodic review of the audit programme to assess whether the same continues

47.	c	48.	b	49.	a	50.	d	51.	d	52.	c	53.	a	54.		55.	c	56.	c
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57.	<p>Prior to commencing field work, an auditor usually discusses the general audit strategy with the client's management. Which of the following details do management and the auditor usually agree upon at this time?</p> <p>a. The specific matters to be included in the communication with the audit committee b. The minimum amount of misstatements that may be considered to be reportable conditions c. The schedules and analyses that the client's staff should prepare d. The effects that inadequate controls may have over the safeguarding of assets</p>
58.	<p>Which of the following is not a source of obtaining knowledge of client's business?</p> <p>a. Annual reports circulated among the shareholders b. Communication from previous auditor c. Client's policy and procedure manual d. Discussion with client</p>
59.	<p>Planning an audit involves</p> <p>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</p>
60.	<p>According to SA 300,</p> <p>a. planning is not a continual and iterative phase of an audit, but rather a discrete process b. planning is not a discrete phase of an audit, but rather a continual and iterative process c. planning is not continual and iterative process d. planning is not a discrete phase of an audit</p>
61.	<p>The auditor shall update and change _____ as necessary during the course of the audit.</p> <p>a. overall strategy b. the overall audit strategy and the audit plan c. audit plan d. audit program</p>
62.	<p>With reference to SA 300, the auditor shall document:</p> <p>a. The overall audit strategy b. The audit plan c. Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. d. All of the above</p>
63.	<p>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.</p> <p>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</p> <p>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</p>
64.	<p>M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus 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 Venus 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. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd. Based on the above facts, answer the following: -</p> <p>.....sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p> <p>a. Audit Programme b. Overall Audit Strategy c. Completion Memorandum d. Audit Plan</p>

57.	c	58.	b	59.	a	60.	b	61.	b	62.	d	63.	c	64.	b
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65.	When planning the audit,
	<ul style="list-style-type: none"> 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. c. 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
66.	Which of the following is true:
	<ul style="list-style-type: none"> a. The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit. b. The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation. c. In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement. d. All the above
67.	Preliminary engagement activities involve performing client continuance procedures & complying ethical requirements as per _____ and establishing an understanding of terms of engagement as per _____.
	<ul style="list-style-type: none"> a. Law ; Regulations b. SA 220 ; SA 210 c. SA 210 ; SA 220 d. Audit ; Law
68.	CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here?
	<ul style="list-style-type: none"> a. Static Review b. Mechanical Review c. Periodic Review d. Obsolete Review
69.	Which of the following statements is MOST APPROPRIATE?
	<ul style="list-style-type: none"> a. Audit programme is a detailed plan of audit strategy b. Audit programme cannot be reviewed c. Audit programme is a detailed plan of applying audit procedures d. Audit programme is relevant for year for which it is prepared, it is useless for subsequent years

65.	a	66.	d	67.	b	68.	c	69.	c
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SA 320

70.	<p>Identify the incorrect one:</p> <p>a. Misstatement are considered to be material if they are expected to influence the decision of the user.</p> <p>b. Misstatement are not considered to be immaterial if they are expected to influence the decision of the user.</p> <p>c. Misstatement are considered to be immaterial if they are expected to influence the decision of the user.</p> <p>d. Misstatement are considered to be immaterial if they are not expected to influence the decision of the user.</p>
71.	<p>Materiality is a matter of:</p> <p>a. Professional judgement</p> <p>b. Financial reporting framework may specify it</p> <p>c. Either of the above</p> <p>d. None of the above</p>
72.	<p>Identify the incorrect one:</p> <p>Judgement of the auditor regarding materiality depends on:</p> <p>a. Circumstances prevailing</p> <p>b. Common financial needs of the user as the group</p> <p>c. Individual financial needs of the user.</p> <p>d. It is not recommendatory that only Items of the financial statement should be considered for deciding the benchmark.</p>
73.	<p>Identify the correct one:</p> <p>While making judgement regarding materiality level:</p> <p>a. Individual needs are not given much importance as common financial needs of the user as a group.</p> <p>b. Common financial needs of the user as a group are not given much importance as individual needs.</p> <p>c. Individual needs are given equal importance as common financial needs of the user as a group.</p> <p>d. None of the above</p>
74.	<p>Identify the incorrect statement:</p> <p>Materiality is used in:</p> <p>a. Planning and performing the audit.</p> <p>b. Evaluating effect of identified misstatement on audit.</p> <p>c. Evaluating effect of uncorrected misstatement on financial statement.</p> <p>d. None of the above is incorrect</p>
75.	<p>A starting point which is chosen as a base and on which a percentage is applied to determine materiality for financial statement as a whole is known as :</p> <p>a. audit Plan</p> <p>b. benchmark</p> <p>c. volatility</p> <p>d. regression</p>
76.	<p>To determine materiality for financial statement as a whole a benchmark is selected, and a percentage is applied on that benchmark. There is _____ relationship between such benchmark and the percentage applied on it.</p> <p>a. Direct</p> <p>b. inverse</p> <p>c. straight</p> <p>d. absolute</p>
77.	<p>Identify the correct one:</p> <p>a. It is mandatory that only Items of the financial statement should be considered for deciding the benchmark.</p> <p>b. It is recommendatory that only Items of the financial statement should be considered for deciding the benchmark.</p> <p>c. It is not mandatory that only Items of the financial statement should be considered for deciding the benchmark.</p>
78.	<p>Identify the correct one:</p> <p>a. It is important that Items of the financial statement having low volatility should be considered for deciding the benchmark.</p> <p>b. It is important that Items of the financial statement having high volatility should be considered for deciding the benchmark.</p> <p>c. It is not mandatory to consider volatility at the time of selecting a benchmark</p> <p>d. None of the above</p>

70.	c	71.	c	72.	c	73.	a	74.	d	75.	b	76.	b	77.	a	78.	a
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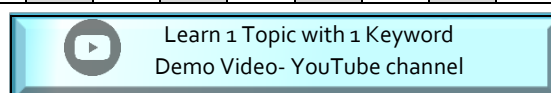
79.	<p>Profit of the company - Rs 10 crore Net Asset - Rs 50 crore Turnover - Rs 100 crore Auditor is considering selecting one of the options from above as benchmark to decide the materiality level for financial statement as a whole. Percentage that can be applied on benchmark is 5 %, 10 % and 2 %. Considering the relationship between benchmark and the percentage applied on it as per SA 320, determine the appropriate order of percentage to be applied for the above respective sequence of benchmark</p> <p>a. 10%, 2%, 5% b. 10%, 5%, 2% c. 5%, 10%, 2% d. 5%, 2%, 10%</p>
80.	<p>Identify the correct one:</p> <p>a. For specific area auditor can determine a lower level of materiality, if those area influence the user even at small level of misstatement. b. For specific area auditor can determine a higher level of materiality if those area influence the user even at small level of misstatement. c. For specific area auditor can determine a lower level of materiality if those area does not influence the user even at small level of misstatement. d. For specific area auditor can determine a higher level of materiality if those area impact the user even at lower level of misstatement</p>
81.	<p>Materiality level set by the auditor, which is less than materiality for financial statement as a whole or specific area level materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.</p> <p>a. Materiality for particular classes of transactions. b. Materiality for account balances or disclosures c. Performance materiality. d. None of the above.</p>
82.	<p>Identify the incorrect one:</p> <p>a. SA 320 permits revision of materiality. b. SA 320 does not permit revision of materiality. c. As per SA 320 materiality once decided can be revised d. None of the above</p>
83.	<p>SA 320 deals with –</p> <p>a. Materiality in planning and performing an audit. b. Audit Documentation. c. Audit Evidence. d. Audit Procedures.</p>
84.	<p>The purpose of the SA 320 is to determine –</p> <p>a. Sufficient and appropriate audit evidence. b. The level of materiality for audit planning or performance of audit procedures. c. Assess the risk of material misstatement. d. To obtain written representations from client's management</p>
85.	<p>Materiality is a / an -</p> <p>a. Relative term. b. Absolute. c. Both A & B. d. None of the above</p>
86.	<p>Materiality is an information that -</p> <p>a. Influences the decision of investors of the financial statement. b. Influences the decision of the employees. c. Influences the decision of the creditors. d. Influences the decision of the competitors.</p>

79.	b	80.	a	81.	c	82.	b	83.	a	84.	b	85.	a	86.	a
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87.	Material items are _____ in nature.
	<ul style="list-style-type: none"> a. Qualitative. b. Quantitative. c. Both A & B. d. None of the above.
88.	Materiality is checked generally while –
	<ul style="list-style-type: none"> a. Assessing the risk of misstatement. b. Gathering information for obtaining audit evidence. c. Selecting the samples for the purpose of testing. d. All of the above.
89.	Misstatement are considered to be material, if the affect the _____ decisions of the users of financial statements.
	<ul style="list-style-type: none"> a. Economic. b. Social. c. Personal. d. Both economic and non – economic
90.	Misstatements are considered material, if it is influencing the decision of the users of financial statements –
	<ul style="list-style-type: none"> a. Individually b. In aggregate. c. Individual, or in aggregate. d. None of the above.
91.	Determination of materiality level is a matter of –
	<ul style="list-style-type: none"> a. Professional Judgement. b. Professional Skepticism. c. Professional Conduct. d. Professional Ethics
92.	Determination of materiality level is affected by –
	<ul style="list-style-type: none"> a. Capital Structure of the entity. b. Financial information needs of the user of FS. c. Risk assessed by the auditor. d. All of the above
93.	The overall purpose for determination of materiality level –
	<ul style="list-style-type: none"> a. Determining nature, timing and extent of risk assessment procedures. b. Identification of risk of misstatement. c. Determining nature, timing and extent of further audit procedures. d. All of the above.
94.	What is performance materiality?
	<ul style="list-style-type: none"> a. Materiality levels for the performance of a specific sector of the business entity. b. Materiality levels for the performance for a specific period of the business entity. c. Materiality levels for a particular classes of transactions, accounts balances or disclosures. d. None of the above.
95.	Performance materiality level is set –
	<ul style="list-style-type: none"> a. Below the overall materiality level. b. At par with overall materiality level. c. Above the overall materiality level. d. It is unrelated with overall materiality level
96.	Performance materiality is set up to reduce the risk that –
	<ul style="list-style-type: none"> a. Uncorrected Misstatement + Undetected Misstatement > Overall Materiality. b. Corrected Misstatement + detected Misstatement > Overall Materiality. c. Misstatement below Rs.1 Crore. d. All of the above

87.	c	88.	d	89.	a	90.	c	91.	a	92.	b	93.	d	94.	c	95.	a	96.	a
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97.	<i>If an auditor finds out uncorrected misstatement in the financial statement and the management makes adjustments for the same, what should the auditor do then?</i> a. Express clear opinion. b. Verify the adjustment made by the management and express clear opinion on satisfaction. c. Express modified opinion. d. Report the same to those charged with governance.
98.	<i>If the management refuses to take action in case of any uncorrected misstatement identified by the auditor, the auditor shall</i> a. Express adverse opinion b. Communicate the same with management's reply to TCWG. c. Express qualified opinion. d. Express disclaimer of opinion as it is a limitation on the scope of auditing.
99.	<i>In case as in question 92 & 93 above, if TCWG also does not take any action, the auditor shall –</i> a. Express qualified opinion. b. Express adverse opinion. c. A or B, depending upon the effect of such misstatement. d. Disclaimer of opinion.
100.	<i>Materiality level is revised when there is –</i> a. Change in change in ownership structure. b. Change in change in the business environment. c. New information acquired during the performance of audit. d. All of the above.
101.	<i>What factors are considered for determining materiality?</i> a. Materiality depends on regulatory or legal consideration. b. Materiality may be determined individually or in aggregate. c. Materiality needs to be checked in terms of both quantitative and qualitative dimensions. d. All of the above.
102.	<i>The materiality of the item is based on its –</i> a. Significant impact at present. b. Significant impact in future only. c. Significant impact at present but if it is insignificant at present, but has significant impact in future. d. No relation with its impact.
103.	<i>The relationship between the materiality and audit risk is –</i> a. No relation. b. Inverse relationship. c. Direct relationship d. Cannot say.
104.	<i>The evidences required in support of material items need to be –</i> a. More reliable. b. Less reliable. c. Same as in case of other items. d. Cannot say
105.	<i>Material items as define under SA 320 are –</i> a. Relatively Important. b. Relevant. c. insignificant. d. Both A & B.
106.	<i>Material statements can affect financial statement, if such statements are –</i> a. Erroneously stated. b. Omitted to be stated. c. Both A & B. d. Cannot say

97.	b	98.	b	99.	c	100.	d	101.	d	102.	a	103.	b	104.	a	105.	d	106.	c
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107.	Choose the correct sentence – a. The concept of materiality is fundamental to accounting. b. Materiality covers all stages from recording to classification to presentation. c. Both A & B. d. Materiality is decided by the management.
108.	“Materiality in case of companies is fixed by Companies Act 2013” – Comment with example. a. False. It is always required to be determined by the auditor. b. True. It is always fixed by Companies Act 2013 in such cases. c. Partly true, as for some items, it is fixed by Companies Act 2013. For e.g. separate disclosure of expenditure items exceeding 1% of revenue from operations or Rs.100000, whichever is higher. d. All of the above.
109.	While doing the audit of T Ltd. an assistant of X & Co., Chartered Accountants detected an error of Rs.5 per interest payment which recurred number of times. The General Manager (Finance) of T Ltd. contented that the amount of error being very small on individual basis has no material effect on the financial statement and can be ignored. The company had 2000 deposit accounts and interest payment was made quarterly. Examine the study and answer whether the contention of the management is valid or not with proper explanation. a. Valid. The errors of such small amount can be ignored. b. Invalid. The auditor shall consider errors irrespective of their amount. c. Invalid. Aggregate of such misstatements may have material effect and needs to be adjusted. d. Cannot say
110.	Materiality is determined at – a. Planning stage b. After the assessment of risk c. Planning stage, but may be revised at later stage depending on further information gathered d. None of the above
111.	Standard on auditing dealing with the effect of identified misstatement on the nature, timing and extent of audit is – a. SA 330. b. SA 450. c. SA 540. d. SA 320.
112.	Match the corresponding. 1 – Performance of audit procedures. (a) – Completion Stage. 2 – Opinion on misstatement of financial statement. (b) – Planning Stage. 3 – Identification of risk and associated materiality. (c) – Execution Stage. a. 1 & (b), 2 & (a), 3 & (c). b. 1 & (c), 2 & (a), 3 & (b). c. 1 & (a), 2 & (c), 3 & (b). d. 1 & (c), 2 & (b), 3 & (a).
113.	The factors for of choosing a benchmark include – a. Element of the financial statements (i.e. assets, liabilities etc.). b. Knowledge of the client’s business and the industry and the environment in which it operates. c. Specific items that needs to be considered (for e.g. profit/loss for the financial performance). d. All of the above.
114.	Which of the following can be considered as the most appropriate benchmark for the profit – oriented entities? a. Profit before Taxation (PBT). b. EBIDTA. c. Total Assets. d. All of the above.
115.	In relation to the chosen benchmark, relevant financial data include – a. Prior period financial data and financial positions. b. Period – to – date financial data and financial results. c. Budgets or forecast for current period, adjusted for significant changes in the circumstances. d. All of the above.

107.	b	108.	c	109.	c	110.	c	111.	b	112.	b	113.	d	114.	a	115.	d
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116.	Materiality relates to –
	<ul style="list-style-type: none"> a. The financial reporting period. b. Previous reporting period. c. Twelve months. d. None of the above
117.	There is relationship between the percent applied on the chosen benchmark, such that the % applied to PBT is normally _____ than the % applied to revenue.
	<ul style="list-style-type: none"> a. Higher. b. Equal. c. Lower. d. No relation
118.	Overall materiality is determined at –
	<ul style="list-style-type: none"> a. Transactions recording level. b. Financial Statement level. c. Assertion level about accounts' balances. d. All of the above.
119.	A starting point which is chosen as a base on which a percentage is applied to determine materiality level for the financial statement as a whole is known as –
	<ul style="list-style-type: none"> a. Benchmark. b. Plan. c. Strategy. d. Volatility.
120.	While determining materiality of any item financial statements, the auditor considers
	<ul style="list-style-type: none"> a. Quantity of item b. Quality of item c. Legal or Regulatory consideration of item d. All of these
121.	Materiality in terms of amount or amounts set by the auditor for particular classes of transactions, account balances or disclosures is called as
	<ul style="list-style-type: none"> a. Materiality for financial statement as a whole b. Performance Materiality c. Item Materiality d. None of these
122.	Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
	<ul style="list-style-type: none"> a. Independence b. Professional judgement c. Professional skepticism d. All of the above
123.	In determining the level of materiality for an audit, what should not be considered?
	<ul style="list-style-type: none"> a. Prior year's errors b. The auditor's remuneration c. Adjusted interim financial statements d. Prior year's financial statements.
124.	_____ means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole: -
	<ul style="list-style-type: none"> a. Benchmark Materiality b. Materiality in Planning c. Performance Materiality d. Materiality.

116.	a	117.	a	118.	b	119.	a	120.	d	121.	b	122.	b	123.	b	124.	c
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125.	<p>Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements: -</p> <ol style="list-style-type: none"> Total Revenue Profit before tax Net Asset Value None of the above
126.	<p>One of your junior audit team members is confused with the term 'material misstatement'. You explain him that a material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement. Which of the following would constitute material misstatement?</p> <ol style="list-style-type: none"> An error of Rs.5,000 in relation to assets of Rs.20 lakhs. A payroll fraud of Rs.100 in a company where profit before tax is Rs.11,000. Non-disclosure of a material uncertainty. Financial statements have been prepared on a going concern basis when the company is in the process of being liquidated. <ol style="list-style-type: none"> 1 and 2 3 and 4 2 and 3 1 and 4
127.	<p>SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor</p> <ol style="list-style-type: none"> should not consider materiality and its relationship with audit risk while conducting an audit. should consider materiality and its relationship with audit risk while conducting an audit. should not consider materiality but should consider its relationship with audit risk while conducting an audit. should consider materiality but need not consider its relationship with audit risk while conducting an audit.
128.	<p>The concept of materiality is applied by the auditor:</p> <ol style="list-style-type: none"> in planning and performing the audit in evaluating the effect of identified misstatements on the audit both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit none of the above is correct
129.	<p>_____ the audit risk _____ The materiality and _____ the audit effort</p> <ol style="list-style-type: none"> Lower, Higher, Lower Lower, Lower, Higher Higher, Lower, Lower Lower, Higher, Higher
130.	<p>In determining the level of materiality for an audit, what should not be considered?</p> <ol style="list-style-type: none"> Prior year's errors The auditor's remuneration Adjusted interim financial statements Prior year's financial statements
131.	<p>The auditor considers not only the size but also the ____ of uncorrected misstatements, when evaluating their effects on financial statements.</p> <ol style="list-style-type: none"> Nature Quantity Quality Correctness
132.	<p>SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor</p> <ol style="list-style-type: none"> should not consider materiality and its relationship with audit risk while conducting an audit. should consider materiality and its relationship with audit risk while conducting an audit. should not consider materiality but should consider its relationship with audit risk while conducting an audit. should consider materiality but need not consider its relationship with audit risk while conducting an audit

125.	d	126.	b	127.	b	128.	c	129.	a	130.	b	131.	a	132.	b
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133.	_____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
	<ul style="list-style-type: none"> a. Audit Programme b. Overall Audit Strategy c. Completion Memorandum d. Audit Plan
134.	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are:
	<ul style="list-style-type: none"> a. management b. those charged with governance c. audit committee d. board of directors



133.	b	134.	b
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Case Studies

1.	<p><i>M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus 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 Venus 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. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.</i></p> <p>Based on the above facts, answer the following:-</p>
1.1.	<p>_____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p> <p>a. Audit Programme b. Overall Audit Strategy c. Completion Memorandum d. Audit Plan</p>
1.2.	<p>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.</p> <p>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</p> <p>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</p>
1.3.	<p>_____ means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-</p> <p>a. Benchmark Materiality b. Materiality in Planning c. Performance Materiality d. Materiality.</p>
1.4.	<p>Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-</p> <p>a. Total Revenue b. Profit before tax c. Net Asset Value d. None of the above</p>
1.5.	<p>1. Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work.</p> <p>2. Statements are issued by ICAI with a view to secure compliance by members on some matters.</p> <p>3. Guidance notes are recommendatory in nature.</p> <p>4. Statements are mandatory in nature.</p> <p>a. All the above statements are correct. b. Statements 1 & 2 are correct c. Statements 1, 2 & 3 are correct d. Statements 1,2 & 4 are correct</p>

1.1.	b	1.2.	a	1.3.	d	1.4.	b	1.5.	d
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2.	<p><i>Ravish and Co, a chartered accountancy firm, has been auditing the books of PQ groups of banks, from the past 6 years. Ravish and Co. has a good standing reputation as auditor and there are regular quality control activities performed by the firm's engagement partner. The recent weekly meeting of the firm's staff included discussions on each of the element of the firm's system of quality control as per SQC 1 and code of ethics as per SA 200.</i></p> <p><i>During the 7th year of audit, there have been some changes in the bank due to which the firm is considering revision of audit terms as per SA 210. Also, new laws and updates in the field of accounting makes the auditor feel that the financial reporting framework used by the bank is not acceptable as per law and is considering the impact of this on his audit report.</i></p> <p><i>Owing to the changes, Mr. Ravish instructs his articles to go through the audit programme once again and make necessary changes to it. He also reviews the audit plan developed for the bank.</i></p> <p><i>After the above exercise of re-planning and revision in terms of the engagement as per SA 210, Mr. Ravish and Co. carries on the audit of the 7th year and observes the following issues:</i></p> <p>a. <i>As per the Income Tax Act 1961, the banks are to report certain high value transactions to the department. On verification of certain records, the auditor suspects that there is non-compliance with the law and in his judgment; the effect of the suspected non-compliance may be material to the financial statements. On discussion with management, he does not get sufficient information supportive that the bank is in compliance with the law.</i></p> <p>b. <i>The management of the bank shows recent investigation reports by external authorities to the auditor wherein red flags have been raised in the internal control system of the bank. The management blames the auditor that he has not audited the entity's internal system correctly and threatens to hold the auditor responsible for the same.</i></p> <p><i>Considering the above facts, answer the following questions by choosing the correct answer.</i></p>
2.1.	<p>Which among the following is NOT an element of firm's system of quality control?</p> <p>a. Ethical Requirements b. Acceptance and continuance of client relationships and specific engagements c. Engagement review d. Monitoring</p>
2.2.	<p>When conducting an audit of financial statement, which of the following is NOT a fundamental principle of professional ethics?</p> <p>a. Integrity b. Professional Skepticism c. Confidentiality d. Objectivity</p>
2.3.	<p>Which of the following statement is incorrect considering the context of revision in audit terms as per SA 210?</p> <p>a. Indication that the entity has misunderstood the objective and scope of the audit b. A significant change in ownership of the bank c. A change in legal or regulatory requirements d. Significant change in the audit team</p>
2.4.	<p>The auditor has found that the financial reporting framework provided by law or regulation is unacceptable. What should be the impact of this on his report?</p> <p>a. Issue an adverse opinion owing to unacceptable financial reporting framework b. Include an "Emphasis of Matter Paragraph" drawing user's attention to additional disclosures other than those as per law. c. Include an "Other Matter paragraph" drawing user's attention to additional disclosure other than those as per law. d. No need of any mention in report as law or regulation has prescribed the framework and law holds highest authority.</p>
2.5.	<p>Which among the following best defines an Audit Programme?</p> <p>a. An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements. b. An audit programme is a statement containing the details of the hours worked, work done and output achieved by the staff of the audit firm used by the principal for review purpose c. An audit programme is a checklist developed by the audit firm covering verification aspects which are common to clients handled by the audit firm. d. An audit programme is the policies and procedures adopted by the company for ensuring orderly and efficient conduct of audit, including timely provision of records to auditors and prompt response to audit queries.</p>

2.1.	c	2.2.	b	2.3.	d	2.4.	b	2.5.	a
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