



CA Inter Audit Test-3 (Ch-2)

Time: 1 Hour

Marks: 30 Marks

Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

MCQs [10 Marks (5Q * 2 Marks each)]

1. Which of following is false regarding nature of audit planning?

- Planning is not a distinct phase of audit.
- Engagement team members are not involved in audit planning.
- Elements of planning may be discussed by auditor with company's management.
- Planning includes need to consider determination of materiality.

2. **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.

- only Statement 1 is correct
- Only Statement 2 is correct
- Both Statements 1 & 2 are correct
- Both Statements 1 & 2 are incorrect

3. CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?

- Verification of turnover of company
- Verification of cost of raw material consumed
- Examination of company's accounting policy for revenue recognition
- Verification of contract notes with brokers

4. **RDB & Co. have been appointed as statutory auditors of INA Group of Hotels. This is the first time the firm is auditing an industry in food & beverage. The engagement partner, CA R, and other key members of the engagement team have undertaken the activity of development of an audit plan of INA Hotels after thorough understanding the Hotel's business and its environment.**

As per SA 300, description of which of the following matters is not a part of developing an audit plan?

- The nature, timing and extent of planned risk assessment procedure.
- The nature, timing and extent of planned further audit procedures at assertion level.
- The nature, timing and extent of resources necessary to perform the engagement.



- d) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

5. Keswani & Co, Chartered Accountants firm got an assignment of statutory audit for 3 years of Daksh LLP. The first year of audit was FY 2021-22. During the first and second year of audit, Keswani & Co devised an audit plan for Daksh LLP and did not prepare an audit plan for FY 2023-24. Kindly state which of the following statement is true in the above context.

- a) Keswani & Co need not prepare the audit plan for FY 2023-24 because the audit plan is already prepared in the first year of audit.
- b) Keswani & Co need not prepare the audit plan for FY 2023-24 since it is recurring audit.
- c) Keswani & Co should prepare the audit plan for FY 2023-24 because planning is not a discrete phase of an audit, but rather a continual and iterative process.
- d) Keswani & Co need not prepare the audit plan for FY 2023-24 because the audit plan is prepared for two years of audit.

Descriptive Questions [20 Marks]

1. It is important for auditor to identify scope of the engagement. Only a well identified scope can lead to establishment of a sound audit strategy. There are many characteristics of engagement defining its scope. Explain with examples.

[3M]

2. Bijli and Chingari Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Magnet 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. Analyse and advise explaining the benefits of adequate planning.

[3M]

3. 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.

[4M]

4. Ajay has recently joined an audit firm as an articled clerk. He was in process of assembling audit working papers in audit file of Cop Limited, as per the instructions of his senior. While assembling, he noticed following working paper in audit file: -

Timing of Audit Activities

Activity	Expected Timing
Audit Planning	July 1, 2023 - July 5, 2023
Audit Field Work	July 10, 2023 - August 20, 2023
Review by Manager	August 21, 2023
Review by Engagement Partner	August 22, 2023 - August 25, 2023
Review by EQCR	August 26, 2023 - August 27, 2023
Response on Audit Memo	August 28, 2023



Review by Partners – internally post response on audit memo	August 29, 2023
Review by EQCR	August 30, 2023
Finalization of Audit Report and Financial Statements	September 01, 2023 - September 02, 2023
Issuance of Audit Report and Financial Statements	September 03, 2023

The above working paper lists certain factors which are considered by the auditor while establishing audit strategy. Explain how these considerations highlighted in above working paper could have helped the auditor?
[4M]

5. Auditor shall develop an audit plan that includes description of audit procedures. Specify requirements in this regard.
[3M]

6. Audit programme is a list of examination and verification steps to be applied and set out in such a way that the inter-relationship of one step to another is clearly shown and designed, keeping in view the assertions apparent in the statements of account produced for audit or based on an appraisal of the accounting records of the client. For example, while auditing a company's inventory, the program may include steps to verify physical stock counts, ownership rights, and valuation. What are the advantages of an audit programme?
[3M]