



# CA INTERMEDIATE

## SUBJECT- AUDIT

Test Code – **CIM 8471**

(Date :)

(Marks - 50)

### TOPIC: Audit Strategy, Audit Planning and Audit Programme, Audit Documentation and Audit Evidence, Risk Assessment and Internal Control

#### QUESTION 1 MULTIPLE CHOICE QUESTIONS

(1\*4 = 4 MARKS)

1. Planning an audit involves establishing the overall audit strategy for the engagement and
  - (a) developing an audit plan.
  - (b) developing an audit program
  - (c) developing detailed strategy
  - (d) any of the above
2. Audit documentation provides:
  - (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
  - (b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
  - (c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
  - (d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
3. Audit risk is a function of the
  - (a) risks of material misstatement and detection risk.
  - (b) audit risk and detection risk.
  - (c) control risk and detection risk.
  - (d) inherent risk and detection risk.
4. Audit evidence is necessary to support the auditor's opinion and report. It is \_\_\_\_\_ in nature and is primarily obtained from audit procedures performed during the course of the audit.
  - (a) Cumulative
  - (b) regressive
  - (c) selective
  - (d) objective

#### QUESTION 2 MULTIPLE CHOICE QUESTIONS

(2\*3 = 6 MARKS)

1. The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2017-18. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To

facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?

- (a) Are authorized signatories for purchases limited to elected officials?
  - (b) Are payments approved only on original invoices?
  - (c) Does authorized officials thoroughly review the documents before signing cheques?
  - (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?
2. You are at the planning stage for one of your firm's client XYZ Bank for the year ended 31 March 2018. The bank is a commercial bank that provides a number of products and services to the general public and other segments of the economy in the area of South Mumbai. You are assigned the audit of one of the branches of XYZ Bank. The audit engagement team was called to have a detailed discussion on the following matters. Which one of the following should not be included in the discussion for the audit of banks?
- (a) Discuss on the error of last year in the application of accounting policies of the bank.
  - (b) Discuss on the method of fraud if any perpetrated by the bank employee within particular balances and/or disclosures
  - (c) Discuss with the team the appointment and remuneration to be received on this bank audit.
  - (d) Discuss the effect of the results of the risk assessment procedures on other aspects to decide the nature, timing and extent of further audit procedures.
3. Which of the following is correct :
- (a) The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (b) The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (c) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements

**QUESTION 3 (A)**

**(6 MARKS)**

Auditing is a logical process. An auditor is called upon to assess the actualities of the situation, review the statements of account and give an expert opinion about the truth and fairness of such accounts. This he cannot do unless he has examined the financial statements objectively. He needs evidence to obtain information for arriving at his judgment. Discuss explaining clearly the detailed meaning of audit evidence.

**QUESTION 3 (B)****(4 MARKS)**

Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Discuss stating the factors that may affect the identification of an appropriate benchmark.

**QUESTION 4(A)****(6 MARKS)**

As part of the risk assessment, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk.

In exercising judgment as to which risks are significant risks, state the factors which shall be considered by the auditor.

Explain the above in context of SA-315.

**QUESTION 4(B)****(4 MARKS)**

Explain the benefits of planning in the audit of financial statements.

**QUESTION 5 (A)****(4 MARKS)**

The form, content and extent of audit documentation depend on factors such as the size and complexity of the entity, the nature of the audit procedures to be performed etc.

Explain in detail.

**QUESTION 5 (B)****(3 MARKS)**

The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement". Explain.

**QUESTION 5 (C)****(3 MARKS)**

Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain.

**QUESTION 6 (A)****(4 MARKS)**

A Flow Chart is a graphic presentation of each part of the company's system of internal control. Explain elaborating each and every aspect about flow chart.

**QUESTION 6 (B)****(3 MARKS)**

Explain clearly objective of the auditor regarding written representation.

**QUESTION 6 (C)****(3 MARKS)**

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. Explain