



ICAI Refresher Course

Audit planning and documentation

**Multiple choice question and case
studies**

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M C Q

1. Which of the below are required in an engagement letter?

- a) Management responsibilities
- b) Auditor's responsibilities
- c) Objective and scope of audit
- d) Reference to the expected form and content of reports to be issued
- e) Identification of applicable reporting framework
- f) All of the above



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2. The audit engagement letter, generally, should include a reference to each of the following except

- a) limitations of auditing
- b) responsibilities of management with respect to audit work
- c) expectation of receiving a written management representation letter.
- d) a description of the auditor's method of sample selection.**



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- 3. The use of an audit engagement letter is the best method of documenting**
- i. the required communication of significant deficiencies in internal control**
 - ii. significantly higher control risk than that assessed in prior audit.**
 - iii. Objective and scope of auditor's work**
 - iv. Notification of any changes in the original arrangements of the audit.**
- a) (i) and (ii)**
 - b) (i) and (iii)**
 - c) (ii) and (iv)**
 - d) (iii) and (iv)**



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4. An auditor obtains knowledge about a new client's business and its industry to

a) Make constructive suggestions concerning improvements to the client's internal control system.

b) Evaluate the appropriateness of audit evidence obtained

c) Understand the events and transactions that may have an effect on client's financial statements.

d) All of the above



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5. Which of the following best describes the primary purpose of audit programme preparation?

a) To detect errors or fraud.

b) To comply with GAAP

c) To gather sufficient appropriate evidence

d) To assess audit risk



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6. Knowledge of the entity's business does not help the auditor to

a) reduce inherent risk

b) identify problem areas

c) evaluate reasonableness of estimates

d) evaluate appropriates of GAAP.



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7. This involves developing an overall strategy for the expected conduct and scope of the examination; the nature, extent, and timing of which vary with the size and complexity, and experience with and knowledge of the entity.

- a) Audit planning
- b) Audit procedure
- c) Audit program
- d) Audit working papers



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8. Which of the following primary assertions is satisfied when an auditor observes the entity's physical count of inventory?

- a) Valuation.
- b) Completeness.
- c) Existence.**
- d) Rights and obligations



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9. “Performance materiality” is the term used to indicate materiality at the:

- a) balance sheet level
- b) account balance level
- c) income statement level
- d) company-wide level



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10. One of the main objectives of performing analytical procedures during the planning phase of the audit is to identify:
- a) Transactions that have not been properly authorized.
 - b) Non-compliance with laws undetected as a result of poor internal controls.
 - c) Inefficient operations.
 - d) Unusual changes that may signal possible account misstatements



M C Q Slide 11

11. In developing the overall audit plan and audit program, the auditor should assess inherent risk

at the:
Audit plan

Audit program

a) Financial statement level &

b) Account balance level &

c) Account balance level &

d) Financial statement level &

a) Accounting balance level

b) Financial statement level

c) Account balance level

d) Financial statement level



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12. An auditor should design the written audit program so that

- a) All material transactions will be selected for substantive testing
- b) Substantive tests prior to the balance sheet date will be minimized.
- c) The audit procedures selected will achieve specific audit objectives.**
- d) Each account balance will be tested under either tests of controls or tests of transactions.



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13. Which of the following matters would least likely appear in the audit program?

- a) Specific procedures that will be performed.
- b) Specific audit objectives.
- c) Estimated time that will be spent in performing certain procedures.
- d) Documentation of the accounting and internal control systems being reviewed**



M C Q

14. Which of the following is not an advantage of the preparation of working paper?

- a) To provide a basis for review of audit work
- b) To provide a basis for subsequent audits
- c) To ensure audit work is being carried out as per programme
- d) To provide a guide for advising another client on similar issues



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15. The auditor's permanent working paper file should not normally, include

a) extracts from client's bank statements

b) past year's financial statements

c) attorney's letters

d) debt agreements





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16. Which of the following factors would least likely affect the quantity and content of an auditor's working papers

- a) The assessed level of control risk
- b) The possibility of peer review
- c) The nature of auditor's report
- d) The content of management representation letter**



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17. Which of the following statement is true regarding an auditor's working papers?

- a) They document the level of independence maintained by the auditor
- b) They should be considered as the principle support for the auditor's report**
- c) They should not contain details regarding weaknesses in the internal control system
- d) They help the auditor to monitor the effectiveness of the audit firm's quality control



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18. Which of the following statement best describes the understanding with respect to ownership and custody of working papers prepared by an auditor?

- a) The working papers may be obtained by third parties when they appear to be relevant to issues raised in litigation
- b) The safe custody of working papers is the responsibility of client, if kept at his premises
- c) The working papers must be retained by an audit firm for a period of 10 years
- d) Successor auditors may have access to working papers of the predecessor auditors. The approval of client is not required.



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19. When an independent auditor relies on the work of an internal auditor, he or she should
- a) examine the scope of internal auditor's work
 - b) examine the system of supervising review and documentation of internal auditor's work
 - c) adequacy of related audit programme
 - d) all of the above



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20. Analytical procedures issued in the planning stage of an audit, generally _____.

- a) helps to determine the nature, timing and extent of other audit procedures.
- b) directs attention to potential risk areas.
- c) indicate important aspects of business.
- d) all of the above.



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21. An example of an external document that provides reliable information for the auditor is:

- a) employees time reports.
- b) bank statements.**
- c) purchase order for company purchases.
- d) carbon copies of checks.





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22. Which of the following best describes one of the primary objectives of audit documentation?
- a) Defend against claims of a deficient audit.
 - b) Provide a principal support for the income taxation return.
 - c) Provide documentation that the audit was conducted in accordance with auditing standards.**
 - d) Provide additional support or recorded amounts to the client.



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23. External auditors must obtain evidence regarding what attributes of an internal audit department if the external auditors intend to rely on internal auditor's work?

- a) Integrity
- b) Objectivity
- c) Competence**
- d) All of the above





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24. Which of the following is not true of working papers?

- a) They provide proof of the correctness of the financial statements.**
- b) They are a direct aid in the planning of the audit.
- c) They assist in review of the audit work.
- d) They record the audit evidence to provide support for the auditor's opinion.



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25. The working papers should contain information on planning the audit work; the nature, timing and extent of the audit procedures performed; _____; and the conclusions drawn leading to an opinion.

- a) The auditor's opinion of management.**
- b) The results of the audit procedures.**
- c) Names of employees who cooperated with the audit.**
- d) All gratuities received by the auditors.**



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26. The extent of what is included in working papers is:

- a) A matter of professional judgement.
- b) Determined by each staff auditor.
- c) Thoroughly specified in SAs.
- d) Thoroughly specified in code of ethics.



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27. A current audit file would always contain which of the following?

- a) Company documents such as corporate charter or articles of association and corporate bylaws.
- b) Loan agreements, pension plans, agreements with parent company and subsidiaries.
- c) Prior year analysis of fixed assets, long-term debt, and terms of stock and bond issues.
- d) A record of the nature, timing and extent of audit procedures performed and the results of such procedures.**



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28. Which of the following presumptions is correct regarding the reliability of audit evidence?

a) To be reliable, evidence should be convincing rather than simply persuasive.

b) Information obtained directly from outside sources is considered to be the most reliable type of evidence.

c) An effective internal control system provides increased assurance with regard to the reliability of audit evidence.

d) Reliability generally refers to the amount and relevance of corroborative audit evidence



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30. According to the reliability hierarchy by evidence type, an example of audit evidence with a low level of reliability is:

- a) Re performance.
- b) Inspection.
- c) Observation.
- d) Analytical procedures.





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31. An audit document that reflects the major components of an amount reported in the financial statements is referred to as a(n)

- a) Lead schedule.
- b) Supporting schedule.
- c) Audit control account.
- d) Working trial balance.





M C Q

32. The main advantage of using statistical sampling techniques is that such techniques:

- a) mathematically measure risk
- b) eliminate the need for judgmental sampling
- c) defines the values of tolerable error
- d) all of the them.





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33. Which of the following methods of sample selection is least suitable for extrapolating results to the population?

a) Systematic sampling

b) Random sampling

c) Haphazard sampling

d) None



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34. Audit sampling for substantive tests is appropriate when

- a) Analytical procedures are used
- b) The auditor wants to eliminate sampling risks
- c) A population contains small number of large value items**
- d) Tests of details are performed



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35. SA 530 identifies two general approaches to audit sampling. They are

- a) Random & nonrandom
- b) Statistical & nonstatistical**
- c) Precision & reliability
- d) Risk and nonrisk





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36. Principal methods of sampling selection include all of the following except

- a) Haphazard
- b) Random number
- c) Systematic
- d) Statistical





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37. A sample in which every possible combination of items in the population has a chance of constituting the sample is a

a) Representative sample

b) Random sample

c) Statistical sample

d) Judgment sample





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38. Statistical samples do not allow

a) more efficient samples

b) Measurement of sample reliability

c) Replacement of the auditor's professional judgment

d) Measurement of sample risk



M C Q

39. The sequence of steps in the auditor's consideration of internal control is as follows –

- a) Obtain an understanding, design substantive test, perform tests of control, make a preliminary assessment of control risk
- b) Design substantive tests, obtain an understanding, perform tests of control, make a preliminary assessment of control risk**
- c) Obtain an understanding, make a preliminary assessment of control risk, perform tests of control, design substantive procedures.
- d) Perform tests of control, obtain and understanding, make a preliminary assessment of control risk,



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40. Which of the following is not an inherent limitation of internal control system?

- a) Management override
- b) Collusion among employees
- c) Inefficiency of internal auditor
- d) Abuse of authority





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41. An auditor should study and evaluate internal controls to

- a) determine whether assets are safeguarded
- b) Suggest improvements in internal control**
- c) Plan audit procedures
- d) express and opinion



M C Q

42. The primary purpose of performing tests of control is to provide reasonable assurance that_

- a) there are no material misstatements due to fraud or error in financial statement
- b) accounting system is well documented
- c) Written evidence is there to support transactions
- d) if internal control is effective**



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43. The primary responsibility for establishing and maintaining an internal control rests with

a) The external auditors

b) The internal auditors

c) Management and those charged with governance

d) The controller or the treasurer



M C Q

44. A procedure designed to test for monetary misstatements directly affecting the validity of the financial statement balances is a:

- a) Test of controls
- b) Substantive test**
- c) Test of attributes
- d) Monetary-unit sampling test



M C Q

45. Which of the following is not one of the general principles governing the audit of financial statements?

- a) The auditor should plan and perform the audit with an attitude of professional skepticism.
- b) The auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedure to be able to draw reasonable conclusions.
- c) The auditor should conduct the audit in accordance with S
- d) The auditor should comply with the Code of



M C Q

46. Each of the following is a main purpose for performing audit procedures except:

- a) To obtain an understanding of the entity and its environment.
- b) To test the operating effectiveness of controls.
- c) To develop recommendations for the control system.**
- d) To detect material misstatements in the financial statements.



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47. In which of the following situations would a practitioner's independence be considered impaired according to Code of Ethics?

- i. The practitioner has a car loan from a bank that is an audit entity. The loan was made under the same terms available to all customers.
 - ii. The practitioner has a direct financial interest in an audit entity, but the interest is maintained in a blind trust.
 - iii. The practitioner owns a commercial building and leases it to an audit entity. The rental income is material to the practitioner
- a. (i) and (ii)
 - b. (ii) and (iii)
 - c. (i) and (iii)



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48. For which of the following services is an auditor not required to be independent?

- a) Financial statement audits.
- b) Financial statement reviews.
- c) Any assurance service.
- d) A compilation of financial statements**



M C Q

49. Which of the following is not an element of a system quality control as defined by SQC 1?

- a) Monitoring.
- b) Human resources.
- c) Reliability.
- d) Engagement performance





M C Q

50. A practitioner is aware that a client has 'skimmed' unrecorded cash receipts and thus not reported them to the tax authorities. If the practitioner signs the entity's tax return after preparing the return, he/she would be violating which fundamental principle(s) of Code of Ethics?

- a) Confidentiality.
- b) Integrity and Objectivity.**
- c) Independence.
- d) Professional Competence and Due Care.



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51. One of a practitioner firm's basic objectives is to provide professional services that conform with professional standards. Reasonable assurance of achieving this basic objective is provided through

- a) A system of quality control.
- b) A system of peer review.
- c) Continuing professional education.
- d) Compliance with reporting standards.



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52. Which of the following is not a quality control consideration on accepting a new client?

- a) Availability of audit assistants with necessary skill and competence.
- b) Provision of other services to the client which may impair independence
- c) Predecessor auditor's advice as to whether audit fees were paid promptly**
- d) Review of audit work done by one partner by the other



Thank you