

INTER COURSE: GROUP II
PAPER-5: AUDITING AND ETHICS

(MTP 3: Ch. 2 – Audit Strategy, Planning and Programme)

Time Allowed- 20 Minutes

Maximum Marks-10

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

1. CA Ritu, audit partner of M/s KR & Co., is auditing the consolidated financial statements of Monarch Enterprises Ltd., which has three subsidiaries. One of the subsidiaries, Monarch Solar LLP, is audited by another firm located in Gujarat.

During audit planning, Ritu decides to obtain an understanding of the competence and independence of that component auditor, review their audit plan, and decide the extent of reliance she can place on their work.

Simultaneously, Monarch's management informs her that an independent engineer has been appointed to value specialized solar equipment.

Which of the following actions by Ritu MOST APPROPRIATELY represents sound audit planning under SA 300 in such a situation?

- (a) Ritu should treat the component auditor's work as that of her own team, relying on it without separate evaluation to avoid duplication of effort, since both are Chartered Accountants.
- (b) Ritu should coordinate with the component auditor to understand the scope and timing of their work and evaluate their competence and independence before deciding the extent of reliance to place; she should also consider involving the engineer's valuation report as part of her audit evidence.
- (c) Ritu should ignore the component auditor's plan and perform a complete re-audit of that subsidiary, as group auditors cannot rely on any external auditor's work under professional standards.
- (d) Ritu should accept the expert's report without additional audit procedures, because the expert is appointed by management and is responsible for the accuracy of valuation figures.

Case Scenario [MCQ 2-5]

TechNova Appliances Ltd. (TAL) is a mid-sized manufacturer of electrical kitchen appliances headquartered in Hyderabad. The company has three production units located in Telangana, Gujarat, and Tamil Nadu, and over 300 dealers across India. For the financial year 2024 - 25, TAL's turnover touched ₹480 crore, but the company's profitability dipped due to rising input costs and an ongoing product recall issue for one of its blenders.

TAL appointed M/s KKR & Co., Chartered Accountants, as its statutory auditors for the first time, replacing the previous auditor after six years of service. The engagement partner, CA Raghav, decided to begin the planning phase immediately after accepting the appointment. Before accepting the audit, he verified the integrity of the promoters, the independence of his firm, and potential conflicts of interest due to other engagements. He also corresponded with the outgoing auditor and documented the communication and responses received.

During initial meetings with the management, Raghav noted that the company had recently implemented a new ERP system for inventory and production costing. He was also informed that the company's Gujarat plant had faced a minor fire accident in February, leading to insurance claims still under process. Recognizing the need for technical evaluation of loss estimates, Raghav considered engaging an independent valuation expert to assess the damaged stock.

To ensure an effective audit, Raghav and his team formulated an overall audit strategy. They considered factors such as:

- The multiple branch locations of the company.
- The nature and complexity of the ERP migration.
- The reporting deadlines set by the management.
- Coordination required with internal auditors and an IT expert.

Based on this, the audit team drafted a detailed audit plan, identifying specific risk areas like inventory valuation, warranty provisions, and recognition of insurance claims. The plan also specified the nature, timing, and extent of risk assessment procedures and further audit procedures to be carried out at different branches. Raghav ensured that the plan remained flexible, noting that "if new evidence or conditions emerge, we'll revisit our audit plan accordingly."

As audit execution began, assistants were provided with a structured audit programme, listing detailed procedures to be followed — for instance, reconciliation of goods received notes with purchase invoices, physical verification of inventory, testing ERP controls, and verifying warranty provisions on a sample basis. Each assistant was required to sign off after completing procedures to ensure accountability.

During the audit, one assistant observed discrepancies in the scrap sales recorded in the Gujarat plant. These sales were not covered in the programme. He initially ignored the issue, believing it was beyond his assigned scope. However, during supervision, Raghav emphasized that the audit programme should be followed with professional skepticism, not mechanically — assistants must remain alert to significant matters outside listed instructions. The team then extended procedures and found that some scrap sales were unrecorded, requiring correction entries by the company.

As the audit neared completion, new information emerged: the insurance company had partially rejected a claim for the fire loss. Accordingly, Raghav revised the audit plan to perform additional procedures on impairment and disclosure. All changes to the plan and reasons were documented in the audit working papers, along with supervision notes and review comments.

Finally, at the closing meeting, management complimented the audit team's systematic approach. Raghav summarized:

“Planning an audit is not just a phase—it's a continuous process. The audit strategy gives direction, the plan provides the road map, and the audit programme ensures execution discipline.”

2. Before accepting the audit, Raghav evaluated the integrity of promoters, verified independence, and communicated with the outgoing auditor. These steps MOST APPROPRIATELY relate to:
 - (a) Establishing the overall audit strategy, which defines the scope and direction of the audit engagement.
 - (b) Conducting preliminary engagement activities, which include evaluating ethical compliance and client continuance.
 - (c) Performing risk assessment procedures, as these help the auditor identify areas of potential misstatement.
 - (d) Developing the audit plan, as these activities form part of determining the timing and nature of audit procedures.
3. Raghav considered branch locations, ERP migration, and reporting timelines while determining how to allocate resources and schedule team briefings. Which of the following BEST explains what Raghav was doing?
 - (a) He was establishing the overall audit strategy, as he was determining scope, timing, direction, and allocation of resources.
 - (b) He was developing the audit plan, since he was detailing specific risk assessment and further audit procedures.
 - (c) He was performing planning supervision, as he was monitoring assistants during fieldwork.

- (d) He was constructing an audit programme, as he was listing specific verification steps for each transaction class.
4. An assistant ignored discrepancies in scrap sales as they were not listed in the audit programme. Raghav emphasized that audit programmes must be applied with professional skepticism and open-mindedness. Which of the following statements MOST ACCURATELY reflects the correct approach?
- (a) Assistants must strictly adhere to the audit programme, performing only listed procedures, as deviation may impair audit consistency.
- (b) Audit programmes are designed to provide standardization, and assistants should not modify or question them.
- (c) Audit programmes should be applied with flexibility, encouraging assistants to report significant matters not specifically listed in the instructions.
- (d) The audit programme should be treated as rigid documentation, since periodic review is unnecessary once prepared.
5. When the insurance claim was partially rejected, Raghav revised audit procedures and documented the change. As per SA 300, which of the following BEST describes this responsibility?
- (a) The auditor shall update and revise the audit strategy and plan as necessary, but documentation of such changes is optional.
- (b) The auditor shall document the overall audit strategy, audit plan, and significant changes, including reasons for revisions.
- (c) The auditor shall document only material misstatements detected, since audit planning is a continuous process.
- (d) Once the audit plan is finalized, no change should be made, as it may impair audit evidence consistency.

CA Inter – Auditing and Ethics

MCQ – Mock Test Series 1: Nov. 2025

Detailed Schedule of MCQ Test Series – Nov. 2025

Date	Day	Topic	MCQ Style	Marks
6 Nov.	Wed.	Ch. 1 - Nature, Objective and Scope of Audit	1 Case Study with 4 MCQ + 1 General MCQ	10
7 Nov.	Thu.	Ch. 11 - Ethics and Terms of Audit Engagements		10
8 Nov.	Fri.	Ch. 2 - Audit Strategy, Planning & Programme		10
9 Nov.	Sat.	Module Test - Ch. 1, 2 and 11	3 Case Studies comprising 12 MCQs + 3 MCQs	30
10 Nov.	Mon.	Ch. 3 - Risk Assessment and Internal Control	1 Case Study with 4 MCQ + 1 General MCQ	10
12 Nov.	Wed	Ch. 4 - Audit Evidence		10
14 Nov.	Fri.	Ch. 6 - Audit Documentation		10
15 Nov.	Sat.	Module Test - Ch. 3, 4 and 6	3 Case Studies comprising 12 MCQs + 3 MCQs	30
17 Nov.	Mon.	Ch. 5 - Audit of Items of Financial Statements	1 Case Study with 4 MCQ + 1 General MCQ	10
19 Nov.	Wed	Ch. 7 - Completion and Review		10
22 Nov.	Sat.	Module Test - Ch. 5 and 7	3 Case Studies comprising 12 MCQs + 3 MCQs	30
24 Nov.	Mon.	Ch. 8 - Reporting	1 Case Study with 4 MCQ + 1 General MCQ	10
26 Nov.	Wed	Ch. 9 - Audit of Different Types of Entities		10
28 Nov.	Fri.	Ch. 10 - Audit of Banks		10
29 Nov.	Sat.	Module Test - Ch. 8, 9 and 10	3 Case Studies comprising 12 MCQs + 3 MCQs	30

**Note: Test Papers and Answer Key will be uploaded
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MTP No.	Chapter No. and Name	Date of Test
1	Ch. 1 - Nature, Objective and Scope of Audit	26 Nov. 2025
	Ch. 11 - Ethics and Terms of Audit Engagements	
2	Ch. 2 - Audit strategy, Planning and Programme	29 Nov. 2025
	Ch. 3 - Risk Assessment and Internal Control	
3	Ch. 4 - Audit evidence	03 Dec. 2025
	Ch. 6 - Audit Documentation	
4	Ch. 5 - Audit of Items of Financial Statements	06 Dec. 2025
5	Ch. 7 - Completion and Review	10 Dec. 2025
	Ch. 8 - Audit Report	
6	Ch. 9 - Sp. features of Audit of Different Entities	13 Dec. 2025
	Ch. 10 - Audit of Banks	
7	Full Syllabus Test	17 Dec. 2025
8	Full Syllabus Test	24 Dec. 2025

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		Class Notes (Coloured Book)	2nd Edition (Oct. 2025)	995	749	
		Cracker – (Vol 1 & Vol 2)	17th Edition (Oct. 2025)	1195	855	
CA Inter	Corporate & Other Laws	Cracker – (Vol 1 & Vol 2)	6th Edition (Oct. 2025)	1225	855	
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