CHAPTER 3

Risk Assessment and Internal Control

MULTIPLE CHOICE QUESTIONS

1. What is audit risk?
(*a*) The risk of financial statements being materially misstated
(*b*) The risk of an inappropriate audit opinion when financial statements are materially misstated
(*c*) The risk of regulatory action by professional bodies
(*d*) The risk of facing legal action by intended users

2. How can an auditor reduce audit risk to an acceptably low level, according to SA-200?
(*a*) By expressing a modified audit opinion
(*b*) By obtaining sufficient appropriate audit evidence
(*c*) By avoiding any audit procedures that involve risk
(*d*) By relying solely on the management's representations

3. What factors contribute to audit risk?
(*a*) Risks of material misstatement and legal risks
(*b*) Detection risk and regulatory risks
(*c*) Risks of material misstatement and detection risk
(*d*) Reputation risk and financial risks

4. What does SA 200 state regarding the risk of material misstatement?
(*a*) It is the risk that financial statements are misstated during the audit.
(*b*) It is the risk that financial statements are misstated prior to the audit.
(*c*) It is the risk that audit procedures may result in material misstatements.
(*d*) It is the risk that errors in financial statements are not detected.

5. What does "misstatement" mean in the context of financial statements?
(*a*) An error in the auditor's judgment.
(*b*) A difference between reported financial statement items and their required presentation.
(*c*) An intentional manipulation of audit evidence.
(*d*) A discrepancy in the auditor's working papers.

6. Which of the following is an example of a misstatement?
   (*a*) Using appropriate accounting policies for financial reporting.
   (*b*) Booking fake expenses in the statement of profit and loss intentionally.
   (*c*) Accurately disclosing financial statement items as per the reporting framework.
   (*d*) Writing off irrecoverable debts in the statement of financial position.

7. What are the two levels at which risks of material misstatement may exist?
   (*a*) Transaction level and overall financial statement level.
   (*b*) Class level and disclosure level.
   (*c*) Financial statement level and assertion level.
   (*d*) Overall financial statement level and audit evidence level.

8. Risks of material misstatement at the overall financial statement level relate to:
   (*a*) Specific transactions or account balances.
   (*b*) Pervasive misstatements affecting the financial statements as a whole.
   (*c*) Disclosure of accounting policies.
   (*d*) Detection risk in individual assertions.

9. What is the purpose of assessing risks of material misstatement at the assertion level?
   (*a*) To express an opinion on the financial statements.
   (*b*) To determine the nature, timing, and extent of further audit procedures.
   (*c*) To evaluate the overall financial statement level risks.
   (*d*) To identify errors in the auditor's working papers.

10. Which of the following is NOT an example of a misstatement?
   (*a*) Overstating or understating inventories.
   (*b*) Charging an item of capital expenditure to revenue.
   (*c*) Writing off irrecoverable debts.
   (*d*) Selecting appropriate accounting policies.

11. What are the two components that make up the risk of material misstatement at the assertion level?
   (*a*) Audit risk and inherent risk
   (*b*) Detection risk and control risk
   (*c*) Inherent risk and control risk
   (*d*) Overall financial statement risk and engagement risk

12. What is inherent risk?
   (*a*) The risk of material misstatement after considering internal controls.
   (*b*) The risk that financial statements are not prepared in accordance with accounting standards.
   (*c*) The susceptibility of an assertion to a misstatement, either individually or when aggregated, before considering internal controls.
   (*d*) The risk that auditors may overlook certain external factors affecting financial statements.

13. Inherent risk is higher for some assertions, such as:

(*a*) Assertions related to simple calculations.

(*b*) Assertions related to low business failure industries.

(*c*) Assertions related to complex calculations.

(*d*) Assertions related to well-understood accounting standards.

14. How does the auditor use inherent risk in the audit process?

(*a*) Inherent risk is considered only in the design of tests of controls.

(*b*) Inherent risk is ignored when designing substantive procedures.

(*c*) Inherent risk is considered in both the design of tests of controls and substantive procedures.

(*d*) Inherent risk is considered after assessing control risk.

15. What may influence inherent risk related to a specific assertion?

(*a*) Control risk factors.

(*b*) Technological developments.

(*c*) The accuracy of internal controls.

(*d*) Auditor's assessment of engagement risk.

16. Which of the following is an example of an inherent risk external to the entity?

(*a*) Inadequate understanding of accounting standards by management.

(*b*) High turnover of key personnel in the organization.

(*c*) Strong internal controls implemented by the entity.

(*d*) Stringent regulatory oversight in the industry.

17. How does an auditor assess inherent risk?

(*a*) By solely relying on the management's representations.

(*b*) By considering external factors only.

(*c*) By evaluating the entity's internal controls.

(*d*) By considering both internal and external factors.

18. Why is it important for auditors to consider the reason for each identified inherent risk?

(*a*) To justify their assessment to the management.

(*b*) To comply with regulatory requirements.

(*c*) To understand the impact on the design of tests of controls and substantive procedures.

(*d*) To minimize the overall audit risk.

19. What is control risk, as defined in SA-200?

(*a*) The risk of material misstatement before considering internal controls.

(*b*) The risk that internal controls are not efficient in preventing or detecting material misstatements.

(*c*) The risk that auditors may overlook external factors affecting financial statements.

(*d*) The risk of misstatement occurring in financial statements due to inherent factors.

20. How does control risk relate to the efficiency of internal control in an entity?

(*a*) There is no relation between control risk and the efficiency of internal control.

(*b*) Control risk is directly proportional to the efficiency of internal control.

(*c*) There is an inverse relation between control risk and the efficiency of internal control.
(*d*) Control risk is independent of the efficiency of internal control.

21. What does control risk represent in the context of internal controls?
(*a*) The risk that management will override internal controls.
(*b*) The risk that internal controls are unnecessary.
(*c*) The risk that internal controls will not prevent or detect material misstatements.
(*d*) The risk that auditors will rely too heavily on internal controls.

22. Which of the following is an example of control risk?
(*a*) A company following strict internal controls for cash management.
(*b*) A control mechanism in place for the safety of fire extinguishers.
(*c*) A company having a comprehensive fraud detection system.
(*d*) A control not being followed for routing petty cash expenditures.

23. How is control risk assessed by auditors?
(*a*) Solely based on the entity's financial statements.
(*b*) Through evaluating the efficiency of management's oversight.
(*c*) By considering the effectiveness of internal controls.
(*d*) By ignoring the impact of internal controls on financial statements.

24. What does SA-200 define detection risk as?
(*a*) The risk that audit procedures will not be performed adequately.
(*b*) The risk that audit evidence obtained may not be reliable.
(*c*) The risk that procedures to reduce audit risk may not detect existing misstatements.
(*d*) The risk that auditors may overlook external factors affecting financial statements.

25. What does sampling risk relate to in the context of detection risk?
(*a*) The risk that auditors may rely too heavily on internal controls.
(*b*) The risk that the auditor's conclusion based on a sample may differ from the conclusion with the entire population.
(*c*) The risk that internal controls are not efficient in preventing or detecting material misstatements.
(*d*) The risk that management will override internal controls.

26. How does non-sampling risk differ from sampling risk?
(*a*) Non-sampling risk is related to errors in the application of inappropriate audit procedures, while sampling risk is related to the representativeness of the sample.
(*b*) Non-sampling risk is related to the representativeness of the sample, while sampling risk is related to errors in the application of inappropriate audit procedures.
(*c*) Non-sampling risk and sampling risk are synonymous terms.
(*d*) Non-sampling risk and sampling risk both relate to errors in the application of inappropriate audit procedures.

27. What can auditors do to reduce detection risk?

(*a*) Increase inherent risk and control risk.

(*b*) Decrease the area of checking and use smaller samples.

(*c*) Increase the area of checking, test larger samples, and include competent and experienced persons in the engagement team.

(*d*) Rely solely on alternative audit procedures.

28. Why is detection risk considered the only element of audit risk that auditors can influence?

(*a*) Inherent risk and control risk are inherent to the entity and cannot be influenced by auditors.

(*b*) Detection risk is independent of the effectiveness of internal controls.

(*c*) Auditors have no control over sampling and non-sampling risks.

(*d*) Inherent risk and control risk are influenced by external factors beyond the auditor's control.

29. How does audit risk, as defined in the SAs, differ from the auditor's business risks?

(*a*) Audit risk encompasses business risks, including loss from litigation and adverse publicity.

(*b*) Audit risk and business risks are synonymous terms in the context of auditing.

(*c*) Audit risk is a technical term specific to the auditing process, excluding business risks.

(*d*) Audit risk is primarily concerned with financial loss, while business risks focus on misstatements in financial statements.

30. What is the significance of the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not?

(*a*) This risk is a major component of audit risk.

(*b*) This risk is considered insignificant in the context of the SAs.

(*c*) This risk is equivalent to inherent risk.

(*d*) This risk is part of the auditor's business risks.

31. What is the distinguishing feature of the professional judgment expected of an auditor in assessing risks?

(*a*) Precise measurement

(*b*) Use of advanced technology

(*c*) Training, knowledge, and experience

(*d*) Dependence on external experts

32. How is the assessment of risks, as discussed in the context of audit risk, characterized?

(*a*) Precise measurement based on quantitative data

(*b*) Dependent on external experts' opinions

(*c*) A matter of professional judgment

(*d*) Relying solely on audit procedures

33. How do standards on auditing generally refer to the assessment of risks?

(*a*) Referring to inherent risk and control risk separately

(*b*) Focusing solely on detection risk

(*c*) Emphasizing the importance of audit risk only

(*d*) Referring to a combined assessment of the risks of material misstatement

34. What does the auditor have the flexibility to do in assessing inherent risk and control risk?
(*a*) Express them only in quantitative terms
(*b*) Combine them into a single assessment
(*c*) Make separate or combined assessments based on preferred techniques
(*d*) Rely solely on practical considerations

35. How may the assessment of risks of material misstatement be expressed?
(*a*) Only in quantitative terms
(*b*) Solely in percentages
(*c*) Either in quantitative or non-quantitative terms
(*d*) Exclusively in non-quantitative terms

36. What is emphasized as more important than the different approaches to risk assessments?
(*a*) Precision in risk measurement (*b*) Flexibility in audit techniques
(*c*) The need for appropriate risk assessments (*d*) Standardization in risk reporting

37. How can the relationship between audit risk, risks of material misstatement, and detection risk be expressed?
(*a*) Audit risk = Inherent risk + Control risk + Detection risk
(*b*) Audit risk = Risks of material misstatement - Detection risk
(*c*) Audit risk = Inherent risk × Control risk × Detection risk
(*d*) Audit risk = Detection risk - Risks of material misstatement

38. What is the primary objective of the auditor according to SA 315?
(*a*) Identifying and assessing risks of material misstatement at the assertion level.
(*b*) Designing and implementing responses to the assessed risks of material misstatement.
(*c*) Reducing the risk of material misstatement to an acceptably low level.
(*d*) Obtaining an understanding of the entity's environment.

39. According to SA 315, at which levels does the auditor identify and assess risks of material misstatement?
(*a*) Only at the financial statement level.
(*b*) Only at the assertion level for classes of transactions.
(*c*) At both the financial statement level and the assertion level.
(*d*) At the entity level and the disclosure level.

40. How does the auditor relate the identified risks to what can go wrong at the assertion level, according to SA 315?
(*a*) By focusing solely on controls related to the identified risks.
(*b*) By considering the likelihood of misstatement and evaluating potential misstatements.
(*c*) By assessing risks more pervasively to the financial statements as a whole.
(*d*) By testing relevant controls and evaluating their effectiveness.

41. What is the auditor required to consider when assessing the identified risks according to SA 315?

(*a*) Only the pervasiveness of the risks throughout the financial statements.

(*b*) The relevance of controls intended to be tested.

(*c*) The likelihood of misstatement and the possibility of multiple misstatements.

(*d*) The magnitude of potential misstatements without considering likelihood.

42. Which of the following is part of the auditor's process for identifying and assessing risks as per SA 315?

(*a*) Focusing solely on transactions in the financial statements.

(*b*) Evaluating the entity's internal control in isolation.

(*c*) Assessing identified risks more pervasively to the financial statements as a whole.

(*d*) Ignoring the potential for multiple misstatements in financial statements.

43. What is the primary purpose of risk assessment procedures in the audit process?

(*a*) To provide sufficient audit evidence for forming an audit opinion.

(*b*) To identify and assess risks of material misstatement at the financial statement and assertion levels.

(*c*) To detect errors and fraud in financial statements.

(*d*) To perform analytical procedures for internal control evaluation.

44. What is the role of risk assessment procedures in providing audit evidence?

(*a*) They provide sufficient evidence on which to base the audit opinion.

(*b*) They serve as the primary basis for designing and implementing responses to risks.

(*c*) They solely rely on inquiries of management for evidence.

(*d*) They focus on non-financial information only.

45. What types of risks are included in risk assessment procedures according to SA 315?

(*a*) Only risks due to error.

(*b*) Only risks due to fraud.

(*c*) Both risks due to error and risks due to fraud.

(*d*) Only risks related to internal control.

46. Who may the auditor make inquiries of, beyond management, to identify risks of material misstatement?

(*a*) Internal audit personnel, legal counsel, and marketing personnel.

(*b*) Only internal audit personnel.

(*c*) Only marketing personnel.

(*d*) External auditors of the entity.

47. How do analytical procedures contribute to risk assessment procedures?

(*a*) By providing a broad initial indication of whether a material misstatement may exist.

(*b*) By replacing the need for observation and inspection procedures.

(*c*) By solely focusing on financial information.
(*d*) By offering precise measurements of inherent and control risks.

48. Which of the following is an example of observation and inspection in risk assessment procedures?
(*a*) Reviewing management's responses to audit findings.
(*b*) Observing the entity's operations and plant facilities.
(*c*) Inquiring about the entity's marketing strategies.
(*d*) Analyzing financial ratios for trends.

49. How do observation and inspection procedures support the auditor's understanding of the entity?
(*a*) By replacing the need for analytical procedures.
(*b*) By solely relying on inquiries of management.
(*c*) By providing information about the entity's environment.
(*d*) By eliminating the need for risk assessment procedures.

50. How does the auditor utilize information obtained from risk assessment procedures as audit evidence?
(*a*) To replace the need for substantive procedures.
(*b*) To support assessments of the risks of material misstatement.
(*c*) To serve as the primary basis for the audit opinion.
(*d*) To solely focus on the operating effectiveness of controls.

51. What flexibility does the auditor have regarding the timing of substantive procedures or tests of controls in relation to risk assessment procedures?
(*a*) Substantive procedures must always precede risk assessment procedures.
(*b*) Tests of controls must always precede risk assessment procedures.
(*c*) The auditor may choose to perform them concurrently with risk assessment procedures.
(*d*) Substantive procedures and tests of controls must always be performed after risk assessment procedures.

52. According to SA 320, when are misstatements, including omissions, considered to be material?
(*a*) Only if they individually influence economic decisions of users.
(*b*) Only if they influence economic decisions when considered collectively.
(*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.
(*d*) If they have a significant impact on the auditor's opinion.

53. What is the primary objective of an independent auditor, as stated in SA 320?
(*a*) To identify all instances of fraud in the financial statements.
(*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.
(*c*) To solely focus on errors in the financial statements.
(*d*) To eliminate all risks of material misstatement.

54. How does SA 320 emphasize the significance of materiality in the audit process?

(*a*) By highlighting the importance of identifying immaterial misstatements.
(*b*) By requiring the auditor to focus solely on fraud risks.
(*c*) By emphasizing that materiality is always a matter of relative size.
(*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

55. Why is materiality not always a matter of relative size, according to the information provided?

(*a*) Because materiality is always an absolute threshold set by regulators.
(*b*) Because materiality depends solely on the auditor's judgment.
(*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.
(*d*) Because materiality is solely determined by the financial reporting framework.

56. According to SA 320, when does the auditor apply the concept of materiality in the audit process?

(*a*) Only in planning the audit.
(*b*) Only in evaluating the effect of identified misstatements.
(*c*) Both in planning and performing the audit and in evaluating misstatements.
(*d*) Only when forming the opinion in the auditor's report.

57. How do financial reporting frameworks generally define misstatements as material?

(*a*) Misstatements are material if they significantly impact individual users.
(*b*) Misstatements are material if they influence the economic decisions of users.
(*c*) Misstatements are material if they affect specific individual users.
(*d*) Misstatements are material solely based on their nature.

58. What is the impact of judgments about materiality on the audit process?

(*a*) They only affect the risk assessment procedures.
(*b*) They do not impact further audit procedures.
(*c*) They provide a basis for determining risk assessment procedures and further audit procedures.
(*d*) They are solely relevant in forming the opinion in the auditor's report.

59. How does SA 320 address the evaluation of uncorrected misstatements below the determined materiality?

(*a*) Uncorrected misstatements are always considered immaterial.
(*b*) The auditor evaluates uncorrected misstatements solely based on their size.
(*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.
(*d*) The materiality determined in planning the audit establishes an absolute threshold.

60. What forms the basis for the determination of audit scope and the levels of testing transactions?

(*a*) Uncorrected misstatements. (*b*) The financial reporting framework.
(*c*) Materiality. (*d*) Benchmarking.

61. How does the auditor apply professional judgment in determining materiality?
 (*a*) By relying solely on quantitative benchmarks.
 (*b*) By considering both the size and nature of misstatements.
 (*c*) By setting an absolute threshold for materiality.
 (*d*) By ignoring the specific circumstances of misstatements.

62. From what perspectives should the significance of an item be viewed when judging materiality?
 (*a*) Only from the balance sheet perspective.
 (*b*) Only from the profit and loss perspective.
 (*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.
 (*d*) Solely from the perspective of the corresponding figure for the previous year.

63. When is an item considered material, even if its value is below the materiality threshold?
 (*a*) When it significantly impacts the auditor's opinion.
 (*b*) When it affects the profit and loss statement.
 (*c*) When there is a statutory requirement of disclosure.
 (*d*) When it affects specific individual users.

64. As per Division I of Schedule III of the Companies Act, 2013, when should an item be separately disclosed?
 (*a*) If it exceeds 2 percent of the revenue from operations.
 (*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.
 (*c*) If it exceeds ₹ 1,00,000, regardless of the revenue from operations.
 (*d*) If it significantly impacts the balance sheet.

65. What aspect of a shareholder's holding in a company must be disclosed as per the requirements of Division I of Schedule III of the Companies Act, 2013?
 (*a*) Only the percentage of shares held.
 (*b*) Only the total number of shares held.
 (*c*) Both the percentage and the total number of shares held.
 (*d*) The shareholder's voting rights.

66. According to SA 320, when are misstatements, including omissions, considered to be material?
 (*a*) Only if they individually influence economic decisions of users.
 (*b*) Only if they influence economic decisions when considered collectively.
 (*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.
 (*d*) If they have a significant impact on the auditor's opinion.

67. What is the primary objective of an independent auditor, as stated in SA 320?
 (*a*) To identify all instances of fraud in the financial statements.
 (*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.

(*c*) To solely focus on errors in the financial statements.
(*d*) To eliminate all risks of material misstatement.

68. How does SA 320 emphasize the significance of materiality in the audit process?
(*a*) By highlighting the importance of identifying immaterial misstatements.
(*b*) By requiring the auditor to focus solely on fraud risks.
(*c*) By emphasizing that materiality is always a matter of relative size.
(*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

69. Why is materiality not always a matter of relative size, according to the information provided?
(*a*) Because materiality is always an absolute threshold set by regulators.
(*b*) Because materiality depends solely on the auditor's judgment.
(*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.
(*d*) Because materiality is solely determined by the financial reporting framework.

User:

The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. SA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to above provide the auditor with such a frame of reference.

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

(*a*) Determining the nature, timing and extent of risk assessment procedures;

(*b*) Identifying and assessing the risks of material misstatement; and

(*c*) Determining the nature, timing and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although, it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

The auditor has to apply his professional judgement in determining materiality, choosing appropriate benchmark and determining level of benchmark. Materiality forms the basis for determination of audit scope and the levels of testing the transactions.

While judging materiality, the significance of an item has to be viewed from different perspectives. Materiality of an item may be judged by considering the impact on the profit and loss, or on the balance sheet, or in the total of the category of expenditure or income to which it pertains, and on its comparison with the corresponding figure for the previous year.

If there is any statutory requirement of disclosure, it is to be considered material irrespective of the value of amount. Examples are given below:

As per Division I of schedule III of Companies Act, 2013, any item of income or expenditure which exceeds one percent of the revenue from operations or ` 1,00,000, whichever is higher, needs to be disclosed separately.

A company should disclose in notes to accounts, shares in the company held by each shareholder holding more than 5 per cent shares specifying the number of shares held as per requirements of Division I of Schedule III of Companies Act,2013.

70. According to SA 320, when does the auditor apply the concept of materiality in the audit process?

(*a*) Only in planning the audit.

(*b*) Only in evaluating the effect of identified misstatements.

(*c*) Both in planning and performing the audit and in evaluating misstatements.

(*d*) Only when forming the opinion in the auditor's report.

71. How do financial reporting frameworks generally define misstatements as material?

(*a*) Misstatements are material if they significantly impact individual users.

(*b*) Misstatements are material if they influence the economic decisions of users.

(*c*) Misstatements are material if they affect specific individual users.

(*d*) Misstatements are material solely based on their nature.

72. What is the impact of judgments about materiality on the audit process?

(*a*) They only affect the risk assessment procedures.

(*b*) They do not impact further audit procedures.

(*c*) They provide a basis for determining risk assessment procedures and further audit procedures.

(*d*) They are solely relevant in forming the opinion in the auditor's report.

73. How does SA 320 address the evaluation of uncorrected misstatements below the determined materiality?

(*a*) Uncorrected misstatements are always considered immaterial.

(*b*) The auditor evaluates uncorrected misstatements solely based on their size.

(*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.

(*d*) The materiality determined in planning the audit establishes an absolute threshold.

74. What forms the basis for the determination of audit scope and the levels of testing transactions?

(*a*) Uncorrected misstatements.

(*b*) The financial reporting framework.

(*c*) Materiality.

(*d*) Benchmarking.

75. How does the auditor apply professional judgment in determining materiality?

(*a*) By relying solely on quantitative benchmarks.

(*b*) By considering both the size and nature of misstatements.

(*c*) By setting an absolute threshold for materiality.

(*d*) By ignoring the specific circumstances of misstatements.

76. From what perspectives should the significance of an item be viewed when judging materiality?

(*a*) Only from the balance sheet perspective.

(*b*) Only from the profit and loss perspective.

(*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

(*d*) Solely from the perspective of the corresponding figure for the previous year.

77. When is an item considered material, even if its value is below the materiality threshold?

(*a*) When it significantly impacts the auditor's opinion.

(*b*) When it affects the profit and loss statement.

(*c*) When there is a statutory requirement of disclosure.

(*d*) When it affects specific individual users.

78. As per Division I of Schedule III of the Companies Act, 2013, when should an item be separately disclosed?

(*a*) If it exceeds 2 percent of the revenue from operations.

(*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

(*c*) If it exceeds ₹ 1,00,000, regardless of the revenue from operations.

(*d*) If it significantly impacts the balance sheet.

79. What aspect of a shareholder's holding in a company must be disclosed as per the requirements of Division I of Schedule III of the Companies Act, 2013?

(*a*) Only the percentage of shares held.
(*b*) Only the total number of shares held.
(*c*) Both the percentage and the total number of shares held.
(*d*) The shareholder's voting rights.

User:

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:

(*a*) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
(*b*) Understand that financial statements are prepared, presented and audited to levels of materiality;
(*c*) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
(*d*) Make reasonable economic decisions on the basis of the information in the financial statements.

Practically, it is difficult for auditors to design tests to identify individual misstatements. It is likely that misstatements are material in aggregate. It takes us to the concept of "performance materiality."

Performance materiality means the amount or amounts 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 misstatements exceed materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

Performance materiality is set at a value lower than overall materiality. It lowers the risk that the auditor will not be able to identify misstatements that are material when added together.

80. What is the auditor's assumption about the financial information needs of users, as stated in the context of determining materiality?

(*a*) Users have limited knowledge of business and economic activities.
(*b*) Users do not recognize the uncertainties in financial statement measurement.
(*c*) Users make economic decisions solely based on individual financial statement items.
(*d*) Users have reasonable knowledge of business and economic activities and accounting.

81. What does the auditor reasonably assume about users' understanding regarding financial statements?

(*a*) Users expect financial statements to be prepared without any materiality considerations.
(*b*) Users are not aware that financial statements are audited to levels of materiality.

(*c*) Users understand that financial statements are prepared, presented, and audited to levels of materiality.
(*d*) Users do not recognize the uncertainties in the measurement of amounts.

82. What is performance materiality in the context of auditing?
(*a*) The materiality level set for the financial statements as a whole.
(*b*) The materiality level set for individual transactions.
(*c*) The aggregate of uncorrected and undetected misstatements.
(*d*) The amount set by the auditor at less than materiality to reduce the risk of aggregate misstatements.

83. How does performance materiality relate to overall materiality?
(*a*) Performance materiality is always set at the same level as overall materiality.
(*b*) Performance materiality is set at a higher value than overall materiality.
(*c*) Performance materiality is set at a lower value than overall materiality.
(*d*) Performance materiality is independent of overall materiality.

84. Why is it challenging for auditors to design tests to identify individual misstatements?
(*a*) Users have limited knowledge of accounting principles.
(*b*) Misstatements are never material in aggregate.
(*c*) Misstatements are likely material in aggregate.
(*d*) Users base their economic decisions solely on individual misstatements.

85. What is the purpose of setting performance materiality at a level lower than overall materiality?
(*a*) To increase the risk that aggregate misstatements exceed materiality.
(*b*) To decrease the risk that aggregate misstatements exceed materiality.
(*c*) To ensure that individual misstatements are always identified.
(*d*) To solely focus on individual transactional materiality.

86. If applicable, what can performance materiality also refer to?
(*a*) Only the materiality level for the financial statements as a whole.
(*b*) Only the materiality level for particular classes of transactions.
(*c*) Only the materiality level for account balances.
(*d*) The amount or amounts set by the auditor at less than the materiality level for particular classes of transactions, account balances, or disclosures.

87. How does performance materiality contribute to reducing risk in the audit process?
(*a*) By increasing the probability of identifying all misstatements.
(*b*) By setting a threshold for overall materiality.
(*c*) By lowering the risk of uncorrected and undetected misstatements exceeding materiality.
(*d*) By solely focusing on individual misstatements.

88. What is the primary objective of setting performance materiality?

(*a*) To eliminate all misstatements in the financial statements.
(*b*) To identify individual misstatements.
(*c*) To reduce the overall risk of material misstatement.
(*d*) To increase the likelihood of finding aggregate misstatements.

89. How does performance materiality impact the identification of misstatements?

(*a*) It ensures that all misstatements are identified.
(*b*) It has no impact on the identification of misstatements.
(*c*) It focuses solely on identifying individual misstatements.
(*d*) It lowers the risk of overlooking aggregate misstatements.

90. When establishing the overall audit strategy, what is the auditor's responsibility regarding materiality?

(*a*) The auditor is not required to consider materiality at the overall audit strategy stage.
(*b*) The auditor determines materiality only for particular classes of transactions.
(*c*) The auditor determines materiality for the financial statements as a whole.
(*d*) The auditor sets materiality levels after completing substantive procedures.

91. In what circumstances should the auditor determine materiality levels for particular classes of transactions, account balances, or disclosures?

(*a*) Only when mandated by the entity's management.
(*b*) If materiality for the financial statements as a whole is extremely high.
(*c*) If misstatements in certain classes could reasonably influence economic decisions.
(*d*) Only when conducting tests of controls.

92. When determining materiality for the financial statements as a whole, a percentage is often applied to a chosen benchmark. Which of the following is a factor influencing the selection of an appropriate benchmark?

(*a*) The number of employees in the entity. (*b*) The entity's location.
(*c*) The elements of the financial statements. (*d*) The entity's legal structure.

93. What is an example of a benchmark that may be appropriate for determining materiality?

(*a*) The entity's number of employees. (*b*) The entity's location.
(*c*) Total equity or net asset value. (*d*) The entity's legal structure.

94. In choosing a benchmark for determining materiality, why might users focus on specific items such as profit, revenue, or net assets?

(*a*) Users have a random preference for certain financial items.
(*b*) Certain items have legal significance for the entity.
(*c*) Users tend to focus on items that are relevant for evaluating financial performance.
(*d*) Specific items are mandated by accounting standards.

95. When choosing a benchmark, what should auditors consider regarding the volatility of the benchmark?

(*a*) The benchmark should always be highly volatile.

(*b*) Lower volatility is preferred for better audit planning.

(*c*) Higher volatility may require a more stable benchmark.

(*d*) The volatility of the benchmark is irrelevant to materiality.

96. In determining materiality, what is considered relevant financial data in relation to the chosen benchmark?

(*a*) Data from unrelated industries.

(*b*) Data only from the current period.

(*c*) Data adjusted for significant changes in the industry.

(*d*) Data that is not adjusted for any changes.

97. When determining materiality, what may lead auditors to conclude that a normalized figure is more appropriate than the actual figure?

(*a*) A decrease in profit due to normal business fluctuations.

(*b*) A significant increase in profit before tax from continuing operations.

(*c*) A significant business acquisition.

(*d*) Unchanged financial conditions.

98. What is the relationship between the percentage applied to profit before tax from continuing operations and the chosen benchmark?

(*a*) The percentage is always the same for any chosen benchmark.

(*b*) The percentage is inversely proportional to the chosen benchmark.

(*c*) The percentage is normally higher for profit before tax from continuing operations than for total revenue.

(*d*) The percentage is independent of the chosen benchmark.

99. In what circumstances might auditors consider a higher percentage for materiality?

(*a*) When the entity is not-for-profit.

(*b*) When profit before tax is volatile.

(*c*) When total revenue is the chosen benchmark.

(*d*) When the industry is stable.

100. What is the relationship between the percentage and the chosen benchmark in determining materiality?

(*a*) There is no consistent relationship between the two.

(*b*) The percentage is always higher for any chosen benchmark.

(*c*) The percentage is normally lower for profit before tax from continuing operations than for total revenue.

(*d*) The percentage is influenced by external factors.

101. Why might the auditor consider different percentages for materiality in different circumstances?

(*a*) To confuse users of the financial statements.
(*b*) To comply with legal requirements.
(*c*) Due to variations in industry and economic conditions.
(*d*) To increase the audit workload.

102. What does the auditor's judgment involve when determining materiality?

(*a*) Following a prescribed formula.
(*b*) Applying a fixed percentage to total assets.
(*c*) Professional judgment based on relevant factors.
(*d*) Reliance solely on management's input.

103. What does performance materiality aim to achieve in relation to the aggregate of uncorrected and undetected misstatements?

(*a*) Increase the probability of misstatements exceeding materiality.
(*b*) Keep the probability of misstatements below materiality.
(*c*) Only focus on detected misstatements.
(*d*) Reduce the overall audit risk.

104. What is a factor that may indicate the existence of particular classes of transactions, account balances, or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence users' economic decisions?

(*a*) The number of employees in the entity.
(*b*) The entity's location.
(*c*) Whether regulations affect users' expectations on certain items.
(*d*) The entity's legal structure.

105. In determining materiality levels for particular classes of transactions, account balances, or disclosures, what might be influenced by the key disclosures in relation to the industry in which the entity operates?

(*a*) The entity's location.
(*b*) The number of employees in the entity.
(*c*) Research and development costs.
(*d*) The entity's legal structure.

106. When might misstatements of lesser amounts than materiality for the financial statements as a whole be particularly significant?

(*a*) When regulations have no impact on users' expectations.
(*b*) When attention is focused on a specific aspect disclosed in the financial statements.
(*c*) When there are no industry-specific disclosures.
(*d*) When the entity's location is not a key factor.

107. What may trigger a revision of materiality for the financial statements as a whole during an audit?

(*a*) A change in the auditor's understanding of the entity and its operations.
(*b*) New information that becomes available.

(*c*) A decision to dispose of a major part of the entity's business.
(*d*) All of the above.

108. If it appears that actual financial results are substantially different from the anticipated period end financial results used initially to determine materiality, what action should the auditor take?
(*a*) Ignore the differences and proceed with the original materiality level.
(*b*) Revise materiality for the financial statements as a whole.
(*c*) Immediately issue an adverse opinion on the financial statements.
(*d*) Increase materiality to accommodate the differences.

109. When revising materiality for the financial statements as a whole, what additional consideration should the auditor make?
(*a*) Assess whether a higher materiality is more appropriate.
(*b*) Determine if a revision of performance materiality is necessary.
(*c*) Adjust the financial statements without further audit procedures.
(*d*) Rely solely on the initially determined materiality level.

110. What must the audit documentation include regarding materiality in an audit?
(*a*) Materiality for specific transactions only.
(*b*) Materiality for the financial statements as a whole, materiality levels for specific classes, and performance materiality.
(*c*) Materiality for the financial statements as a whole only.
(*d*) Materiality levels for specific classes only.

111. What is the overall objective of the auditor when conducting an audit of financial statements?
(*a*) To identify and assess the risks of material misstatement.
(*b*) To obtain absolute assurance about the absence of any misstatements.
(*c*) To express an opinion on whether the financial statements are prepared in accordance with any financial reporting framework.
(*d*) To eliminate all risks of material misstatement.

112. How does the auditor obtain reasonable assurance in the context of an audit?
(*a*) By eliminating all risks of material misstatement.
(*b*) By obtaining absolute certainty about the absence of any misstatements.
(*c*) By obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.
(*d*) By relying solely on the client's representations.

113. What is audit risk, and what factors contribute to it?
(*a*) Audit risk is the risk of financial statement fraud only.
(*b*) Audit risk is the risk that the auditor may express an inappropriate audit opinion when the financial statements are materially misstated, and it is a function of the risks of material misstatement and detection risk.

(*c*) Audit risk is solely determined by the nature of the client's industry.
(*d*) Detection risk is the only factor contributing to audit risk.

114. What factors related to external factors, industry, and regulatory environment should the auditor consider in obtaining an understanding of an entity according to SA 315?
(*a*) Only industry conditions such as the competitive environment.
(*b*) Only regulatory factors such as the applicable financial reporting framework.
(*c*) Both industry conditions and regulatory factors, including general economic conditions and interest rates.
(*d*) Only technological developments in the industry.

115. Why is an understanding of the nature of the entity crucial for auditors according to SA 315?
(*a*) To ensure that the entity has a simple structure.
(*b*) To identify complex structures that may introduce risks of material misstatement.
(*c*) To determine the entity's competitors.
(*d*) To understand the ownership structure only.

116. In the context of SA 315, what does the auditor evaluate when considering the entity's accounting policies?
(*a*) Whether the entity's accounting policies comply with international standards only.
(*b*) Whether the entity's accounting policies are consistent with the applicable financial reporting framework and appropriate for its business.
(*c*) Only the reasons for changes in accounting policies.
(*d*) Whether the entity's accounting policies align with industry-specific practices only.

117. What is the purpose of understanding the entity's objectives and strategies, and related business risks according to SA 315?
(*a*) To identify all business risks faced by the entity.
(*b*) To determine if the entity has achieved its objectives.
(*c*) To evaluate the effectiveness of the entity's internal controls.
(*d*) To increase the likelihood of identifying risks of material misstatement in the financial statements.

118. How can understanding the measurement and review of the entity's financial performance assist the auditor?
(*a*) By ensuring the entity achieves all performance targets.
(*b*) By solely focusing on internal performance measures.
(*c*) By considering whether pressures to achieve performance targets may result in actions that increase the risks of material misstatement.
(*d*) By relying on external performance measures only.

119. What might be a potential related business risk when considering industry developments according to SA 315?
(*a*) Increased product liability.
(*b*) Lack of personnel or expertise to deal with industry changes.

(*c*) Inaccurately estimated demand.
(*d*) All of the above.

120. What type of information may be used by an auditor to measure and review an entity's financial performance?
(*a*) Only budget and variance analyses.
(*b*) Only credit rating agency reports.
(*c*) Both key performance indicators and period-on-period financial performance analyses.
(*d*) Only departmental performance reports.

121. What is the overall objective of obtaining an understanding of the entity's environment according to SA 315?
(*a*) To eliminate all business risks.
(*b*) To ensure compliance with industry-specific practices.
(*c*) To identify risks of material misstatement in the financial statements.
(*d*) To determine the entity's competitors.

122. What does business risk encompass according to SA 315?
(*a*) Only risks of material misstatement in the financial statements.
(*b*) Only risks arising from change or complexity.
(*c*) Risks of material misstatement in the financial statements and those arising from change or complexity.
(*d*) All risks faced by the entity.

123. How does understanding the entity's objectives and strategies assist the auditor in identifying risks of material misstatement?
(*a*) By assessing the entity's compliance with legal requirements.
(*b*) By determining the entity's ownership structure.
(*c*) By increasing the likelihood of identifying risks of material misstatement with financial consequences.
(*d*) By eliminating business risks.

124. Why is understanding the entity and its environment considered significant in audit planning?
(*a*) To eliminate the need for professional judgment during the audit.
(*b*) To gather, update, and analyze information continuously throughout the audit.
(*c*) To focus solely on internal control assessments.
(*d*) To replace the need for materiality assessments.

125. What is the role of gaining knowledge about the client's business in developing an overall audit plan?
(*a*) It is not important for developing an overall audit plan.
(*b*) It helps in replacing professional judgment during the audit.
(*c*) It is one of the important principles in developing an overall audit plan.
(*d*) It focuses on eliminating the need for assessing risks.

126. When is understanding the entity and its environment considered a continuous, dynamic process in the audit?

(*a*) Only during the assessment of risks of material misstatement.

(*b*) Only during the determination of materiality.

(*c*) Throughout the audit, including planning, execution, and evaluation of audit evidence.

(*d*) Only during the evaluation of management's oral representations.

127. In what ways does an understanding of the entity influence the auditor's professional judgment during the audit?

(*a*) By eliminating the need for professional judgment.

(*b*) By replacing materiality assessments.

(*c*) By establishing a frame of reference for planning and exercising professional judgment.

(*d*) By focusing solely on internal control assessments.

128. When considering the appropriateness of the selection and application of accounting policies, what role does understanding the entity play?

(*a*) It does not play a role in this context.

(*b*) It helps in replacing professional judgment during the audit.

(*c*) It is essential for assessing risks of material misstatement.

(*d*) It is critical in ensuring the appropriateness of accounting policies.

129. According to SA-315, how is internal control defined?

(*a*) The process is designed, implemented, and maintained by external auditors.

(*b*) The process is designed, implemented, and maintained by those charged with governance, management, and external personnel.

(*c*) The process designed, implemented, and maintained by those charged with governance, management, and other personnel.

(*d*) The process was designed, implemented, and maintained solely by management.

130. What does the term "controls" refer to in the context of internal control as per SA-315?

(*a*) Only the financial controls within an entity.

(*b*) Any aspects of one or more of the components of internal control.

(*c*) Only the controls implemented by management.

(*d*) Only controls related to compliance with applicable laws and regulations.

131. What are the primary objectives of internal control?

(*a*) Ensuring employee satisfaction, managing external relationships, and maximizing profits.

(*b*) Safeguarding of assets, compliance with applicable laws and regulations, and maintaining a positive public image.

(*c*) Reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

(*d*) Achieving customer satisfaction, minimizing expenses, and enhancing technological capabilities.

132. How does an understanding of internal control assist the auditor?

(*a*) Only by ensuring compliance with applicable laws and regulations.

(*b*) Only by maximizing profits for the entity.

(*c*) By identifying types of potential misstatements, factors affecting risks of material misstatement, and designing further audit procedures.

(*d*) Only by safeguarding assets within the entity.

133. How does the design, implementation, and maintenance of internal control vary among entities?

(*a*) It remains consistent across all entities, regardless of size and complexity.

(*b*) It is solely based on the entity's profitability.

(*c*) It varies with the entity's size and complexity.

(*d*) It is determined by external auditors.

134. According to the limitations of internal control, what level of assurance does internal control provide regarding achieving an entity's financial reporting objectives?

(*a*) Absolute assurance.

(*b*) Unlimited assurance.

(*c*) Reasonable assurance.

(*d*) Full assurance.

135. What is a potential limitation of internal control related to human judgment in decision-making?

(*a*) Internal control is always foolproof.

(*b*) Human judgment can lead to faulty decision-making and breakdowns in internal control.

(*c*) Internal control is not affected by human error.

(*d*) Human judgment in decision-making enhances the effectiveness of internal control.

136. What is a limitation of internal control related to the lack of understanding of the purpose of controls?

(*a*) Controls are always effective regardless of understanding.

(*b*) Controls may not be effective if information produced for internal control purposes is not understood or acted upon.

(*c*) Lack of understanding has no impact on internal control.

(*d*) Internal control is not affected by the purpose of controls.

137. How can controls be circumvented, according to the limitations of internal control?

(*a*) Controls are foolproof and cannot be circumvented.

(*b*) Collusion among two or more people or inappropriate management override.

(*c*) Controls are not affected by management decisions.

(*d*) Controls can only be circumvented in larger entities.

138. In designing and implementing controls, what role does management judgment play, according to the limitations of internal control?

(*a*) Management judgment has no impact on the effectiveness of controls.

(*b*) Management judgments determine the absolute effectiveness of controls.

(*c*) Management may make judgments on the nature and extent of controls and the risks it chooses to assume.

(*d*) Management judgments are not considered in the context of internal control.

139. Which component of internal control includes the overall attitude, awareness, and actions of management regarding the importance of internal control in the entity?

(*a*) The control environment.

(*b*) The entity's risk assessment process.

(*c*) The information system.

(*d*) Control activities.

140. What is a fundamental element of the control environment that sets the tone for an organization's control consciousness?

(*a*) Communication and enforcement of integrity and ethical values.

(*b*) Commitment to competence.

(*c*) Participation by those charged with governance.

(*d*) Management's philosophy and operating style.

141. What is the significance of the commitment to competence in the control environment?

(*a*) It determines the ethical values of the organization.

(*b*) It influences the control consciousness of the people in the organization.

(*c*) It solely focuses on the organization's financial reporting.

(*d*) It is not relevant to the control environment.

142. In the context of the control environment, what does "Participation by those charged with governance" refer to?

(*a*) Independence from management.

(*b*) Experience and stature of those charged with governance.

(*c*) The extent of their involvement and the information they receive.

(*d*) Scrutiny of activities.

143. What does "Management's philosophy and operating style" encompass in the control environment?

(*a*) Only the approach taken by management in selecting accounting policies.

(*b*) Only the approach of management in developing accounting estimates.

(*c*) A broad range of characteristics, including attitudes and actions towards financial reporting and risk management.

(*d*) Only the attitude of management towards information processing.

144. What does "Organisational structure" in the control environment encompass?

(*a*) The entity's approach to financial reporting.

(*b*) Lines of reporting within the organization.

(*c*) The enforcement of integrity and ethical values.

(*d*) The selection of accounting policies.

145. What does "Assignment of authority and responsibility" in the control environment address?

(*a*) Management's philosophy and operating style.
(*b*) How authority and responsibility for operating activities are assigned.
(*c*) Human resource policies and practices.
(*d*) Communication and enforcement of integrity and ethical values.

146. Why are "Human resource policies and practices" considered important in the context of the control environment?

(*a*) They determine the size of the organization.
(*b*) They solely focus on recruitment policies.
(*c*) They demonstrate an entity's commitment to competent and trustworthy individuals.
(*d*) They are irrelevant to the control consciousness of an entity.

147. How does management's attitude towards information processing and accounting function reflect in the control environment?

(*a*) It determines the ethical values of the organization.
(*b*) It is not relevant to the control environment.
(*c*) It is part of the organization's risk management.
(*d*) It reflects management's philosophy and operating style.

148. What does the appropriateness of an entity's "Organisational structure" depend on?

(*a*) The entity's financial reporting objectives.
(*b*) The size and nature of the entity's activities.
(*c*) The entity's risk assessment process.
(*d*) The communication of integrity and ethical values.

149. How do "Human resource policies and practices" often demonstrate the control consciousness of an entity?

(*a*) By focusing solely on recruitment practices.
(*b*) By emphasizing the entity's commitment to competent and trustworthy individuals.
(*c*) By determining the entity's financial reporting objectives.
(*d*) By enforcing integrity and ethical values.

150. What is the relationship between a satisfactory control environment and fraud, according to the provided information?

(*a*) A satisfactory control environment is an absolute deterrent to fraud.
(*b*) A satisfactory control environment reduces the risk of fraud but is not an absolute deterrent.
(*c*) A satisfactory control environment increases the risk of fraud.
(*d*) A satisfactory control environment has no impact on the risk of fraud.

151. How can deficiencies in the control environment impact the effectiveness of controls, especially in relation to fraud?

(*a*) Deficiencies in the control environment have no impact on control effectiveness.
(*b*) Deficiencies in the control environment can prevent fraud completely.

(*c*) Deficiencies may undermine the effectiveness of controls, allowing improper changes and unauthorized transactions.
(*d*) Deficiencies in the control environment only affect financial reporting.

152. Which of the following is a part of the entity's risk assessment process?
(*a*) Implementing controls.
(*b*) Deciding about actions to address risks.
(*c*) Capturing events and conditions significant to the financial statements.
(*d*) Reporting transactions in the financial statements.

153. What is an example of a factor that can cause risks to arise or change in an entity?
(*a*) Consistent operating environment.
(*b*) Stagnant technology.
(*c*) Static business models.
(*d*) New technology.

154. What areas does the auditor need to obtain an understanding of in the information system relevant to financial reporting?
(*a*) Only infrastructure and software.
(*b*) Only software and data.
(*c*) Classes of transactions, procedures, accounting records, and financial reporting process.
(*d*) Only financial reporting roles and responsibilities.

155. What is the primary purpose of control activities in an information system?
(*a*) Ensuring data privacy.
(*b*) Ensuring physical security of assets.
(*c*) Carrying out management directives.
(*d*) Monitoring internal control.

156. What do monitoring activities help assess?
(*a*) Effectiveness of controls on a timely basis.
(*b*) Effectiveness of controls as a one-time evaluation.
(*c*) Effectiveness of controls only during external audits.
(*d*) Effectiveness of controls through ongoing management activities.

157. Which of the following is a form that communication of financial reporting roles and responsibilities can take?
(*a*) Auditors' reports.
(*b*) Internal memos.
(*c*) Segregation of duties.
(*d*) Journal entries.

158. What is an example of an ongoing monitoring activity?
(*a*) Separate evaluations.
(*b*) Regular management and supervisory activities.
(*c*) Program change controls.
(*d*) Customer complaints.

159. What does the information system consist of?

(*a*) Only physical components.
(*b*) Only software and data.
(*c*) Infrastructure, software, people, procedures, and data.
(*d*) Only procedures and data.

160. What is the purpose of the entity's risk assessment process?

(*a*) To eliminate all business risks.
(*b*) To capture events and conditions for financial reporting.
(*c*) To assess the likelihood of fraud.
(*d*) To identify and manage risks relevant to financial reporting objectives.

161. How does the control environment impact the auditor's assessment of the risks of material misstatement?

(*a*) It provides absolute assurance against fraud.
(*b*) It is irrelevant to the risk assessment process.
(*c*) It influences the auditor's evaluation of the effectiveness of other controls.
(*d*) It is an absolute deterrent to fraud.

162. Which factor is relevant to the auditor's judgment about whether a control is relevant to the audit?

(*a*) Materiality.
(*b*) Size of the entity.
(*c*) Nature of the entity's business.
(*d*) All of the above.

163. What aspect is considered when determining the relevance of a control to the audit?

(*a*) Use of service organisations.
(*b*) Circumstances and applicable legal requirements.
(*c*) Complexity of the systems in the entity's internal control.
(*d*) The diversity of the entity's operations.

164. In the context of the auditor's judgment about control relevance, what is considered regarding the prevention, detection, and correction of material misstatement?

(*a*) The significance of the related risk.
(*b*) Applicable legal and regulatory requirements.
(*c*) Whether the control prevents, detects, and corrects material misstatement.
(*d*) The nature and complexity of the entity's operations.

165. In what situation would controls over the completeness and accuracy of information produced by the entity be relevant to the audit, according to the information provided?

(*a*) Controls are always relevant to the audit.
(*b*) When the auditor intends to use the information in designing and performing further procedures.
(*c*) Controls are never relevant to an audit.
(*d*) When the auditor is only focused on financial reporting controls.

166. What is an example of a situation where controls over operations and compliance objectives may be relevant to an audit?

(*a*) When controls relate to data used in financial reporting.
(*b*) When controls relate to the prevention of excessive use of materials in production.
(*c*) Controls over operations are never relevant to an audit.
(*d*) When controls are solely focused on compliance with legal requirements.

167. In the context of internal control over safeguarding assets, what is the auditor's primary consideration?

(*a*) Operations objectives.
(*b*) Controls relevant to the reliability of financial reporting.
(*c*) Controls related to compliance objectives.
(*d*) Controls that prevent excessive use of materials.

168. Which example illustrates a situation where safeguarding controls are relevant to a financial statement audit?

(*a*) Controls preventing excessive use of materials in production.
(*b*) Access controls limiting access to data for processing cash disbursements.
(*c*) Controls related to compliance with legal requirements.
(*d*) Controls unrelated to financial reporting.

169. Why might an entity's controls, such as an automated system for maintaining flight schedules in an airline, not be relevant to an audit?

(*a*) Automated controls are always relevant to an audit.
(*b*) Controls related to efficient and effective operations are generally not relevant.
(*c*) Only manual controls are relevant to an audit.
(*d*) The auditor is not required to consider any controls.

170. When might an understanding of internal control relating to each of the entity's operating units and business processes not be relevant to the audit?

(*a*) Understanding internal control is always relevant to an audit.
(*b*) It is never necessary to understand internal control for an audit.
(*c*) In certain circumstances, depending on the entity's structure and operations.
(*d*) Internal control is only relevant for financial reporting.

171. In what circumstances might the auditor's review of internal control be broader and more detailed?

(*a*) When internal controls are simple and straightforward.
(*b*) When the auditor has limited time for the audit.
(*c*) When the statute or regulation governing the entity requires reporting on compliance.
(*d*) Internal control reviews are always broad and detailed.

172. What is the general consideration when determining the relevance of controls for an audit?

(*a*) All controls are relevant to an audit.
(*b*) Controls related to business processes are always relevant.

(*c*) The auditor's review of internal control may be broader and more detailed.
(*d*) Relevance depends on the entity's size and complexity.

173. What is the primary consideration when evaluating the design of a control?
(*a*) Whether the control is automated.
(*b*) Whether the control is cost-effective.
(*c*) Whether the control is capable of preventing, detecting, and correcting material misstatements.
(*d*) Whether the control is observed consistently.

174. Which risk assessment procedures may be used to obtain audit evidence about the design and implementation of relevant controls?
(*a*) Asking entity personnel only.
(*b*) Inquiry, observation, inspection, and transaction tracing.
(*c*) Tracing transactions only.
(*d*) Inspection of documents only.

175. Why is inquiry alone not sufficient for testing the operating effectiveness of controls?
(*a*) Inquiry is time-consuming.
(*b*) Operating effectiveness depends on automation.
(*c*) Inquiry lacks consistency.
(*d*) It only provides evidence about design.

176. When might obtaining audit evidence about the implementation of a manual control at a point in time not provide sufficient evidence about its operating effectiveness?
(*a*) When the control is consistently observed.
(*b*) When the control is automated.
(*c*) When the control's operating effectiveness varies during the audit period.
(*d*) When the control is properly designed.

177. Under what condition may performing audit procedures to determine whether an automated control has been implemented serve as a test of its operating effectiveness?
(*a*) The auditor has not assessed and tested controls.
(*b*) The control is manual.
(*c*) The auditor's assessment and testing of controls, such as those over program changes, support it.
(*d*) Automation is inconsistent.

178. What is a key consideration when determining whether a risk is a significant risk in the audit process?
(*a*) Whether the risk is related to routine business operations.
(*b*) Whether the risk is identified by the management only.
(*c*) Whether the risk is a risk of fraud.
(*d*) Whether the risk is related to the regulatory environment.

179. In assessing significant risks, the auditor should consider the complexity of transactions. What does the complexity of transactions imply in this context?

(*a*) The simplicity of transactions.

(*b*) The level of difficulty in understanding and auditing the transactions.

(*c*) The frequency of transactions.

(*d*) The number of transactions.

180. Which factor is considered when determining whether a risk involves significant transactions with related parties?

(*a*) The overall size of the entity.

(*b*) The frequency of transactions with related parties.

(*c*) The importance of the transactions with related parties.

(*d*) Whether the transactions are routine.

181. What aspect of financial information measurement is relevant when assessing the degree of subjectivity in the context of significant risks?

(*a*) Precision of measurement.

(*b*) Consistency of measurement.

(*c*) The simplicity of measurement.

(*d*) The number of financial measurements.

182. What is a key characteristic of non-routine transactions in the context of significant risks?

(*a*) They occur frequently.

(*b*) They are small in size.

(*c*) They are unusual due to size or nature and occur infrequently.

(*d*) They are routine and predictable.

183. Why are significant risks considered inherent risks with both a higher likelihood of occurrence and a higher magnitude of potential misstatement?

(*a*) They are routine and predictable.

(*b*) They involve complex calculations.

(*c*) They are unusual and infrequent, leading to higher likelihood and magnitude.

(*d*) They are related to routine business operations.

184. Which of the following is always considered a significant risk, according to the information provided?

(*a*) Routine transactions with related parties.

(*b*) Risks related to routine business operations.

(*c*) Risks of material misstatement due to fraud.

(*d*) Routine non-judgmental matters.

185. What makes the risks of material misstatement greater for significant non-routine transactions, as per the information provided?

(*a*) Routine management intervention.

(*b*) Routine manual intervention.

(*c*) The infrequent occurrence and nature of the transactions.
(*d*) Routine controls over risks.

186. What factor contributes to the greater risks of material misstatement for significant judgmental matters involving accounting estimates?
(*a*) Routine judgment and assumptions.
(*b*) Simple interpretation of accounting principles.
(*c*) Complexity or subjectivity of accounting principles and assumptions.
(*d*) Routine implementation of controls.

187. What is a primary objective of the auditor's review of internal controls?
(*a*) Evaluating the effectiveness of the internal auditing department.
(*b*) Identifying errors and frauds in the ordinary course of business operations.
(*c*) Ensuring administrative controls are in place.
(*d*) Verifying the accuracy of financial reports.

188. What information does the auditor gain regarding the internal control system's operation through the review?
(*a*) The adequacy of administrative controls.
(*b*) The effectiveness of internal auditing.
(*c*) Whether controls safeguard assets adequately.
(*d*) Whether management is discharging its functions correctly.

189. Why is the knowledge of administrative control important for the auditor?
(*a*) It helps evaluate the effectiveness of the internal auditing department.
(*b*) It provides insights into areas where controls are weak.
(*c*) It determines the appropriate audit technique.
(*d*) It ensures reliability of reports and certificates.

190. What does the auditor learn about the management's function through the review of internal controls?
(*a*) Whether controls safeguard assets adequately.
(*b*) The depth of examination needed in different areas of accounting.
(*c*) The extent of errors and frauds in ordinary business operations.
(*d*) How management is discharging its function in recording transactions.

191. What is a potential outcome of the auditor's understanding of control weaknesses and excesses?
(*a*) Determining the appropriateness of audit techniques.
(*b*) Identifying errors and frauds in ordinary business operations.
(*c*) Evaluating the reliability of reports and certificates.
(*d*) Providing suggestions to improve the control system.

192. Which of the following steps is NOT involved in the initial process of reviewing internal controls according to the information provided?

(*a*) Determination of controls and procedures laid down by management.
(*b*) Reading company manuals and studying organization charts.
(*c*) Conducting financial statement audits.
(*d*) Making suitable inquiries from officers and employees.

193. What is a potential disadvantage of using a narrative record for internal control review, as mentioned in the information provided?

(*a*) Difficulty in comprehending the system in operation.
(*b*) Facilitation of information accumulation.
(*c*) Incorporating changes arising from reshuffling of manpower.
(*d*) Suited for large business organizations.

194. Which on-the-job requirement involves a series of instructions or questions for auditing staff to follow and **Correct Answer**, often initiated by initialing a space against each instruction?

(*a*) Narrative record. (*b*) Flow chart.
(*c*) Internal Control questionnaire. (*d*) CheckList.

195. What is an advantage of using an Internal Control questionnaire for collecting information about the existence, operation, and efficiency of internal control in an organization?

(*a*) Provides a bird's eye view of the system.
(*b*) Allows for easy integration of documentation.
(*c*) Minimizes the amount of narrative explanation.
(*d*) Facilitates oversight or omission of significant internal control review procedures.

196. What type of document is considered the most concise way of recording the auditor's review of the system and provides a bird's eye view of the internal control system?

(*a*) Narrative record. (*b*) Internal Control questionnaire.
(*c*) CheckList. (*d*) Flow chart.

197. Which of the following involves a graphic presentation of each part of the company's system of internal control, achieving a concise consideration or presentation?

(*a*) Internal Control questionnaire. (*b*) CheckList.
(*c*) Flow chart. (*d*) Narrative record.

198. What is a common drawback of using narrative records for internal control review?

(*a*) Suited for small businesses.
(*b*) Difficulty in incorporating changes arising from reshuffling of manpower.
(*c*) Facilitation of information accumulation.
(*d*) Provides an exhaustive description of the system.

199. In the context of internal control review, what does the term "check list" refer to?

(*a*) A graphic presentation of the system. (*b*) A comprehensive series of questions.
(*c*) An exhaustive description of the system. (*d*) A written procedure for verification.

200. Which on-the-job requirement is most suitable for small businesses and involves a complete and exhaustive description of the system in operation?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Flow chart.
(*d*) Narrative record.

201. What does an Internal Control questionnaire often use to denote a 'Yes' **Correct Answer** and a 'No' **Correct Answer**?

(*a*) Initials.
(*b*) Check marks.
(*c*) Explanatory notes.
(*d*) Numeric codes.

202. Which aspect is NOT typically covered by an Internal Control questionnaire?

(*a*) Satisfactory position denoted by a 'Yes' **Correct Answer**.
(*b*) Explanation for 'No' **Correct Answer**s.
(*c*) A checklist of items.
(*d*) Significance of non-routine transactions.

203. What is the primary purpose of using a flow chart in internal control review?

(*a*) To provide an exhaustive description of the system.
(*b*) To facilitate information accumulation.
(*c*) To achieve a concise consideration or presentation.
(*d*) To incorporate changes arising from reshuffling of manpower.

204. What is a significant advantage of using a flow chart in internal control review?

(*a*) Difficulty in identifying weaknesses or gaps in the system.
(*b*) Provides a bird's eye view of the system.
(*c*) Facilitates oversight or omission of significant review procedures.
(*d*) Minimizes the amount of narrative explanation.

205. Which document is considered the most suitable for large business organizations when reviewing internal controls?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Narrative record.
(*d*) Flow chart.

206. What is a potential drawback of using a checklist for internal control review?

(*a*) Minimizes the amount of narrative explanation.
(*b*) Difficulty in incorporating changes arising from reshuffling of manpower.
(*c*) Suited for small businesses.
(*d*) Provides an exhaustive description of the system.

207. Which method of reviewing internal control is generally issued to the client and filled by the concerned executives and employees, providing an orderly means of disclosing control defects?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Flow chart.
(*d*) Narrative record.

208. What is a key characteristic of using a checklist for internal control review?

(*a*) Minimizes the amount of narrative explanation.

(*b*) Involves on-the-job requirement.

(*c*) Facilitates information accumulation.

(*d*) Provides an exhaustive description of the system.

209. What does the auditor primarily learn through the review of internal controls using a flow chart?

(*a*) Characteristics of the system.

(*b*) Complexity of transactions.

(*c*) Inconsistencies in control procedures.

(*d*) Weaknesses or gaps in the system.

210. What is a disadvantage of using an internal control questionnaire, as mentioned in the information provided?

(*a*) Oversight or omission of significant review procedures is likely.

(*b*) Facilitates an orderly means of disclosing control defects.

(*c*) Suited for small businesses.

(*d*) Difficulty in identifying weaknesses or gaps in the system.

211. What is the primary purpose of actual testing of the internal control system during an audit?

(*a*) To identify areas for improvement in the internal control system.

(*b*) To ensure the accuracy of financial statements.

(*c*) To examine whether and how far the internal control system is in operation.

(*d*) To confirm the effectiveness of the design of the accounting system.

212. Which of the following is NOT considered a type of test of controls?

(*a*) Inspection of documents.

(*b*) Re-performance.

(*c*) Confirmation of financial transactions.

(*d*) Inquiries about internal controls.

213. What does "re-performance" involve in the context of testing controls during an audit?

(*a*) Inspection of documents supporting transactions.

(*b*) Independent execution of procedures or controls by the auditor.

(*c*) Inquiries about internal controls.

(*d*) Observation of internal controls.

214. Which factor is NOT mentioned as a potential cause of deviations from prescribed controls during the effective operation of internal controls?

(*a*) Changes in key personnel.

(*b*) Significant seasonal fluctuations in transaction volume.

(*c*) Technological advancements.

(*d*) Human error.

215. How does the auditor evaluate the results of tests of control in relation to the preliminary assessment of control risk?

(*a*) By modifying the financial statements.

(*b*) By confirming the accuracy of financial transactions.

(*c*) By considering the implications of deviations and revising the assessment of control risk if necessary.
(*d*) By amending the audit plan.

216. What is the fundamental principle of an automated environment?
(*a*) Increased manual intervention for business operations.
(*b*) Less reliance on computer systems.
(*c*) System-driven processes with less manual intervention.
(*d*) Limited use of Information Technology.

217. Which of the following is a key feature of an automated environment?
(*a*) Manual intervention in business operations.
(*b*) Greater susceptibility to human errors.
(*c*) Slower business operations.
(*d*) Integration amongst business operations.

218. In the context of an audit of financial statements, what should an auditor consider when assessing the complexity of an automated environment?
(*a*) Level of automation.
(*b*) Use of off-the-shelf accounting software.
(*c*) Implementation of manual controls.
(*d*) Size of the entity.

219. What does the auditor need to understand about the company's automated environment during an audit?
(*a*) Location of IT systems.
(*b*) Use of an integrated enterprise resource planning system.
(*c*) Outsourced activities.
(*d*) All of the above.

220. Which of the following is NOT a risk that an auditor should consider in an automated environment?
(*a*) Inaccurate processing of data.
(*b*) Unauthorized access to data.
(*c*) Changes in market trends.
(*d*) Lack of adequate segregation of duties.

221. What is the purpose of General IT controls in an automated environment?
(*a*) To enhance the complexity of the business.
(*b*) To support the effective functioning of application controls.
(*c*) To increase manual intervention.
(*d*) To minimize the use of computer systems.

222. Which of the following is a component of General IT controls?
(*a*) Access security.
(*b*) Manual intervention procedures.
(*c*) Decreased reliance on backups.
(*d*) Program change.

223. What is the objective of controls over Data centre and network operations in an automated environment?

(*a*) To reduce batch jobs.

(*b*) To ensure the production systems meet financial reporting objectives.

(*c*) To eliminate the need for backups.

(*d*) To decrease performance monitoring.

224. What does "pervasive" controls refer to in the context of General IT controls?

(*a*) Controls implemented for specific applications.

(*b*) Controls that support the effective functioning of application controls.

(*c*) Controls with limited impact on financial reporting.

(*d*) Controls that exclude data security.

225. Which activities are covered by controls over program change in an automated environment?

(*a*) Batch job scheduling.

(*b*) Change management process.

(*c*) Overall management of computer operation activities.

(*d*) Monitoring and storage of backups.

226. What is the primary purpose of Automated Application Controls in an IT environment?

(*a*) To eliminate manual controls entirely.

(*b*) To ensure the completeness, accuracy, and integrity of data in IT applications.

(*c*) To reduce the reliance on General IT controls.

(*d*) To manage business processes manually.

227. Which of the following is an example of an Automated Application Control?

(*a*) Manual data entry.

(*b*) Edit checks and validation of input data.

(*c*) Paper-based record keeping.

(*d*) Human observation checks.

228. What is the key dependency for the effectiveness of IT dependent controls?

(*a*) Reliance on manual processes.

(*b*) Independence from IT systems.

(*c*) Inconsistency in source data.

(*d*) Reliability of source data produced from IT systems.

229. Which audit test is considered most effective but can be very time-consuming and least efficient most of the time?

(*a*) Inquiry

(*b*) Observation

(*c*) Inspection

(*d*) Reperformance

230. What is recommended when using inquiry as an audit test in an automated environment?

(*a*) Use inquiry alone for comprehensive audit evidence.

(*b*) Combine inquiry with observation for efficiency.

(*c*) Use inquiry in combination with any other audit testing method.
(*d*) Rely solely on inquiry for testing.

231. Which combination of audit tests is often considered the most effective and efficient in an automated environment?
(*a*) Inquiry and reperformance
(*b*) Inspection and observation
(*c*) Inquiry and observation
(*d*) Inspection and reperformance

232. When testing in an automated environment, what is a common method to obtain an understanding of how an automated transaction is processed?
(*a*) Relying solely on inquiry.
(*b*) Walkthrough of one end-to-end transaction using a combination of inquiry, observation, and inspection.
(*c*) Observing how users process transactions under different scenarios.
(*d*) Ignoring the configuration defined in an application.

233. What should the auditor assess when general IT controls are not existing or are ineffective in an automated environment?
(*a*) The history of errors/misstatements.
(*b*) The complexity of the business.
(*c*) The desired level of evidence.
(*d*) Impact of IT risks and complexity of the automated environment.

234. Which of the following is a characteristic of manual controls in an entity's system of internal control?
(*a*) Independence of control activities.
(*b*) Reliability higher than automated controls.
(*c*) Consistency of application.
(*d*) Resistance to errors.

235. In which circumstances are manual elements in internal control more suitable?
(*a*) High volume or recurring transactions.
(*b*) Situations where errors can be anticipated or predicted.
(*c*) Changing circumstances requiring a control response outside the scope of an existing automated control.
(*d*) Monitoring the effectiveness of automated controls.

236. What is a potential limitation of manual elements in internal control?
(*a*) Difficulty in bypassing or overriding.
(*b*) Higher reliability compared to automated elements.
(*c*) Prone to simple errors and mistakes.
(*d*) Consistent application.

237. In what situations may manual controls be less suitable?
(*a*) Monitoring the effectiveness of automated controls.
(*b*) Circumstances where errors are difficult to define, anticipate, or predict.

(*c*) Control activities with specific ways that can be adequately designed and automated.
(*d*) Large, unusual, or non-recurring transactions.

238. How does IT suggest an entity should respond to the risks arising from the use of IT or manual elements in internal control?
(*a*) Prioritize reliance on manual controls.
(*b*) Establish effective controls in light of the characteristics of the entity's information system.
(*c*) Increase dependence on automated controls.
(*d*) Standardize control parameters across all systems.

239. What do CAATs stand for in the context of data analytics?
(*a*) Computer Advanced Audit Tools.
(*b*) Comprehensive Audit and Analysis Techniques.
(*c*) Computer Assisted Auditing Techniques.
(*d*) Controlled Analysis of Audit Technology.

240. What is one of the uses of data analytics for auditors applying CAATs?
(*a*) Marketing analysis.
(*b*) Fraud investigation.
(*c*) Customer relationship management.
(*d*) Operational efficiency assessment.

241. Which of the following is NOT mentioned as a function of data analytics in the audit process using CAATs?
(*a*) Selection of audit samples.
(*b*) Analysis of journal entries.
(*c*) Customer service improvement.
(*d*) Re-computation of balances.

242. What is the purpose of using data analytics in testing electronic records and data residing in IT systems?
(*a*) To increase profitability.
(*b*) To gain competitive advantage.
(*c*) To check completeness of data and population.
(*d*) To perform marketing analysis.

243. What is a key element of digitization in today's business environment?
(*a*) Manual record-keeping.
(*b*) Restructuring business models.
(*c*) Avoiding technology.
(*d*) Ignoring automation.

244. How are auditors leveraging technology in the digital business?
(*a*) By avoiding technology.
(*b*) By using manual processes.
(*c*) Utilizing artificial intelligence and data analytics.
(*d*) Ignoring business processes.

245. Which of the following is one of the primary responsibilities of Internal Financial Controls (IFC) according to the Companies Act, 2013?

(*a*) Ensuring high employee satisfaction.
(*b*) Maximizing shareholder dividends.
(*c*) Safeguarding of assets.
(*d*) External marketing strategies.

246. As per the Companies Act, 2013, which type of company is exempt from the requirement of disclosing the adequacy and operating effectiveness of Internal Financial Controls (IFC) in its auditor's report?

(*a*) Large public company.
(*b*) Private company with a turnover less than ₹ 50 crore.
(*c*) One Person Company.
(*d*) Small public company.

247. According to the Companies Act, 2013, which section emphasizes the responsibility of the Directors of listed companies to lay down internal financial controls for the company?

(*a*) Section 134(5)(e).
(*b*) Section 143(3)(i).
(*c*) Section 177(4)(vii).
(*d*) Section 149(8).

248. What is one of the roles and functions of independent directors according to the Code specified in Schedule IV of the Companies Act, 2013?

(*a*) Maximizing short-term profits.
(*b*) Ensuring compliance with marketing regulations.
(*c*) Satisfying themselves on the integrity of financial information and robustness of financial controls.
(*d*) Managing day-to-day operations.

249. Which committee is responsible for the evaluation of internal financial controls and risk management systems according to the Companies Act, 2013?

(*a*) Nomination and Remuneration Committee.
(*b*) Stakeholder Relationship Committee.
(*c*) Audit Committee.
(*d*) Corporate Social Responsibility Committee.

250. Who has the primary responsibility for implementing and maintaining an effective internal controls framework according to the Companies Act, 2013?

(*a*) Shareholders.
(*b*) Auditors.
(*c*) Directors and management.
(*d*) Regulatory authorities.

251. What does the auditor's report, as per Section 143(3)(i) of the Companies Act, 2013, specifically state regarding Internal Financial Controls (IFC)?

(*a*) The auditor's opinion on the company's market position.
(*b*) Whether the company has effective advertising strategies.

(*c*) Whether the company has adequate Internal Financial Controls system in place and the operating effectiveness of such controls.
(*d*) The auditor's assessment of employee satisfaction.

252. What should the auditor document regarding the risks identified in the audit process?
(*a*) Only the discussion among the engagement team.
(*b*) Only the key elements of the understanding obtained.
(*c*) The identified and assessed risks of material misstatement and related controls.
(*d*) Only the significant decisions reached during the audit.

253. Which of the following is part of the documentation required for risk assessment in an audit, according to the auditor's responsibilities?
(*a*) The auditor's personal opinions on the entity's financial performance.
(*b*) Only the identified risks at the financial statement level.
(*c*) Key elements of the understanding obtained and the risk assessment procedures performed.
(*d*) Discussions held within the engagement team without recording the decisions.

254. When assessing findings or exceptions in the IT environment, what does a deficiency in internal control mean?
(*a*) Any observed deviation from standard industry practices.
(*b*) An exception that affects financial statements on a timely basis.
(*c*) Any control missing or unable to prevent, detect, and correct misstatements.
(*d*) Only significant deficiencies reported to those charged with governance.

255. What is the appropriate communication method for reporting deficiencies to the management or those charged with governance?
(*a*) Oral communication during the exit meeting.
(*b*) Verbal discussion during routine interactions.
(*c*) Internal controls memo or Management letter.
(*d*) Written communication via social media platforms.

256. What is the main objective of the auditor in designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level?
(*a*) To solely rely on substantive procedures.
(*b*) To obtain audit evidence about the assessed risks of material misstatement.
(*c*) To perform more persuasive audit evidence.
(*d*) To design and implement controls at the assertion level.

257. When designing further audit procedures at the assertion level, what factors should the auditor consider regarding the assessment of risks of material misstatement?
(*a*) Only the inherent risk associated with the relevant class of transactions.
(*b*) Control risk without considering the inherent risk.

(*c*) Inherent risk and control risk associated with the relevant class of transactions, account balance, or disclosure.

(*d*) Only the control risk associated with the relevant class of transactions.

258. Under what circumstances does the auditor perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls?

(*a*) When substantive procedures alone can provide sufficient appropriate audit evidence.

(*b*) When relying on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures.

(*c*) Only when controls are of high inherent risk.

(*d*) When there is no reliance on controls in the audit approach.

259. What additional audit procedures should the auditor perform in combination with inquiry when testing the operating effectiveness of controls?

(*a*) Inspection or reperformance.

(*b*) Observation or reperformance.

(*c*) Inquiry alone.

(*d*) Inspection or observation.

260. When more persuasive audit evidence is needed regarding the effectiveness of a control, what may be appropriate to increase?

(*a*) The number of substantive procedures.

(*b*) The reliance on controls.

(*c*) The length of the audit period.

(*d*) The frequency of control performance by the entity.

261. What matters may the auditor consider in determining the extent of tests of controls?

(*a*) The auditor's level of experience.

(*b*) The expected rate of deviation from a control.

(*c*) The relevance and reliability of audit evidence for all assertions.

(*d*) The number of audit team members.

262. When should the auditor test controls to provide an appropriate basis for intended reliance?

(*a*) At any point in time during the audit period.

(*b*) Only at the beginning of the audit period.

(*c*) At the end of the period.

(*d*) Throughout the period for which the auditor intends to rely on those controls.

263. What type of tests may be appropriate if the auditor intends to rely on a control over a period, and the control operated effectively at relevant times during that period?

(*a*) Substantive procedures.

(*b*) Tests of controls related to other assertions.

(*c*) Tests of controls capable of providing audit evidence over that period.

(*d*) Tests of the entity's monitoring of controls.

264. What does the auditor's responsibility include when obtaining audit evidence about the operating effectiveness of controls at relevant times during the period?
(*a*) Only examining the controls at a point in time.
(*b*) Only considering the controls' effectiveness during the audit period.
(*c*) Obtaining audit evidence throughout the period for the controls.
(*d*) Depending solely on the entity's monitoring of controls.

265. In the context of SA 330, what should the auditor consider regarding the approach adopted for testing controls?
(*a*) Primarily relying on substantive procedures.
(*b*) Primarily relying on tests of controls.
(*c*) Ignoring the expected rate of deviation.
(*d*) Not considering the length of the audit period.

266. What should the auditor consider when determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits?
(*a*) The auditor's personal preferences.
(*b*) The cost-effectiveness of controls.
(*c*) The weather conditions during the audit period.
(*d*) The effectiveness of other elements of internal control, risks arising from the characteristics of the control, and the risks of material misstatement.

267. When planning to use audit evidence from a previous audit about the operating effectiveness of specific controls, what must the auditor establish?
(*a*) The auditor's personal preferences.
(*b*) The continuing relevance of that evidence by obtaining audit evidence about significant changes in those controls.
(*c*) The auditor's personal opinions.
(*d*) The auditor's budget constraints.

268. How does the absence of misstatements detected by substantive procedures impact the evaluation of controls?
(*a*) It provides conclusive evidence that controls are effective.
(*b*) It indicates the effectiveness of controls related to the assertion being tested.
(*c*) It requires the auditor to retest all controls.
(*d*) It does not provide audit evidence that controls related to the assertion being tested are effective.

269. When deviations from controls are detected, what specific inquiries should the auditor make?
(*a*) Inquiries regarding the budget constraints of the entity.
(*b*) Inquiries to understand these matters and their potential consequences.
(*c*) Inquiries about the weather conditions during the audit.
(*d*) Inquiries about the auditor's personal opinions.

270. What may be appropriate when more persuasive audit evidence is needed regarding the effectiveness of a control?

(*a*) Reducing the extent of testing of the control.
(*b*) Increasing the reliance on controls.
(*c*) Ignoring the potential risks of misstatement.
(*d*) Relying solely on substantive procedures.

271. What does the auditor need to evaluate when deviations from controls are detected?

(*a*) Only the nature of deviations.
(*b*) The potential risks of misstatement and the extent of reliance on the control.
(*c*) Only the length of the audit period.
(*d*) The effectiveness of the control.

272. What does the term "substantive procedures" refer to in the context of auditing?

(*a*) Procedures that involve personal opinions of the auditor.
(*b*) Procedures designed to detect material misstatements at the assertion level.
(*c*) Procedures that involve budget constraints of the entity.
(*d*) Procedures only applicable to small entities.

273. What are "substantive analytical procedures"?

(*a*) Procedures involving the entity's monitoring of controls.
(*b*) Procedures designed to detect misstatements through inspection or reperformance.
(*c*) Procedures evaluating financial information through analysis of plausible relationships among financial and non-financial data.
(*d*) Procedures solely relying on the operating effectiveness of controls.

274. In what circumstances may the auditor determine that performing only substantive analytical procedures is sufficient to reduce audit risk to an acceptably low level?

(*a*) Only when there is no reliance on controls.
(*b*) When the audit risk is not judgmental.
(*c*) When the auditor's assessment of risk is supported by audit evidence from tests of controls.
(*d*) When relying on the operating effectiveness of controls.

275. What are "tests of details" in auditing?

(*a*) Procedures involving personal opinions of the auditor.
(*b*) Procedures only applicable to large entities.
(*c*) Procedures designed to detect material misstatements through inspection or reperformance.
(*d*) Procedures verifying significant changes in controls.

276. When assessing the extent of substantive procedures, what is relevant in addition to the sample size?

(*a*) Only the auditor's level of experience.
(*b*) The relevance and reliability of audit evidence.
(*c*) The weather conditions during the audit period.
(*d*) The length of the audit period.

277. When designing tests of details, what should the auditor consider regarding the extent of testing?

(*a*) Only the sample size.

(*b*) Whether it is more effective to use other selective means of testing.

(*c*) The auditor's budget constraints.

(*d*) Whether it is more effective to rely solely on substantive analytical procedures.

278. What should the auditor consider when evaluating the operating effectiveness of relevant controls?

(*a*) Only the auditor's personal preferences.

(*b*) The sample size of substantive procedures.

(*c*) Whether the entity's monitoring of controls is effective.

(*d*) Whether misstatements detected by substantive procedures indicate that controls are not operating effectively.

279. Why may the extent of substantive procedures need to be increased when the results from tests of controls are unsatisfactory?

(*a*) Only when there is no reliance on controls.

(*b*) Because of the inherent limitations to internal control, including management override.

(*c*) Only when the auditor's level of experience is low.

(*d*) When relying on the operating effectiveness of controls.

280. What is the purpose of substantive procedures in auditing?

(*a*) To solely rely on the operating effectiveness of controls.

(*b*) To detect material misstatements at the assertion level.

(*c*) To evaluate internal control.

(*d*) To perform additional tests of controls.

Answer Key

1. (*b*)	**2.** (*b*)	**3.** (*c*)	**4.** (*b*)	**5.** (*b*)	**6.** (*b*)	**7.** (*c*)	**8.** (*b*)	**9.** (*b*)	**10.** (*c*)
11. (*c*)	**12.** (*c*)	**13.** (*c*)	**14.** (*c*)	**15.** (*b*)	**16.** (*b*)	**17.** (*d*)	**18.** (*c*)	**19.** (*b*)	**20.** (*c*)
21. (*c*)	**22.** (*d*)	**23.** (*c*)	**24.** (*c*)	**25.** (*b*)	**26.** (*a*)	**27.** (*c*)	**28.** (*a*)	**29.** (*c*)	**30.** (*b*)
31. (*c*)	**32.** (*c*)	**33.** (*d*)	**34.** (*c*)	**35.** (*c*)	**36.** (*c*)	**37.** (*c*)	**38.** (*a*)	**39.** (*c*)	**40.** (*a*)
41. (*c*)	**42.** (*c*)	**43.** (*b*)	**44.** (*b*)	**45.** (*c*)	**46.** (*a*)	**47.** (*a*)	**48.** (*b*)	**49.** (*c*)	**50.** (*b*)
51. (*c*)	**52.** (*c*)	**53.** (*b*)	**54.** (*d*)	**55.** (*c*)	**56.** (*c*)	**57.** (*b*)	**58.** (*c*)	**59.** (*c*)	**60.** (*c*)
61. (*b*)	**62.** (*c*)	**63.** (*c*)	**64.** (*b*)	**65.** (*c*)	**66.** (*c*)	**67.** (*b*)	**68.** (*d*)	**69.** (*c*)	**70.** (*c*)
71. (*b*)	**72.** (*c*)	**73.** (*c*)	**74.** (*c*)	**75.** (*b*)	**76.** (*c*)	**77.** (*c*)	**78.** (*b*)	**79.** (*c*)	**80.** (*d*)
81. (*c*)	**82.** (*d*)	**83.** (*c*)	**84.** (*c*)	**85.** (*b*)	**86.** (*d*)	**87.** (*c*)	**88.** (*c*)	**89.** (*d*)	**90.** (*c*)
91. (*c*)	**92.** (*c*)	**93.** (*c*)	**94.** (*c*)	**95.** (*c*)	**96.** (*c*)	**97.** (*c*)	**98.** (*c*)	**99.** (*b*)	**100.** (*c*)
101. (*c*)	**102.** (*c*)	**103.** (*b*)	**104.** (*c*)	**105.** (*c*)	**106.** (*b*)	**107.** (*d*)	**108.** (*b*)	**109.** (*b*)	**110.** (*b*)
111. (*c*)	**112.** (*c*)	**113.** (*b*)	**114.** (*c*)	**115.** (*b*)	**116.** (*b*)	**117.** (*d*)	**118.** (*c*)	**119.** (*b*)	**120.** (*c*)
121. (*c*)	**122.** (*c*)	**123.** (*c*)	**124.** (*b*)	**125.** (*c*)	**126.** (*c*)	**127.** (*c*)	**128.** (*d*)	**129.** (*c*)	**130.** (*b*)

131. (*c*)	**132.** (*c*)	**133.** (*c*)	**134.** (*c*)	**135.** (*b*)	**136.** (*b*)	**137.** (*b*)	**138.** (*c*)	**139.** (*a*)	**140.** (*a*)
141. (*b*)	**142.** (*c*)	**143.** (*c*)	**144.** (*b*)	**145.** (*b*)	**146.** (*c*)	**147.** (*d*)	**148.** (*b*)	**149.** (*b*)	**150.** (*b*)
151. (*c*)	**152.** (*b*)	**153.** (*d*)	**154.** (*c*)	**155.** (*c*)	**156.** (*a*)	**157.** (*b*)	**158.** (*b*)	**159.** (*c*)	**160.** (*d*)
161. (*c*)	**162.** (*d*)	**163.** (*c*)	**164.** (*c*)	**165.** (*b*)	**166.** (*a*)	**167.** (*b*)	**168.** (*b*)	**169.** (*b*)	**170.** (*c*)
171. (*c*)	**172.** (*d*)	**173.** (*c*)	**174.** (*b*)	**175.** (*d*)	**176.** (*c*)	**177.** (*c*)	**178.** (*c*)	**179.** (*b*)	**180.** (*c*)
181. (*a*)	**182.** (*c*)	**183.** (*c*)	**184.** (*c*)	**185.** (*c*)	**186.** (*c*)	**187.** (*b*)	**188.** (*c*)	**189.** (*b*)	**190.** (*d*)
191. (*d*)	**192.** (*c*)	**193.** (*a*)	**194.** (*d*)	**195.** (*c*)	**196.** (*d*)	**197.** (*c*)	**198.** (*b*)	**199.** (*b*)	**200.** (*d*)
201. (*a*)	**202.** (*d*)	**203.** (*c*)	**204.** (*b*)	**205.** (*d*)	**206.** (*a*)	**207.** (*b*)	**208.** (*b*)	**209.** (*a*)	**210.** (*a*)
211. (*c*)	**212.** (*c*)	**213.** (*b*)	**214.** (*c*)	**215.** (*c*)	**216.** (*c*)	**217.** (*d*)	**218.** (*a*)	**219.** (*d*)	**220.** (*c*)
221. (*b*)	**222.** (*a*)	**223.** (*b*)	**224.** (*b*)	**225.** (*b*)	**226.** (*b*)	**227.** (*b*)	**228.** (*d*)	**229.** (*d*)	**230.** (*c*)
231. (*d*)	**232.** (*b*)	**233.** (*d*)	**234.** (*c*)	**235.** (*c*)	**236.** (*c*)	**237.** (*c*)	**238.** (*b*)	**239.** (*c*)	**240.** (*b*)
241. (*c*)	**242.** (*c*)	**243.** (*b*)	**244.** (*c*)	**245.** (*c*)	**246.** (*b*)	**247.** (*a*)	**248.** (*c*)	**249.** (*c*)	**250.** (*c*)
251. (*c*)	**252.** (*c*)	**253.** (*c*)	**254.** (*c*)	**255.** (*c*)	**256.** (*b*)	**257.** (*c*)	**258.** (*b*)	**259.** (*a*)	**360.** (*b*)
261. (*b*)	**262.** (*d*)	**263.** (*c*)	**264.** (*c*)	**265.** (*b*)	**266.** (*d*)	**267.** (*b*)	**268.** (*d*)	**269.** (*b*)	**270.** (*b*)
271. (*b*)	**272.** (*b*)	**273.** (*c*)	**274.** (*c*)	**275.** (*c*)	**276.** (*b*)	**277.** (*b*)	**278.** (*d*)	**279.** (*b*)	**280.** (*b*)

SOLUTION

1. (*b*) The risk of an inappropriate audit opinion when financial statements are materially misstated
2. (*b*) By obtaining sufficient appropriate audit evidence
3. (*c*) Risks of material misstatement and detection risk
4. (*b*) It is the risk that financial statements are misstated prior to the audit.
5. (*b*) A difference between reported financial statement items and their required presentation.
6. (*b*) Booking fake expenses in the statement of profit and loss intentionally.
7. (*c*) Financial statement level and assertion level.
8. (*b*) Pervasive misstatements affecting the financial statements as a whole.
9. (*b*) To determine the nature, timing, and extent of further audit procedures.
10. (*c*) Writing off irrecoverable debts.
11. (*c*) Inherent risk and control risk
12. (*c*) The susceptibility of an assertion to a misstatement, either individually or when aggregated, before considering internal controls.
13. (*c*) Assertions related to complex calculations.
14. (*c*) Inherent risk is considered in both the design of tests of controls and substantive procedures.
15. (*b*) Technological developments.
16. (*b*) High turnover of key personnel in the organization.
17. (*d*) By considering both internal and external factors.
18. (*c*) To understand the impact on the design of tests of controls and substantive procedures.
19. (*b*) The risk that internal controls are not efficient in preventing or detecting material misstatements.
20. (*c*) There is an inverse relation between control risk and the efficiency of internal control.
21. (*c*) The risk that internal controls will not prevent or detect material misstatements.
22. (*d*) A control not being followed for routing petty cash expenditures.
23. (*c*) By considering the effectiveness of internal controls.
24. (*c*) The risk that procedures to reduce audit risk may not detect existing misstatements.
25. (*b*) The risk that the auditor's conclusion based on a sample may differ from the conclusion with the entire population.
26. (*a*) Non-sampling risk is related to errors in the application of inappropriate audit procedures, while sampling risk is related to the representativeness of the sample.
27. (*c*) Increase the area of checking, test larger samples, and include competent and experienced persons in the engagement team.
28. (*a*) Inherent risk and control risk are inherent to the entity and cannot be influenced by auditors.
29. (*c*) Audit risk is a technical term specific to the auditing process, excluding business risks.
30. (*b*) This risk is considered insignificant in the context of the SAs.
31. (*c*) Training, knowledge, and experience
32. (*c*) A matter of professional judgment
33. (*d*) Referring to a combined assessment of the risks of material misstatement
34. (*c*) Make separate or combined assessments based on preferred techniques
35. (*c*) Either in quantitative or non-quantitative terms

36. (*c*) The need for appropriate risk assessments
37. (*c*) Audit risk = Inherent risk × Control risk × Detection risk
38. (*a*) Identifying and assessing risks of material misstatement at the assertion level.
39. (*c*) At both the financial statement level and the assertion level.
40. (*a*) By considering the likelihood of misstatement and evaluating potential misstatements.
41. (*c*) The likelihood of misstatement and the possibility of multiple misstatements.
42. (*c*) Assessing identified risks more pervasively to the financial statements as a whole.
43. (*b*) To identify and assess risks of material misstatement at the financial statement and assertion levels.
44. (*b*) They serve as the primary basis for designing and implementing responses to risks.
45. (*c*) Both risks due to error and risks due to fraud.
46. (*a*) Internal audit personnel, legal counsel, and marketing personnel.
47. (*a*) By providing a broad initial indication of whether a material misstatement may exist.
48. (*b*) Observing the entity's operations and plant facilities.
49. (*c*) By providing information about the entity's environment.
50. (*b*) To support assessments of the risks of material misstatement.
51. (*c*) The auditor may choose to perform them concurrently with risk assessment procedures.
52. (*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.
53. (*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.
54. (*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.
55. (*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.
56. (*c*) Both in planning and performing the audit and in evaluating misstatements.
57. (*b*) Misstatements are material if they influence the economic decisions of users.
58. (*c*) They provide a basis for determining risk assessment procedures and further audit procedures.
59. (*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.
60. (*c*) Materiality.
61. (*b*) By considering both the size and nature of misstatements.
62. (*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.
63. (*c*) When there is a statutory requirement of disclosure.
64. (*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.
65. (*c*) Both the percentage and the total number of shares held.
66. (*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.
67. (*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.

68. (*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

69. (*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.

70. (*c*) Both in planning and performing the audit and in evaluating misstatements.

71. (*b*) Misstatements are material if they influence the economic decisions of users.

72. (*c*) They provide a basis for determining risk assessment procedures and further audit procedures.

73. (*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.

74. (*c*) Materiality.

75. (*b*) By considering both the size and nature of misstatements.

76. (*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

77. (*c*) When there is a statutory requirement of disclosure.

78. (*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

79. (*c*) Both the percentage and the total number of shares held.

80. (*d*) Users have reasonable knowledge of business and economic activities and accounting.

81. (*c*) Users understand that financial statements are prepared, presented, and audited to levels of materiality.

82. (*d*) The amount set by the auditor at less than materiality to reduce the risk of aggregate misstatements.

83. (*c*) Performance materiality is set at a lower value than overall materiality.

84. (*c*) Misstatements are likely material in aggregate.

85. (*b*) To decrease the risk that aggregate misstatements exceed materiality.

86. (*d*) The amount or amounts set by the auditor at less than the materiality level for particular classes of transactions, account balances, or disclosures.

87. (*c*) By lowering the risk of uncorrected and undetected misstatements exceeding materiality.

88. (*c*) To reduce the overall risk of material misstatement.

89. (*d*) It lowers the risk of overlooking aggregate misstatements.

90. (*c*) The auditor determines materiality for the financial statements as a whole.

91. (*c*) If misstatements in certain classes could reasonably influence economic decisions.

92. (*c*) The elements of the financial statements.

93. (*c*) Total equity or net asset value.

94. (*c*) Users tend to focus on items that are relevant for evaluating financial performance.

95. (*c*) Higher volatility may require a more stable benchmark.

96. (*c*) Data adjusted for significant changes in the industry.

97. (*c*) A significant business acquisition.

98. (*c*) The percentage is normally higher for profit before tax from continuing operations than for total revenue.

99. (*b*) When profit before tax is volatile.

100. (*c*) The percentage is normally lower for profit before tax from continuing operations than for total revenue.

101. (*c*) Due to variations in industry and economic conditions.
102. (*c*) Professional judgment based on relevant factors.
103. (*b*) Keep the probability of misstatements below materiality.
104. (*c*) Whether regulations affect users' expectations on certain items.
105. (*c*) Research and development costs.
106. (*b*) When attention is focused on a specific aspect disclosed in the financial statements.
107. (*d*) All of the above.
108. (*b*) Revise materiality for the financial statements as a whole.
109. (*b*) Determine if a revision of performance materiality is necessary.
110. (*b*) Materiality for the financial statements as a whole, materiality levels for particular classes, and performance materiality.
111. (*c*) To express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
112. (*c*) By obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.
113. (*b*) Audit risk is the risk that the auditor may express an inappropriate audit opinion when the financial statements are materially misstated, and it is a function of the risks of material misstatement and detection risk.
114. (*c*) Both industry conditions and regulatory factors, including general economic conditions and interest rates.
115. (*b*) To identify complex structures that may introduce risks of material misstatement.
116. (*b*) Whether the entity's accounting policies are consistent with the applicable financial reporting framework and appropriate for its business.
117. (*d*) To increase the likelihood of identifying risks of material misstatement in the financial statements.
118. (*c*) By considering whether pressures to achieve performance targets may result in actions that increase the risks of material misstatement.
119. (*b*) Lack of personnel or expertise to deal with industry changes.
120. (*c*) Both key performance indicators and period-on-period financial performance analyses.
121. (*c*) To identify risks of material misstatement in the financial statements.
122. (*c*) Risks of material misstatement in the financial statements and those arising from change or complexity.
123. (*c*) By increasing the likelihood of identifying risks of material misstatement with financial consequences.
124. (*b*) To gather, update, and analyze information continuously throughout the audit.
125. (*c*) It is one of the important principles in developing an overall audit plan.
126. (*c*) Throughout the audit, including planning, execution, and evaluation of audit evidence.
127. (*c*) By establishing a frame of reference for planning and exercising professional judgment.
128. (*d*) It is critical in ensuring the appropriateness of accounting policies.
129. (*c*) The process designed, implemented, and maintained by those charged with governance, management, and other personnel.
130. (*b*) Any aspects of one or more of the components of internal control.

131. (*c*) Reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

132. (*c*) By identifying types of potential misstatements, factors affecting risks of material misstatement, and designing further audit procedures.

133. (*c*) It varies with the entity's size and complexity.

134. (*c*) Reasonable assurance.

135. (*b*) Human judgment can lead to faulty decision-making and breakdowns in internal control.

136. (*b*) Controls may not be effective if information produced for internal control purposes is not understood or acted upon.

137. (*b*) Collusion among two or more people or inappropriate management override.

138. (*c*) Management may make judgments on the nature and extent of controls and the risks it chooses to assume.

139. (*a*) The control environment.

140. (*a*) Communication and enforcement of integrity and ethical values.

141. (*b*) It influences the control consciousness of the people in the organization.

142. (*c*) The extent of their involvement and the information they receive.

143. (*c*) A broad range of characteristics, including attitudes and actions towards financial reporting and risk management.

144. (*b*) Lines of reporting within the organization.

145. (*b*) How authority and responsibility for operating activities are assigned.

146. (*c*) They demonstrate an entity's commitment to competent and trustworthy individuals.

147. (*d*) It reflects management's philosophy and operating style.

148. (*b*) The size and nature of the entity's activities.

149. (*b*) By emphasizing the entity's commitment to competent and trustworthy individuals.

150. (*b*) A satisfactory control environment reduces the risk of fraud but is not an absolute deterrent.

151. (*c*) Deficiencies may undermine the effectiveness of controls, allowing improper changes and unauthorized transactions.

152. (*b*) Deciding about actions to address risks.

153. (*d*) New technology.

154. (*c*) Classes of transactions, procedures, accounting records, and financial reporting process.

155. (*c*) Carrying out management directives.

156. (*a*) Effectiveness of controls on a timely basis.

157. (*b*) Internal memos.

158. (*b*) Regular management and supervisory activities.

159. (*c*) Infrastructure, software, people, procedures, and data.

160. (*d*) To identify and manage risks relevant to financial reporting objectives.

161. (*c*) It influences the auditor's evaluation of the effectiveness of other controls.

162. (*d*) All of the above.

163. (*c*) Complexity of the systems in the entity's internal control.

164. (*c*) Whether the control prevents, detects, and corrects material misstatement.

165. (*b*) When the auditor intends to use the information in designing and performing further procedures.

166. (*a*) When controls relate to data used in financial reporting.
167. (*b*) Controls relevant to the reliability of financial reporting.
168. (*b*) Access controls limiting access to data for processing cash disbursements.
169. (*b*) Controls related to efficient and effective operations are generally not relevant.
170. (*c*) In certain circumstances, depending on the entity's structure and operations.
171. (*c*) When the statute or regulation governing the entity requires reporting on compliance.
172. (*d*) Relevance depends on the entity's size and complexity.
173. (*c*) Whether the control is capable of preventing, detecting, and correcting material misstatements.
174. (*b*) Inquiry, observation, inspection, and transaction tracing.
175. (*d*) It only provides evidence about design.
176. (*c*) When the control's operating effectiveness varies during the audit period.
177. (*c*) The auditor's assessment and testing of controls, such as those over program changes, support it.
178. (*c*) Whether the risk is a risk of fraud.
179. (*b*) The level of difficulty in understanding and auditing the transactions.
180. (*c*) The importance of the transactions with related parties.
181. (*a*) Precision of measurement.
182. (*c*) They are unusual due to size or nature and occur infrequently.
183. (*c*) They are unusual and infrequent, leading to higher likelihood and magnitude.
184. (*c*) Risks of material misstatement due to fraud.
185. (*c*) The infrequent occurrence and nature of the transactions.
186. (*c*) Complexity or subjectivity of accounting principles and assumptions.
187. (*b*) Identifying errors and frauds in the ordinary course of business operations.
188. (*c*) Whether controls safeguard assets adequately.
189. (*b*) It provides insights into areas where controls are weak.
190. (*d*) How management is discharging its function in recording transactions.
191. (*d*) Providing suggestions to improve the control system.
192. (*c*) Conducting financial statement audits.
193. (*a*) Difficulty in comprehending the system in operation.
194. (*d*) CheckList.
195. (*c*) Minimizes the amount of narrative explanation.
196. (*d*) Flow chart.
197. (*c*) Flow chart.
198. (*b*) Difficulty in incorporating changes arising from reshuffling of manpower.
199. (*b*) A comprehensive series of questions.
200. (*d*) Narrative record.
201. (*a*) Initials.
202. (*d*) Significance of non-routine transactions.
203. (*c*) To achieve a concise consideration or presentation.
204. (*b*) Provides a bird's eye view of the system.

205. (*d*) Flow chart.
206. (*a*) Minimizes the amount of narrative explanation.
207. (*b*) Internal Control questionnaire.
208. (*b*) Involves on-the-job requirement.
209. (*a*) Characteristics of the system.
210. (*a*) Oversight or omission of significant review procedures is likely.
211. (*c*) To examine whether and how far the internal control system is in operation.
212. (*c*) Confirmation of financial transactions.
213. (*b*) Independent execution of procedures or controls by the auditor.
214. (*c*) Technological advancements.
215. (*c*) By considering the implications of deviations and revising the assessment of control risk if necessary.
216. (*c*) System-driven processes with less manual intervention.
217. (*d*) Integration amongst business operations.
218. (*a*) Level of automation.
219. (*d*) All of the above.
220. (*c*) Changes in market trends.
221. (*b*) To support the effective functioning of application controls.
222. (*a*) Access security.
223. (*b*) To ensure the production systems meet financial reporting objectives.
224. (*b*) Controls that support the effective functioning of application controls.
225. (*b*) Change management process.
226. (*b*) To ensure the completeness, accuracy, and integrity of data in IT applications.
227. (*b*) Edit checks and validation of input data.
228. (*d*) Reliability of source data produced from IT systems.
229. (*d*) Reperformance
230. (*c*) Use inquiry in combination with any other audit testing method.
231. (*d*) Inspection and reperformance
232. (*b*) Walkthrough of one end-to-end transaction using a combination of inquiry, observation, and inspection.
233. (*d*) Impact of IT risks and complexity of the automated environment.
234. (*c*) Consistency of application.
235. (*c*) Changing circumstances requiring a control response outside the scope of an existing automated control.
236. (*c*) Prone to simple errors and mistakes.
237. (*c*) Control activities with specific ways that can be adequately designed and automated.
238. (*b*) Establish effective controls in light of the characteristics of the entity's information system.
239. (*c*) Computer Assisted Auditing Techniques.
240. (*b*) Fraud investigation.
241. (*c*) Customer service improvement.
242. (*c*) To check completeness of data and population.

243. (*b*) Restructuring business models.
244. (*c*) Utilizing artificial intelligence and data analytics.
245. (*c*) Safeguarding of assets.
246. (*b*) Private company with a turnover less than ₹ 50 crore.
247. (*a*) Section 134(5)(e).
248. (*c*) Satisfying themselves on the integrity of financial information and robustness of financial controls.
249. (*c*) Audit Committee.
250. (*c*) Directors and management.
251. (*c*) Whether the company has adequate Internal Financial Controls system in place and the operating effectiveness of such controls.
252. (*c*) The identified and assessed risks of material misstatement and related controls.
253. (*c*) Key elements of the understanding obtained and the risk assessment procedures performed.
254. (*c*) Any control missing or unable to prevent, detect, and correct misstatements.
255. (*c*) Internal controls memo or Management letter.
256. (*b*) To obtain audit evidence about the assessed risks of material misstatement.
257. (*c*) Inherent risk and control risk associated with the relevant class of transactions, account balance, or disclosure.
258. (*b*) When relying on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures.
259. (*a*) Inspection or reperformance.
260. (*b*) The reliance on controls.
261. (*b*) The expected rate of deviation from a control.
262. (*d*) Throughout the period for which the auditor intends to rely on those controls.
263. (*c*) Tests of controls capable of providing audit evidence over that period.
264. (*c*) Obtaining audit evidence throughout the period for the controls.
265. (*b*) Primarily relying on tests of controls.
266. (*d*) The effectiveness of other elements of internal control, risks arising from the characteristics of the control, and the risks of material misstatement.
267. (*b*) The continuing relevance of that evidence by obtaining audit evidence about significant changes in those controls.
268. (*d*) It does not provide audit evidence that controls related to the assertion being tested are effective.
269. (*b*) Inquiries to understand these matters and their potential consequences.
270. (*b*) Increasing the reliance on controls.
271. (*b*) The potential risks of misstatement and the extent of reliance on the control.
272. (*b*) Procedures designed to detect material misstatements at the assertion level.
273. (*c*) Procedures evaluating financial information through analysis of plausible relationships among financial and non-financial data.
274. (*c*) When the auditor's assessment of risk is supported by audit evidence from tests of controls.
275. (*c*) Procedures designed to detect material misstatements through inspection or reperformance.
276. (*b*) The relevance and reliability of audit evidence.

277. (*b*) Whether it is more effective to use other selective means of testing.

278. (*d*) Whether misstatements detected by substantive procedures indicate that controls are not operating effectively.

279. (*b*) Because of the inherent limitations to internal control, including management override.

280. (*b*) To detect material misstatements at the assertion level.