

WT 2 (Ch. 2 – Audit Strategy, Planning & Programme and Ch. 3 – Risk Assessment and IC)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Case Scenario 1

M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2023-24. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.

Various topics like audit planning, overall audit strategy, audit programme was discussed in detail. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.

Based on the above facts, answer the following:

- Q.1 _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan. 1
- (a) Audit Programme
(b) Overall Audit Strategy
(c) Completion Memorandum
(d) Audit Plan
- Q.2 Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related. 1
- Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.
- (a) Only Statement 1 is correct
(b) Only Statement 2 is correct
(c) Both Statements 1 & 2 are correct
(d) Both Statements 1 & 2 are incorrect

- Q.3 _____ means the amount 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 misstatement exceeds materiality for the financial statements as a whole: 1
- (a) Benchmark Materiality
 - (b) Materiality in Planning
 - (c) Performance Materiality
 - (d) Materiality.
- Q.4 Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements: 1
- (a) Total Revenue
 - (b) Profit before tax
 - (c) Net Asset Value
 - (d) None of the above

Case Scenario 2

Zenith Software Ltd has appointed Ram Laxman & Associates as its auditors for financial year 2023-24.

The audit would cover all the usual aspects of financial auditing but would be more focused on Systems Audit as Zenith Software is a company which maintains its financial records extensively on digital platform.

The processes, operations, accounting and decisions are carried out by using computers in Zenith Software Ltd.

Standards on Auditing SA 315 and SA 330 require auditors to understand, assess and respond to risks that arise from the use of IT systems.

Ram Laxman & Associates have been seasoned auditors but have not carried out Systems audit in detail.

The tools and techniques that can be used to deal with the enormous data and information of Zenith Software Ltd. were briefed to the audit staff by the engagement partners but they still have some queries and doubts and seek your assistance for conducting this special assignment.

Based on below queries/cases, you are required to answer on specific areas which require special attention while conducting audit in an automated environment.

- Q.5 _____ are policies and procedures that relate to many applications and support the effective functioning of application controls 1

- (a) General IT Controls
- (b) IT Dependent Manual Controls
- (c) Both (a) and b)
- (d) None of these

- Q.6** The objective of which of the following is to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives 1
- (a) Data Centre and Network Operations
 - (b) Program Change
 - (c) Access Security
 - (d) Application system, acquisition, development and maintenance 26.3
- Q.7** Tools and techniques that auditors use in applying the principles of data analytics are known as- 1
- (a) Computer Aided Audit Technique
 - (b) Computer Aided Audit Tools
 - (c) Computer Accounting and Auditing Technique
 - (d) Computer Assisted Audit Technique

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any two from the rest.

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- Q.1** State with reasons (in short) whether the following statements are correct or incorrect:
- (a) Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls. 2
 - (b) The overall audit strategy is more detailed than the audit plan. 2
 - (c) There is an inverse relationship between detection risks and the combined level of inherent and control risks. 2
- Q.2** (a) Risks of material misstatement may be greater for significant non-routine transactions arising from matters such as complex calculations. Also, risks of material misstatement may be greater for significant judgmental matters that require the development of accounting estimates, arising from matters such as accounting principles for accounting estimates may be subject to differing interpretation etc. Explain in detail. 4

- (b) “Purported disadvantages of an audit programme can be overcome”. Do you agree? 2
- Q.3 (a) Preliminary engagement activities include certain activities to be performed by an auditor while planning an audit. Discuss such activities briefly. How performing such activities assists an auditor? 3
- (b) 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, explain the auditor’s assumptions about users of the financial statements. 3
- Q.4 (a) IT related risks can have an impact on audit. In what different ways, such risks can have an impact on audit of financial statements? 3
- (b) CA Mary, while planning audit of a company, feels that she would inquire from inhouse legal counsel of the company status of pending litigation matters against the company to identify and assess risks of material misstatements. Considering above description, are you able to identify said procedures? Where these identified procedures are included in planning in accordance with SA-300? 3

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line “Inter Audit Test – WT 2”

Mention the following in the E-mail and answer Sheet:

1. Name:
2. Mobile No.:
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