

**WT 6 (Ch. 12 – Digital Audit and Assurance & 13 – Group Audits)**

**Instructions: Part A comprises of MCQ.**

**Part B comprises of descriptive questions.**

**Part – A (Multiple Choice Questions)**

- Q.1** (d) (2 Marks)  
**Q.2** (b) (2 Marks)  
**Q.3** (c) (1 Mark)  
**Q.4** (a) (1 Mark)  
**Q.5** (d) (1 Mark)

**Part B (Descriptive Questions)**

**Q. No. 1 is Compulsory. Attempt Any two from the rest.**

**Q.1(a): Auditor's procedures in Auditing the consolidation:**

A parent which presents CFS is required to consolidate all its components in the CFS other than those for which exceptions have been provided in the relevant ASs under the applicable FRF.

Auditor should obtain a list of all the components included in the CFS and review the information provided by the management of the parent identifying the components. Auditor should verify that all components have been included in the CFS unless these components meet criterion for exclusion.

In the given case, Excellent Ltd has provided the list of components included in the CFS. CA Vimal shall verify that all the components have been included in the CFS. In respect of completeness of this information, CA Vimal should perform the following procedures:

- (i) review his working papers for the prior years for the known components;
- (ii) review the parent's procedures for identification of various components;
- (iii) make inquiries of the management to identify any new components or any component which goes out of consolidated financial statements;
- (iv) review the investments of parent as well as its components to determine the shareholding in other entities;
- (v) review the joint ventures and joint arrangements as applicable;

- (vi) review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group;
- (vii) review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013;
- (viii) identify the changes in the shareholding that might have taken place during reporting period.

**(1 Mark for each correct point - Any four points)**

**Q.1(b): Robotics process automation (RPA):**

RPA can be used to streamline hiring process in a company. The tentative steps could include:

- (a) Place advertisements on social media/career advice sites.
- (b) Link redirects candidate to a career site.
- (c) Career site pulls information of candidate.
- (d) An algorithm scans applicants for desired and suitable roles.
- (e) Selected candidates may be asked to play online games to assess their skills.
- (f) A certain percentage of those applicants are called for a video interview using an interview software.

**(3 Marks – 0.5 Mark for each step)**

The automated hiring process will reduce full time effort involvement, provide with a wider assessment range, reduce the impact of recruiter biases, increase the efficiency of mapping of interested candidates, reduce recruiting costs, increase hire yield, reduce time to hire, increase diversity. **(1 Mark)**

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**Q.2: Types of IT dependencies:**

- (a) **Automated Controls:** Automated controls are designed in IT environment to enforce business rules. For example: Purchase order approval through-
  - Format checks (e.g., only a particular date format is accepted),
  - Existence checks (e.g., Duplicate customer number cannot exist), and/or
  - Reasonableness checks (e.g., maximum payment amount)
- (b) **Reports:** System generated reports (e.g. Customer Ageing Report) are used for execution of manual control, including business performance reviews, or may be the source of entity information used by auditor while selecting items for testing, performing substantive tests of details or a substantive analytical procedure.
- (c) **Calculations:** Accounting procedures performed by IT system instead of a person. For example, calculation of depreciation, charging interest in delayed payments, etc.

- (d) **Security:** Security including segregation of duties is enabled by IT environment to restrict access to information.
- (e) **Interfaces:** Programmed logic that transfer data from one IT system to another. For example, an interface may be programmed to transfer data from a payroll subledger to the general ledger.

**(1 Mark for each correct point – 5 Marks)**

**Q.3: Scope of Cyber Risks:**

The cyber risks are not an issue of IT alone. Rather, it is a business risk and has an effect on whole business organization. It affects entity's reputation and can lead to many other consequences which are listed below:

- (a) Regulatory costs.
- (b) Business interruptions causing an operational challenge for an organization.
- (c) Data loss, reputational loss and litigation.
- (d) Ransomware - more common these days where entire systems are encrypted.
- (e) IP theft which may not only take the competitive advantage, but may also result in any impairment charge because of the loss of IP.
- (f) Incident response cost which could be for investigations & remediations.
- (g) Breach of Privacy, if personal data of a consumer is hacked it could have a significant impact on the organization.
- (h) Fines and penalties

**(1 Mark for each correct Point – Any three Points)**

It may happen that many cyber-attacks are not directly targeted at financial systems. However, the access gained by the attackers may provide them the ability to:

- Manipulate or modify financial records
- Modify key automated business rules
- Modify automated controls relied upon by the management.

Further, auditor should consider whether cyber risk (like other business risks) represents a risk of material misstatement to the financial statement as part of the audit risk assessment activities. Focus should be on understanding the cyber risks affecting the entity and the actions being taken to address these risks.

**(2 Marks)**

**Q.4: Considerations with regard to determination of Materiality during audit of CFS:**

In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of Consolidated Financial Statements (CFS), the auditor should consider the following:

- (i) Auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (*i.e.* permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- (ii) The principal auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable.
- (iii) The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS.
- (iv) The principal auditor also obtains certain confirmations from component auditor like independence, code of ethics, certain information required for consolidation and disclosure requirements etc.

**(1 Mark for each correct Point – 4 Marks)**

While considering the observations (for instance modification and/or EOM/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600. Therefore, the concept of materiality would be considered while considering the observations of the component auditor. **(1 Mark)**

