

WT 2 (Ch. 3 – Planning, Strategy and Execution & Ch. 4 – Materiality, 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)**

- Q.1** AJ Private Ltd. is in the business of construction and infrastructure having an annual turnover of INR 1,100 crore. The operations of the company are run efficiently driven by the well laid out policies and procedures. The processes of the company are very strong and are well documented and properly communicated to its employees, as required. The management had also done a detailed risk assessment in the earlier years and currently the risk management system of the company is considered to be very effective. The internal controls include both automated and manual. During the course of the audit of the financial statements of the company for the financial year ended 31 March 2023, the statutory auditors did their risk assessment and also reviewed the general IT controls which were found to be effective. Considering the same, one of the senior audit team members asked the team to start performing the substantive audit procedures taking the approach that controls are effective. However, the audit team did not find this approach correct and discussed that they should also check the effectiveness of other manual and automated controls by testing them and then move on to substantive testing. The audit team recently had a training on the internal controls and hence their understanding was different from the audit senior. This led to a conflicting situation between the audit senior and remaining audit team. In the given situation, please advise which of the following would be correct.
- 2**
- (a) The audit senior is correct because general IT controls were found to be effective and hence no further work may be required on controls.
  - (b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls cannot be said to be operating effectively.
  - (c) The audit senior seems reasonable in his approach because general IT controls were found to be effective. However, it would be more appropriate to also test application controls before concluding on the effectiveness of the controls.
  - (d) The argument of the audit team looks better because every audit requires significant time to be spent on testing of internal controls and by only covering general IT controls, it would be difficult to justify this requirement later on in the audit file.

- Q.2** Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon: 2
- (I) Nature, size and complexity of the entity
  - (II) Nature of the significant deficiencies identified
  - (III) Estimated time required by management to resolve the deficiency
  - (IV) Fees charged from the client
- Select the most appropriate answer:
- (a) (I) and (II)
  - (b) (I), (II) and (III).
  - (c) (III) and (IV).
  - (d) Only (II).
- Q.3** Adequate design and effective implementation of Internal Controls may not lead to the identification of: 1
- (a) Frauds and errors.
  - (b) Design and Implementation gaps in Processes.
  - (c) Abuse by Process Owners.
  - (d) Segregation of Duties.
- Q.4** CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should: 1
- (a) Continue with the Audit Plan without considering the Audit Strategy.
  - (b) Drop the audit and withdraw from the engagement.
  - (c) First modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
  - (d) Devise a new audit plan and then, change the strategy as per the Revised Plan.
- Q.5** COBIT is \_\_\_\_\_ 1
- (a) best practice IT governance and management framework published by Information Systems Audit and Control Association (ISACA). It provides the required tools, resources and guidelines that are relevant to IT governance, risk, compliance and information security.
  - (b) one of the most popular frameworks for improving critical infrastructure cyber security published by National Institute of Standards and Technology (NIST).
  - (c) the most widely adopted information security standard for the payments card industry issued by Payment Card Industry Security Standards Council (PCI SSC).
  - (d) set of best practice processes and procedures for IT services management in a company like change management, incident management, problem management, IT operations and IT asset management in accordance with ISO 20000.

## Part B (Descriptive Questions)

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

- Q.1** (a) While conducting a statutory audit of “Hope Solutions Limited”, CA Y has assessed the risk of material misstatement to be low at the financial statement level and at the assertion level due to a stable, established and relatively less risky business and extremely satisfactory internal controls operating in the company. However, despite the low assessed risk of material misstatement, he chooses to send external confirmation requests to third parties for confirmation of certain material contracts entered into with them by the company. By doing so, he intends to obtain evidence regarding certain assertions contained in the financial statements of the company. Do you think his approach is in accordance with Standards on Auditing? Justify your answer with reasons. 4
- (b) X Ltd had a net worth of INR 1300 Crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor’s expert to audit valuation of derivatives. Auditor and auditor’s expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor’s expert. Please advise. 4
- Q.2** Mr. Rastogi, a CA has been appointed as the auditor of Healthy Foods Pvt. Ltd. The company purchases various types of grains and converts them into flour. While obtaining an understanding of control environment of the company, he found that entity’s risk assessment procedure has some loopholes at various points in the purchase process and company is required to make certain material assertions in financial statements on the basis of fair value estimation. CA Rastogi foresees a risk of material misstatement due to these fair value estimations. Suggest him as to how he should deal with such risks? Elucidate with reference to relevant SAs. 5
- Q.3** (a) Compute overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%. At his part the auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. 2
- (b) SA 315 requires the auditor to document key elements of understanding obtained regarding each of its internal control components, sources of information from which such understanding was obtained and risk assessment procedures performed. 3

While conducting statutory audit of MPT Limited, a listed company, CA Z has understood various IT controls relating to data centre and network operations, system software acquisition, change and maintenance, program change, access security and application system acquisition, development and maintenance operating in the company. Besides, he has also gained knowledge of application controls designed to ensure the integrity of accounting records.

Which one of the internal control components of the company is referred to in the above description? Besides activities gathered from the above description, give examples of any other two activities relevant for an audit included in the above identified “component of internal control” of the company.

- Q.4 A newly qualified professional has received his first appointment as auditor of a large company and is very much concerned about the effectiveness of internal control and wants to assess and evaluate the control environment as part of his audit program. Towards achieving his objective, he seeks your help in knowing the Standard Operating Procedures (SOPs) of assessment and evaluation of control.

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Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at [test.altclasses@gmail.com](mailto:test.altclasses@gmail.com)

Subject line “Final Audit Test – WT 2”

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

1. Name:
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