

WT 6 (Ch. 12 – Digital Auditing and Assurance; Ch. 13 – Group Audits)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1** Andy & Co. a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company “Daiva Swaroopam Private Limited” by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited. Advise: 2
- (a) The company needs to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.
- (b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.
- (c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.
- (d) Both (a) & (b).
- Q.2** M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as ‘Company’) for the Financial Year 2023-24. Delco Ltd. deals in the manufacture of shoes. During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates. 2
- Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial

statements of both the subsidiary, there would have been material impact on important elements of the financial statements.

At the time of finalization of the Audit Report of the company for the year ended March 31st, 2024, the auditors are considering their reporting responsibility for non-consolidation of the financial statements of Soccer Limited.

The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts. With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?

- (a) The auditor should give a disclaimer of opinion.
- (b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.
- (c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.
- (d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.

Q.3 Safe Health Insurance Limited is a company working in field of health insurance sector. It is now using a claim management system where incoming claims can be immediately identified on the website itself. A form is issued to the customer who signs it. The details are verified by the system against data present in it. Such a system has allowed faster processing of claims, error-free data validation and increased customer satisfaction. Which of following technologies has likely been used in this situation

1

- (a) Internet of things
- (b) Data analytics
- (c) Robotic process automation
- (d) Power BI

Q.4 “Verificatory” is an entity which can stamp e-mails or any files. It simplifies certifying of emails by just e-mailing to them to an e-mail specifically created for each customer. Many law firms can use this service to certify documents. The information is secured by networks of thousands of computers distributed across the globe. It uses cryptographic algorithms. The information can be verified from anywhere in the world. Its hashing and time stamping is of significant evidentiary value. The kind of services being provided are example of use of:

1

- (a) Blockchain technology
- (b) Internet of things
- (c) Ethical hacking
- (d) Cyber attestation

- Q.5** CA X, auditor of a company, is looking into cyber security risks of the company. He is making inquiries regarding processes and controls relating to privileged account access, patch management program, vendor risk management program. He has also performed external network penetration testing. Identify which is not part of risk assessment procedures to assess cyber security risks? **1**
- (a) Making inquiries regarding processes and controls relating to privileged account access
- (b) Making inquiries regarding processes and controls relating to patch management program
- (c) Making inquiries regarding processes and controls relating to vendor risk management program
- (d) Performing external network penetration testing

Part B (Descriptive Questions)

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

- Q.1** (a) CA. Vimal is the auditor of Excellent Ltd., a parent company which presents Consolidated Financial Statements. The management of Excellent Ltd. has provided the list of the components included in the Consolidated Financial Statements. As an auditor of Consolidated Financial Statements, CA. Vimal has to verify that all the components have been included in the Consolidated Financial Statements and review the information provided by the management in identifying the components. State the procedures to be followed by CA. Vimal in respect of completeness of this information. **4**
- (b) A company is planning to use Robotics process automation (RPA) to streamline its hiring process. Earlier, the company used to hire from campuses of various management institutes leading to high recruitment costs, inefficient hire yield and resultant lack of diversity. How RPA can be used to automate the hiring process? List out tentative few such steps. What could be likely benefits of using RPA in hiring process? **4**
- Q.2** Auditor should scope in ITGCs to tests when there are IT dependencies identified in the system. Briefly describe the types of IT dependencies **5**
- Q.3** Sukant, a practicing CA, is of the view that cyber risks are issues of IT and result only in information loss to an entity. He also feels that many cyber-attacks are not directly targeted at financial systems and do not pose risk of material misstatements to F.S. of an entity. Is her view proper? **5**

Q.4 CA H was appointed as a Statutory Auditor of MNL Limited, a listed company, which has three subsidiaries namely M Ltd., N Ltd., L Ltd. and also 15 branches across India. Auditors are duly appointed for the subsidiaries and branches as well. With regard to the determination of materiality during the audit of consolidated financial statements, what should be the considerations of CA H? How he should deal in his report if there are observations (for instance modification and/or emphasis of matter in accordance with SA 705/706) made by component auditors?

5

Instructions for submission of answer sheet

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

Subject line “Final Audit Test – WT 6 (Student Name)”

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

1. Name:
2. Mobile No.:
3. Test: Final Audit – WT 6
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