

WT 2 (Chapters 2 and 3)

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (c) (2 Marks)
 Q.2 (a) (2 Marks)
 Q.3 (a) (2 Marks)

Part B (Descriptive Questions)

- Q.1 (a) (i) Inherent Risk (1 Mark)
 (ii) Control Risk (1 Mark)

(b) Cases by which auditor can ascertain the reporting objectives of the engagement:

Various cases through which auditor can ascertain the reporting objectives of the engagement are:

- (1) Entity's timetable for reporting, such as at interim and final stages.
- (2) Organization of meetings with management and TCWG to discuss the NTE of the audit work.
- (3) Discussion with management regarding expected type and timing of reports to be issued.
- (4) Expected nature and timing of communications among ET members, including the nature and timing of team meetings and timing of the review of work performed.

Marking Scheme – 1 Mark for 1 Correct Point (Any Two Points)

(c) Characteristics of the engagement that define its scope:

There are many characteristics of engagement defining its scope, including:

- (a) FRF applicable to the entity.
- (b) Nature of business segments to be audited including need for specialized knowledge.
- (c) Industry specific reporting requirements required by industry regulators.
- (d) Expected use of audit evidence obtained in previous audits.

One mark for each correct point – Any Two Points

Q.2 Usefulness of Careful and Adequate Audit Planning:

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- (i) Planning helps the auditor to devote appropriate attention to important areas of the audit.
- (ii) Planning helps the auditor identify and resolve potential problems on a timely basis.
- (iii) Adequate planning helps the auditor in properly organizing and managing the audit engagement so that it is performed in an effective and efficient manner.
- (iv) Planning assists the auditor in the selection of engagement team members with appropriate levels of capabilities and competence.
- (v) Planning facilitates the direction and supervision of engagement team members and the review of their work.
- (vi) Planning helps the auditor in coordination of work done by auditors of components and experts.

Marking Scheme – 1 Mark for 1 Correct Point (Any four Points)

Q.3 Application of Data Analytics:

In an automated environment, auditors can apply the concept of data analytics for several aspects of an audit including the following:

- Check completeness of data and population that is used in either test of controls or substantive audit tests.
- Selection of audit samples – random sampling, systematic sampling.
- Re-computation of balances – reconstruction of trial balance from transaction data.
- Reperformance of mathematical calculations – depreciation, bank interest calculation.
- Analysis of journal entries.
- Fraud investigation.
- Evaluating impact of control deficiencies.

Marking Scheme – 1 Mark for 1 Correct Point (Any four Points)

Q.4 Auditor's assumptions about users of the financial statements:

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:

- (i) 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;
- (ii) Understand that financial statements are prepared, presented and audited to levels of materiality;
- (iii) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- (iv) Make reasonable economic decisions on the basis of the information in the financial statements.

Marking Scheme – 1 Mark for 1 Correct Point (Four Points)