Characteristics of I.C.

Manual & Automated Controls

- relevant for RAP & FAP.
- Affect how transⁿ Initiated, Recorded, Processed & Reported (IRPR).

Controls in

Manual System

Includes procedures like:

- Review & Approval of transⁿ (large purchases)

  ⊕

- Reconciliation & follow up of reconciling items.

  Co. Books (₹100000) — Goods Return → Supplier Books (300000) — Accept ✗

Automated

procedures to I, R, P, R transⁿ

I.T. System

Includes combination of automated & manual ICs.

⇒ Manual controls may be:

- Independent of I.T.,
- use IT info. (or)
- monitor IT fⁿ & handle exceptions.

Manual Controls

More Suitable (freedom → Decide)

(where judgment & discretion reqd)

(Transⁿ)

Large, unusual (or) non-Recurring transⁿ

- Cap. Budgeting Decision
  - → N.P.V.
  - → Returns.

(Circumstances)

- where errors difficult to DAP (define, anticipate, predict)
- changing circumstances.

  { System → Due Date → TDS 7th Next month ✗ ↓ 2nd Next Month → & change? }

Monitoring

effectiveness of automated ICs.

IT system Drs. Ageing Report ⇓ & check?

Less Suitable

(Transⁿ)

High volume or recurring transⁿ

Routine purchases, expenses

Errors that can be DAP

↓

can be P/D/C by aut. controls.

customers Cr. Limits ↓ system f/o

Control & Acts.

where control can be designed & automated. [SoDs ↓ limited IT access]

Audit Approach in Auto. Env

Risk Assessment

- Identify sig. A/cs & Disclosures (A.B.C.D.)
  - Quantitative / Qualitative (penalty notice / (±) case)
- F.S. Assertions
  ↓
- Likely sources of misstatements
  ↓
- Consider **Risk** from use of IT systems.

Understand & Evaluate (I.C.s.)

- Document → Understanding of Business Process using { Flowchart / Narrative Record.
  ↓
- Prepare Risk & control matrix.
  ↓
- Understand design of controls by doing walkthrough of end to end process.

Audit Trail (payroll sheet prepare → Approve → Disbursement → Accounting)
↓

- S.O.D. in all processes of Entity.

eg GITC / Appl^n Controls.

- Testing operating effectiveness
  - (kya?)
    - Testing of key reports & spreadsheets. (User Access Reports, Audit Trail Reports etc.) SODs.
  - (kaise?)
    - NTE of TOC?
      ↓
    - Sample Testing
      ↓
    - Assess Reliability of data & completeness of pop^n
      ? SAS 30 App. lo. Reliable
  - (kaun?)
    - Competence & Independence of staff doing TOCs.

Reporting

- Evaluate IC deficiencies

↓

(SA 265) • Sig. deficiency (or) material weakness

↓

(solution) • Remediation of control weakness

↓

Report

TCWG/Mgt — AR — Sec 143(3)(i) ICFR

- I.C. memo (or) Mgt letter.
- Audit Report

Data Analytics (DA)

Data → processes, tools, techniques (PTT) (M.S. Excel) → Meaningful Info. Int working

- F.D. Principal
- Intt. Rate
- Period

(Ch-4) Documention of Risk

(a) Discussion among E.T. & Sig. decisions made

(b) Understanding
- Entity / Environment
- I.C. components
- Source of info.
- R.A.P performed.

(c) Identified & Assessed Romm at FS & Assertion level.
Romm — IR, CR.

(d) Risks & related Acs that auditor understood.

Assessing & Reporting findings

1. Are there any weakness in I.T controls?
↓ (Yes)
2. what's Impact of weakness on audit?

(Deficiency)
3. Report deficiency to mgt (I.C memo or mgt letter)

(Sig. deficiency)
4. Communicate S.D. in writing to TCWG. (SA265)

Automated Environment

- Business Env. where A.POD (Accounting, Processes, Operations & Decisions)
  ↳ using computer / IT systems.

Features

(1) Data (Process. & comp. Accurate)
(2) Faster (Bus. op.)
(3) Connectivity (& Network capability) → (4) Large volumes of Trans" (Process)
(5) Better Security → (6) less human Errors.

use → E.R.P system → more complex
→ off the shelf A/c software → less complex.

Understanding & Documenting (GOS APP)

- Interfaces
- Inhouse vs Packaged
- Outsourced A/cs

Info. system
- Architecture

- Purpose (F/NF)
- Persons (CIO/CISO/Admin)

Risks from use of IT systems

- Inacc. processing / data / Both
  (System)
  - Unauth. changes
  - failure to make changes
- Unauth. access
  - Data changes
  - loss of data.

Impact of IT Risks

- Controls → Relop → Addn Audit work.
- Substantive (Data Relop → Test comp. & Accuracy → ↑ Testing)
- Report (Reg. requirement → Report on IFEs → Modify)

Types of controls (GITC / Appl" / ITDM)

- **General IT Controls**: • P&P → many Appl" & support → Pervasive / Indirect
  • Maintain Integrity & security of data

- **Data** Centers & Network operation
- **Prog.** change
- **Access** Security
- **Appl"** Acquisition, Develop & Maint.

Objective: Procⁿ System Processed | Modified System | Access (Authorised) | System Developed, Configured & Imp.

to meet F.R. objectives

Acts:

- overall mgt
  - Batch jobs
  - Performance Monitor
  - Backup
- Change mgt
  - Request
  - Making + Testing
- Security mgt.
  - P&P
  - PhONE
  - Appl" Data
- overall mgt
- project initiation
  ↓
  Analysis & design
  ↓
  Construction
  ↳ Testing &

└ Recovery from failures (BCP | DRP)

Quality assurance.

② **Applⁿ Controls** • Automated/Manual → operate at Business Process level.
• Embedded in IT Applⁿ & ensure CAI of data

Eg Mandatory USER checks. (User/Sequence No/ Edit/ Reasonableness)

③ **IT dependent manual Controls** : Manual controls → use Data/Info./Report of IT systems.

Note: i) GITC & Applⁿ Controls → Interrelated
GITC support Applⁿ controls ⊕ Both needed for CAI of info processing.

Testing methods (Inquiry, Inspection, Observation, Reperformance)

① Understand (Processing of automated transⁿ) → walkthrough — I, O, I

② Observe → user transⁿ process? ③ Inspect → configuration of applⁿ

Notes: • ↑ Efficient ↓ Effective: Inquiry ⊕ ↑ Effective ↓ Efficient: Reperformance
Best combo (E/E) : Inquiry with Inspection.

• Factors → decide AlPro. (• Risk assessment • Control Env. • Complexity Transⁿ
• Desired level of assurance • History E/Frauds.

• Document (Tests + Judgments)

Characteristics of IC.
- Manual (Review/Approval of transⁿ + Recs. & follow up.)
- Automated (Procedures → I/R/P/R Transⁿ)
- IT system (Combo of M + A)

Manual
- ↑ Suitable → ① LUN Transⁿ + circum — ② Errors ~~DAP~~ ④ Monitor autr. I.Cs.
  └ ③ changing
- ↓ Suitable → ① Transⁿ (Volume ↑ + Recurring) + ② Errors DAP → P/D/C controls + ③ Control Acts. ↓ I.C. Designed + automated.

Audit Approach (Risk Assess → Understand & evaluate → TOCs → Report)

Data Analytics (Data → PTT → Info.) → Audit (CAATs)

✶ Perform? • Completeness of data? • Re-computation of balances • J.E. Analysis
• Sample selection • Re-calculation (Int / Dep.) • Fraud Investigation.

✶ **Assess & Report findings/Exceptions** • Any weakness? ✓→ Impact? — D → Mgt (Memo/ letter)
— S.D → TCWG

Documenting Risk [Discussion (ET) + Decision → Understand (E/E/I.C) → R.O.M.M → Risks & controls]