



## CA Inter Audit Test-11 (Ch-4/5/7)

Time: 1 Hour

Marks: 30 Marks

### Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

### MCQs [6 Marks (3Q \* 2 Marks each)]

**1. You have been appointed as statutory auditor of a company for the first time. It has become very important for you to understand the company and its environment. Which of the following activities are not expected to be included in your attempts to know about the company and its environment?**

- a) Gaining a knowledge about debt structure of the company
- b) Evaluating whether company's accounting policies are appropriate for its business
- c) Understanding business risks faced by the company
- d) Gathering evidence about valuation of trade receivables of the company

**2. The objective of controls over Data centre and network operations is to ensure that production systems are processed to meet financial reporting objectives.**

- a) Data Center & Network Operations
- b) Program Change
- c) Access Security
- d) Application system acquisition, development, and maintenance

**3. The auditor is evaluating the most appropriate method to assess the internal control system of the company. The selected method should be widely recognised for gathering information about the existence, operation, and efficiency of internal controls, while also minimizing the risk of oversight of important review procedures. Furthermore, the method should facilitate easier interim reviews of controls. Which method would be most appropriate for evaluating internal control based on the description provided above?**

- a) Internal Control Questionnaire
- b) Flow Chart
- c) Check List
- d) Narrative Record

### Descriptive Questions [24 Marks]

1. KR & Associates, an auditor of FDP Ltd., observed that the company has implemented various internal controls addressing financial reporting, operational efficiency, and compliances during their preliminary evaluation. CA Karan suggests that all controls should be assessed to mitigate the risk of material misstatement in the financial statements, while CA Rajat is of the view that only those controls deemed relevant to the audit should be assessed based on professional judgment.



Comment, whether the auditor should assess all the internal controls or limit the assessment to only those considered relevant by the auditor during the audit. Also, discuss the factors influencing the auditor's judgment on the relevance of controls.

[5M]

2. Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. Analyse and explain giving examples.

[5M]

3. Discuss the various points which auditor needs to consider in determining whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous audit, and if so, the length of the time period that may elapse before retesting a control.

[5M]

4. Which are specific risks to the company's internal control having IT environment?

[5M]

5. SA 330 states that auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to operating effectiveness of relevant controls. Briefly discuss when such tests are to be designed and performed in accordance with SA 330?

If an auditor intends to place greater reliance on effectiveness of a control, state its likely effect on audit evidence to be obtained as a result of such tests of controls. Why a higher level of assurance may be sought by an auditor about the operating effectiveness of controls?

[4M]