

CA FINAL - ADVANCED
AUDITING
ASSURANCE AND
PROFESSIONAL ETHICS

NEW COURSE



Volume 1
Brahmastra

Notebook style **multicoloured** book penned by CA SJ

Covers all 19 chapters of Audit
New Course with Standards

Scientifically designed &
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Vol I - Chapter-1 to 11
Vol II - Chapter-12 to 19

Good for **self study**,
Good for **revision**

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SCAN FOR AMENDMENTS
AND UPDATES

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AUTHOR
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F.A.S.T.
first attempt success tutorials



Chapter-1 QUALITY CONTROL

SQC

1

Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

OBJECTIVE

The firm should *establish a system of quality control* designed to provide it with *reasonable assurance* that the *firm and its personnel*

- (a) *Comply with professional standards and regulatory and legal requirements, and that*
- (b) *Reports issued by the firm or engagement partner(s) are appropriate in the circumstances.*

APPLICABILITY

This SQC applies to *all firms*. The nature of the *policies and procedures* developed by individual firms to comply with this SQC will *depend on various factors* such as the size and operating characteristics of the firm, and whether it is part of a network.

DEFINITION

Engagement documentation

The record of *work performed, results obtained, and conclusions the practitioner reached* (terms such as “working papers” or “work papers” are also sometimes used). The *documentation* for a specific engagement is assembled in an engagement file;

Engagement team

All personnel *performing an engagement*, including any experts contracted by the firm in connection with that engagement. The term “engagement team” *excludes* individuals within the client’s IAF who provide direct assistance on an audit engagement when the external auditor complies with the requirements of SA 610.

Listed entity

An entity whose shares, stock or debt are *quoted or listed on a recognized stock exchange*, or are traded under the regulations of a recognized stock exchange or other equivalent body.

Partner

Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Personnel

Partners and staff.

Suitably qualified external person

An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

Refer SA 220 for definition of

Engagement partner, Engagement quality control review, Engagement quality control reviewer, Firm, Inspection, Monitoring, Network Firm, Network

SYSTEM OF QUALITY CONTROL

The firm's system of quality control should include policies and procedures addressing each of the following elements. This should be documented and circulated to personnel if firm obtain their feedback

- | | |
|--|-----------------------------|
| (a) Leadership responsibilities for quality within the firm. | (d) Human resources. |
| (b) Ethical requirements. | (e) Engagement performance. |
| (c) Acceptance and continuance of client relationships and specific engagements. | (f) Monitoring. |

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

Aim to develop a culture that quality is essential in performing engagement

- ▶ *The firm's CEO or managing partners to assume ultimate responsibility for system of quality control.*
- ▶ *They may be communicated by many ways & documented in internal docs*
- ▶ *They are incorporated in the firm's internal documentation and training materials,*
- ▶ *The firm's business strategy is subject to achieving quality in all the engagements that the firm performs. Accordingly:*
 - (a) *The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed;*
 - (b) *The firm's policies and procedures addressing performance evaluation, compensation, and promotion with regard to its personnel; and*
 - (c) *The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.*
- ▶ *Person assigned with operational responsibility should have sufficient appropriate experience, ability and authority and responsibility*

ETHICAL REQUIREMENTS

- ▶ *The firm should comply with relevant ethical requirements which include:*



- ▶ The firm's policies and procedures should emphasize fundamental principles, further reinforced by:
 - (a) the leadership of the firm,
 - (b) education and training,
 - (c) monitoring, and
 - (d) a process for dealing with non-compliance.

ETHICAL REQUIREMENT - INDEPENDENCE

- ▶ Firm, its personnel and, where applicable, others need to:
 - (a) **Communicate** its independence requirements to personnel & others; and
 - (b) **Identify and evaluate** circumstances and relationships that **create threats** to independence, and to take appropriate action to eliminate or reduce them to an acceptable level by applying safeguards, or withdrawal if required.
- ▶ Such policies and procedures should require:
 - (a) Engagement partners to provide the firm with **relevant information** about client engagements;
 - (b) **Personnel to promptly notify circumstances and relationships** that create a threat so that appropriate action can be taken; and
 - (c) **Accumulate & communicate** information to appropriate personnel so that:
 - (i) They can determine whether they **satisfy independence requirements**;
 - (ii) The firm can **maintain and update**; and
 - (iii) The firm can take appropriate action regarding identified threats.
- ▶ In case of breaches of independence requirements policies and procedures should include requirements for:
 - (a) Personnel to promptly notify the **firm of breaches** of which they become aware;
 - (b) The firm to **promptly communicate identified breaches** of these P&Ps to EP & other relevant personnel
 - (c) **Prompt communication** to the firm if necessary, by the EP and the other individuals of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. At least **annually**, firm should obtain written confirmation of compliance of its policies and procedures on independence from all firm personnel covered under the Code.

• **Familiarity Threat -**

1. Using same senior personnel in an assurance over prolonged period may impair quality. Hence firm to **set out criteria** for determining the need for safeguards to reduce the familiarity threat to an acceptable level considering
 - (a) nature of engagement and extent of public interest involved and
 - (b) length of service of senior on an engagement
2. **For all audits of FSs of listed entities**, requiring the rotation of the engagement partner after a specified period in compliance with the Code.
For listed entities audits, the EPs should be rotated after a pre-defined period, normally not more than seven years (except if audit conducted by proprietors). Further such auditors are subjected to mandatory peer review

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

The firm should establish **policies and procedures** for the acceptance and continuance of client relationships to **provide it with reasonable assurance** that it will undertake or **continue relationships** and engagements only where:

- (a) **Client integrity** has been considered;
- (b) **Is competent to perform** engagement w.r.t. capability, time & resources; and
- (c) **Can comply** with the ethical requirements (as discussed above)

The firm should obtain such information **issues have been identified**, and the firm decides to **accept or continue the client relationship** or a specific engagement, it should document how the issues were resolved.

(a) Management Integrity

With regard to the integrity of a client, matters that the firm considers include:

- ▶ The **identity & business reputation** of the client's principal owners, KMP etc.
- ▶ The **nature of the client's operations**, including its business practices.
- ▶ Information concerning the **attitude** of the client's principal owners.
- ▶ **Indications** of an inappropriate **limitation** in the scope of work.
- ▶ Client is aggressively concerned with maintaining the **firm's fees** as low as possible.
- ▶ Indications that the client might be **involved in money laundering**.
- ▶ The reasons for the **proposed appointment and non-reappointment** of the firm.

Source of Information on client integrity:

- ▶ Communications with existing or previous providers of professional accountancy services to the client, and discussions with other third parties.

- ▶ Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- ▶ Background searches of relevant databases.

(b) Capabilities, competence, time and resources

The capabilities, competence, time and resources to undertake engagement:

- ▶ Firm personnel have knowledge of relevant industries or subject matters;
- ▶ Have experience with relevant regulatory or reporting requirements;
- ▶ The firm has **sufficient personnel** with the necessary capabilities and competence;
- ▶ **Experts** are available, if needed;
- ▶ Individuals **meeting the criteria and eligibility** requirements; and
- ▶ The firm would be able to **complete the engagement** within the reporting deadline.

OBTAINING INFORMATION CAUSING DECLINE AN ENGAGEMENT

- ▶ Where the firm obtains information that would have caused it to **decline an engagement if that information** had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:

- (a) **The professional and legal responsibilities** that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
- (b) **The possibility of withdrawing from the engagement** or from both the engagement and the client relationship.

Policies and procedures on withdrawal from an engagement

- **Discussing** with the appropriate level of the client's MGT and TCWG regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines to **withdrawal** from the engagement or relationship or from both discuss with MGT alongwith reasons.
- **Considering** any professional, regulatory or legal requirement.
- **Documenting significant issues, consultations, conclusions.**

HUMAN RESOURCES

- ▶ **The firm should establish policies and procedures to reasonable assure that:**
- Firm has **sufficient personnel** with the capabilities, competence, and commitment to ethical principles; and

- Responsibility of engagement partner clearly defined & communicated to them.
- Such policies and procedures address the following personnel issues:

Red Bracket indicates content of SA which are relevant but not included in ICAI SM

- | | |
|-------------------------|------------------------------------|
| (a) Recruitment; | (b) Performance evaluation; |
| (c) Capabilities; | (d) Competence; |
| (e) Career development; | (f) Promotion; |
| (g) Compensation; and | (h) Estimation of personnel needs. |

- **Methods to develop capabilities and competence** - Professional education, Continuing professional development, including training, Work experience, Coaching by more experienced staff, for example, other members of the engagement team.
- **Performance evaluation, compensation and promotion procedures** - In particular, the firm:
 - (a) Makes personnel aware of the firm's expectations regarding performance and ethical principles;
 - (b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and
 - (c) Helps personnel understand among other things, performance quality, adherence to ethical principles, disciplinary action on failure to comply with the firm's policies and procedures.

▶ **EP (Engagement Partner)**

The firm should establish policies and procedures requiring that:

- (a) The identity and role of the engagement partner are communicated to key members of the client's management and TCWG;
- (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and
- (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.

▶ **Assignment of Engagement Teams (Responsibility assigned to EP)**

The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following:

- An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- An understanding of professional standards and regulatory and legal requirements.
- Appropriate technical knowledge, including knowledge of relevant information technology.
- Knowledge of the relevant industries in which the clients operate.

- Ability to apply professional judgment.
- An understanding of the firm's quality control policies and procedures.

ENGAGEMENT PERFORMANCE

- ▶ **The firm should establish policies / procedures to reasonable assure w.r.t.:**
 - Compliance with professional standards.
 - Compliance with laws/ regulations.
 - Engagement partner issues reports that are appropriate in the circumstances.
- ▶ **Consistency in quality is achieved through addressing matters that:**
 - How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.
 - Processes for complying with applicable engagement standards.
 - Processes of engagement supervision, staff training etc.
 - Methods of reviewing the work performed.
 - Appropriate documentation of the work performed & timing & extent of review.
 - Processes to keep all policies and procedures current.

Supervision Refer SA → 220

Review Refer SA → 220

CONSULTATION IN DIFFICULT & CONTENTIOUS MATTERS

- ▶ Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.
- ▶ Effective consultation requires that those consulted be given all the relevant facts
- ▶ A firm without appropriate internal resources, may consider advisory services provided by (a) other firms, or (b) professional and regulatory bodies
- ▶ The documentation of consultations with other professionals involve
 - (a) The issue on which consultation was sought; and
 - (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.
- ▶ The firm should establish policies and procedures designed to provide it with reasonable assurance that:
 - (a) Appropriate consultation takes place on difficult or contentious matters;
 - (b) Sufficient resources are available to enable appropriate consultation to take place;

- (c) The nature and scope of such consultations are documented; and
- (d) Conclusions resulting from consultations are documented and implemented.

DIFFERENCES OF OPINION

The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented. The report should not be issued until the matter is resolved.

ENGAGEMENT QUALITY CONTROL (EQC) REVIEW (REQUIRED BEFORE REPORT IS ISSUED)

- The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:
 - (a) Require an EQC review for all audits of FSs of listed entities;
 - (b) Set out criteria against which all other audits & reviews services should be evaluated to determine whether an engagement QC review should be performed;
 - (c) Require an engagement QC review for all engagements meeting the criteria established in compliance.
- ▶ **Criteria to include engagements other than audits of listed entities include:**
 - The nature of the engagement, whether involves public interest.
 - Unusual circumstances or risks in an engagement or class of engagements.
 - Whether laws or regulations require an engagement quality control review.
- ▶ **The firm should establish policies and procedures setting out:**
 - (a) The nature, timing and extent of an engagement quality control review;
 - (b) Criteria for the eligibility of engagement quality control reviewers; and
 - (c) Documentation requirements for an engagement quality control review.

EQC POLICIES AND PROCEDURES

a Nature, Timing and Extent of the EQC Review

➔ An engagement quality control review ordinarily involves

- discussion with the engagement partner,
- a review of significant judgments made, the FSs or other subject matter information and the report

- It also involves a review of selected working papers.
- The extent of the review depends on the complexity & risk
- The review does not reduce the responsibilities of the engagement partner.
- ➔ **Listed entity - Engagement quality control review includes considering:**
 - (1) Evaluation of the firm's independence
 - (2) Significant risks identified and the responses
 - (3) Judgments made, particularly with respect to materiality and significant risks.
 - (4) Whether appropriate consultation taken on matters involving differences of opinion /difficult matters, and conclusions from those consultations.
 - (5) The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
 - (6) The matters to be communicated to management, TCWG, regulatory bodies, etc.
 - (7) Whether working papers reflect the work performed in relation to the significant judgments and support the conclusions reached.
 - (8) The appropriateness of the report to be issued.

Engagement quality control reviews for engagements other than audits of FS of listed entities may, depending on the circumstances, include some or all of these considerations.
- b** **Criteria for the Eligibility of Engagement Quality Control Reviewers (EQCR)**
 - ➔ **The firm's policies and procedures to establish their eligibility through:**
 - (a) The technical qualifications required to perform the role, including the necessary experience and authority; and
 - (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.
 - ➔ **Maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:**
 - (a) Is not selected by the engagement partner;
 - (b) Does not otherwise participate in the engagement during the period of review;
 - (c) Does not make decisions for the engagement team; and
 - (d) Is not subject to other considerations that would threaten the reviewer's objectivity.
 - ➔ **EP consultation with EQCR during engagement** - Permitted, provided the engagement EQCR eligibility to perform the role is not compromised.
 - ➔ **Sole Practitioners** - Suitably qualified external persons may be contracted
 - ➔ **Replacement** - Change Reviewer if objectivity found to be threatened
 - ➔ **Differences of Opinion** - Refer above discussion on it

c

Documentation of the Engagement Quality Control Review

Policies and procedures to require documentation that:

- (a) The **procedures required** by the firm's policies on engagement quality control review **have been performed**;
- (b) The engagement quality control review has been **completed before the report is issued**; and
- (c) The reviewer is **not aware of any unresolved matters** that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

ENGAGEMENT DOCUMENTATION

→ **Completion of the Assembly of Final Engagement Files**

- (a) Establish policies and procedures for Engagement Team to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.
- (b) **In case of an audit**, for example, such a time limit is ordinarily **not more than 60 days after the date of the auditor's report**.
- (c) **Where two or more different reports are issued** in respect of the same subject matter information of an entity, the **firm's policies and procedures** relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement.

→ **The firm should establish policies and procedures designed to** maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. Controls to include (a) use of a password, (b) appropriate back-up, (c) procedures for distributing engagement documentation to the team members; and (d) restricting access to it.

→ **Designs and implements controls for engagement documentation to:**

- (a) Enable determination of when, by whom documentation was created, changed or reviewed;
- (b) Protect the integrity of the information at all stages of the engagement;
- (c) Prevent unauthorized changes; and
- (d) Allow access to engagement team and other authorized parties to properly discharge their responsibilities.

→ **Scanned Documentation** - For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:

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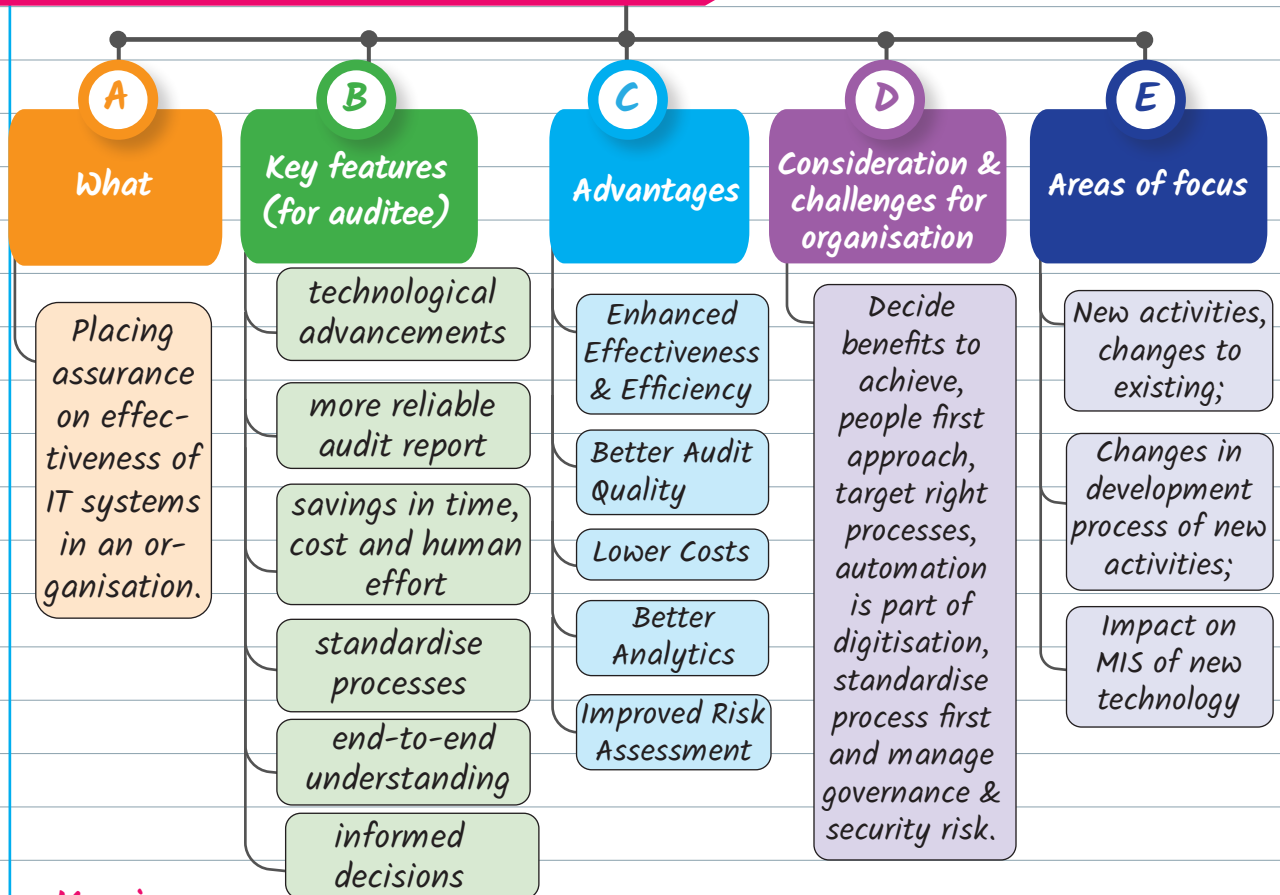
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Chapter-12 DIGITAL AUDITING AND ASSURANCE

1 DIGITAL AUDIT (Digitisation for clients)



(1) Meaning

- ▶ Digital Audit is placing assurance on the effectiveness of the IT systems implemented in an organisation.
- ▶ Technology is an integral part of regular business operations. Organisations should review their technology-related controls to identify gaps and risks for continuous improvement and to ensure regulatory compliance.
- ▶ A strong controls and security position gains trust of stakeholders.

(2) Key Features (for auditee)

- ▶ Encourages the auditee to embrace the latest technological advancements.
- ▶ Improves the quality of opinion, more reliable audit report.
- ▶ Leads to savings in time, cost and human effort. Many of today's digitally enabled processes operate autonomously 24x7, driving real-time transactions.
- ▶ Allow to standardise processes and allow controls to be implemented to mitigate risk.

- ▶ Help organisation gain a more **comprehensive overview of end-to-end processes** and **how technologies are utilized, controlled and optimized against standards** set.
- ▶ Help to create a **future for a digital strategy** and paves way for adopting new technologies such as AI and Robotic, usage of analytics and automation.
- ▶ Help the auditee to make **informed decisions**.

(3) Advantages

- ▶ **Enhanced Effectiveness & Efficiency:** With the use of tools and automation techniques, auditee can **standardise the processes and routine tasks** like automating a reconciliation process that previously involved hours, and thus increases the efficiency and saves time and costs.
- ▶ **Better Audit Quality:** Technology can correctly **evaluate massive volumes of data quickly**. This assist auditor in determining the areas that require more testing, lowering the chance that serious misstatements or other problems would go unnoticed.
- ▶ **Lower Costs:** By automating processes the cost of auditing and **the time needed to complete an audit**, is reduced.
- ▶ **Better Analytics:** **Aid management and auditors in seeing trends and patterns** that may be challenging to spot manually. For instance, AI can examine a lot of financial data to spot possible fraud, which is hard for auditors to spot manually.
- ▶ **Improved Risk Assessment:** Creating a **number of automations to assist with the audit process and streamlined testing** improves the risk assessment procedure. Management and auditors put their testing efforts on sites with a higher risk of material misstatement and make informed decisions.

(4) Consideration and Challenges

1. **Considerations that organisation should keep in mind while using digital techniques & automation:**

Know what **business benefits** the organisation wants to achieve with automation.

Think **people first** and do not underestimate **change is difficult**.

Target the **right processes** – this is a key for successful automation.

Automation is not a standalone solution and should be part of a **broader digitalization strategy**.

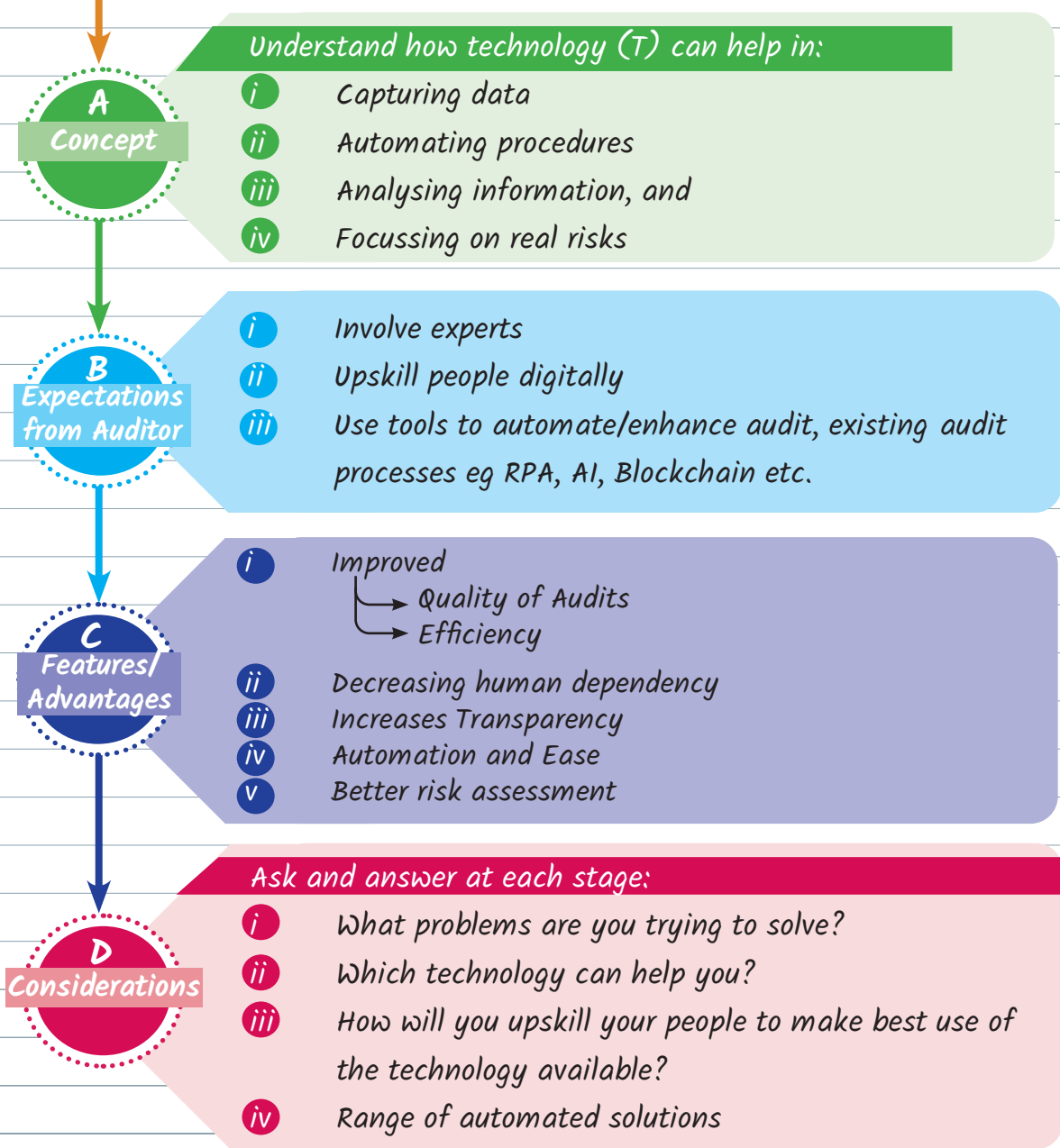
Ensure the **process works** and it is **standardised** before automating. Bots do not easily adapt to process change.

Automation introduces new challenges for organisation. Don't forget about **governance and data security in the risk framework**.

2. **Auditors will obtain an understanding of management's implementation and oversight of new technologies, and perform procedures:** To understand the changes to the company's business, including any changes to the information technology environment.

Areas of focus include understanding of the following:

- ▶ **New activities or changes to existing processes due to new technology** (e.g., new revenue streams, changes in the roles and responsibilities of entity personnel, automation of manual tasks, changes in staffing levels that affect an entity's IC environment).
- ▶ **Changes in the way the entity's systems are developed and maintained and whether these changes introduce new risks and require new controls** to respond to those risks.
- ▶ **Impact of new technology** on how to obtain or generates use relevant information on the functioning of internal control.



(1) **Concept**

- Auditing Digitally is **using advancements in technology** for effective and efficient audit. **For example**, using sampling tools for selection of a sample size from a population based on materiality or using Bot for analysis of statutory payments compliance as part of an audit assignment.
- It involves **digitizing the way an audit is delivered through automation and innovation**.
- There are **new technologies** to help **capture data**, **automate procedures**, **analyse information** and **focus on the real risks** of the client.



Expectations from an Auditor

- ✓ Audit teams need to *involve experts* on different applications and technologies.
- ✓ A *right level of expertise* of new technology, such as RPA, AI, blockchain technology, *allows auditors to provide highest quality of audit.*
- ✓ Investment in technology helps to focus on developing and using tools to *automate and enhance existing processes*, such as data analytics and collaboration and sharing tools, which help to drive quality in audits today.
- ✓ Advanced technologies such as AI and drones may also play a role in *evolving the scope of the audit* (e.g., using data analytics and machine learning to help identify fraud).

Example

A manager on a weekly basis performs a manual control to review if vendor master additions and changes in the system are done post appropriate approvals. This control can be tested and re-performed by the auditor using RPA technology

BOTs can login into the system and generate the report and write the output in an excel file.

Based on population, BOT will select the samples of changes to be tested.

Further, BOT will pull the correct file with approved changes from SharePoint.

Then it will perform the testing wherein it will populate the details of approvals (date, approved by) and identify if changes made without approvals.

Lastly, BOT will summarise the results for all the selected samples in an excel file.

The auditor will then review the final results file to check if there are any exceptions (changes made without approvals) noted in the selected samples.

Due to the usage of BOT manual intervention has been reduced, more accurate results are populated, it results in saving auditors time as well and exceptions highlighted can be readily reviewed.

(2)

Key Features or Advantages



Improved

- ✓ **Quality of Audits:** The impact on quality is evident, through automation, for e.g. by using data analytics techniques, we can easily *move from sample auditing to full population of transactions being reviewed or re-performed.* This ultimately free up time for audit teams to analyse the information and better understand the business they audit.

✓ **Efficiency:** What used to take weeks to learn and programme using deep experts, is now easily available to auditors after some simple **training and digital upskilling**. The result may be increased efficiency and fewer errors, but the benefits are wider reaching and personal. This also results in **improved retention of talent and confidence**.

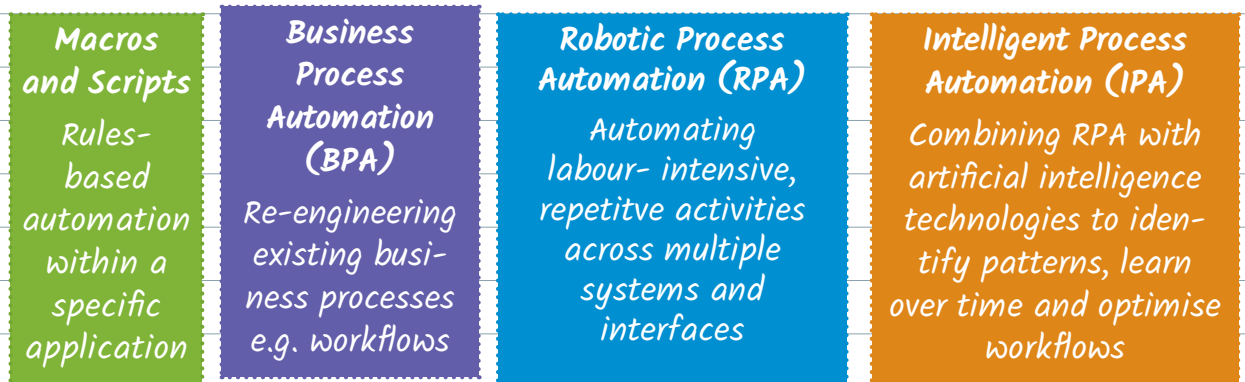
- **Decreasing human dependency:** Using technology **minimizes the manual intervention** which ultimately results in reducing the risk of manual errors. Technology helps in streamlining the process of testing for auditors which decreases the errors which occur from the judgment of different individuals.
- **Increases Transparency:** With technological advancement, transparency has been increased. New ERPs and tools have audit trail feature available to **trace the transaction end to end**. It helps management or auditors to review the details like the date on which any change is made, who made the change, what has been changed, all such details are captured and can be used while performing audit.
- **Automation and Ease:** Automating tasks like **recording work in repositories, extracting data and sampling** have improved the **quality of audit and reduced the manual error**. Using dashboards (e.g., Power BI) for reporting helps in understanding the position and helps the auditor to form his opinion.
- **Better risk assessment:** With usage of automation and technology in audit, auditor may **focus on the real challenges and assess the potential risk** precisely. It gives time to auditors to focus on the bigger picture rather than being involved with repetitive tasks. Dashboards, visual presentations and other tools help in understanding where the risk lies and what all areas need more attention.

(3) Considerations

Some of the crucial questions to ask and answer- at all stages of tech journey:

- **What problems are you trying to solve?**
Continuously evaluate the emerging technologies and latest tools to see what can benefit the audit. Think about what would make your audit easier or better and how you will measure return on your investment.
- **Which technology can help you?**
There are a number of tools available and many vendors and start-ups using **data acquisition, manipulation and visualisation tools**. Consider how comfortably these solutions will integrate into your current processes and flag any potential implementation issues early on.

- **How will you upskill your people to make best use of the technology available?**
Technology is only as good as the people using it. **Training and development** are critical to ensure teams understand how and why they are using the technology. Reluctance to change is obvious, however continuous training help them to get better.
- **Range of automated solutions:**
There is a range of automation solutions, which helps to **standardize the repeatable tasks and optimise the efforts** resulting in doing better. Some of the techniques are using robotics and automation for data gathering activities, use of data analytics for planning and budgeting and reporting by dashboards.



Emerging technologies can bring great benefits, but they also come with a varied set of substantial risks. Give some examples of technology risks of digital system and the control considerations to consider while assessing technology risk. (ICAI SM)

(4)

Challenges

Reluctance to change, challenges with data security and governance, choosing the right tool and automating the right process, ensuring standardisation and correct configurations to avoid error and bias, evaluating business benefits the organization wants to achieve with automation and the roadmap for digital strategy.



Briefly describe the advantages and challenges of Auditing digitally. (ICAI SM)

3

UNDERSTAND THE IT ENVIRONMENT



Understanding the ways in which

- ✓ entity relies upon IT; and
- ✓ how the IT environment is set up to support the business.

This allows the auditor to better understand where risks might arise from the entity's use of IT (required as per SA 315).

- ▶ Understanding how IT is used by the entity **helps in identifying controls** over the entity's IT processes.
- ▶ **Assessing the complexity** of the IT environment helps the teams consider:
 - ✓ whether to involve IT specialists or experts in the planning and/or execution of the audit
 - ✓ whether to include specialists in the complexity assessment.



Understanding of the Automated Environment

- ▶ The auditor's understanding of the automated environment should include the following:
 - ✓ Applications that are being used by the company.
 - ✓ Details of the IT infrastructure components for each of the application.
 - ✓ Organisation structure and governance.
 - ✓ Policies, procedures and processes followed.
 - ✓ Extent of IT integration, use of service organisations.
 - ✓ IT risks and controls.

The illustration below is an example of how an auditor can document details of an automated environment:

Application	Used for	Database	Operating System	Network	Server and Storage
SAP ECC / HANA	Integrated application software	Oracle 19c	HP-UX	LAN, WAN	HP Server and NAS
REVS	Front Desk, Guest Reservations	MS-SQL Server 2018	Windows 2016 Server	In-house developed	HP Server Internal HDD
KOTS	Restaurant and Kitchen Orders	MS-SQL Server 2018	Windows 2016 Server	In-house developed	HP Server Internal HDD
BILLSYS	Billing	Oracle 12c	Windows 2016 Server	Packaged Software	HP Server Internal HDD

(1) Key Areas for an Auditor to Understand IT Environment

- ▶ **Understand the flow of transaction:** Auditor's understanding of the IT environment

may focus on **identifying and understanding the nature and number of the specific IT environment** that are relevant to the flows of transactions and processing of information in the information system. **Changes in the flow of transactions, or information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing or storing those transactions or information.**

➤ **Identification of Significant Systems:** Auditor may identify the **IT applications and supporting IT infrastructure** concurrently with the auditor's understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through and out the entity's information system.

➤ **Identification of Manual and Automated Controls:**

- ✓ Entity's system of IC contains manual elements and automated elements (i.e., manual and automated controls and other resources used in the entity's system of IC).
- ✓ An entity's mix of manual and automated elements **varies with the nature and complexity** of the entity's use of IT.
- ✓ The characteristics of manual or automated elements are **relevant to the auditor's identification and assessment of the risks of material misstatement.**

➤ **Identification of the technologies used:**

- ✓ The need to **understand the emerging technologies implemented, role they play (in the entity's information processing or other financial reporting activities), and consider whether there are risks arising from their use.**
- ✓ Given the potential complexities of these technologies, the engagement team may decide to **engage specialists and/or auditor's experts** to help understand whether and how their use impacts the entity's financial reporting processes and may give rise to risks from the use of IT.
- ✓ Examples of **emerging technologies** are:
 - ▶ Blockchain, including cryptocurrency businesses (e.g., token issuers, custodial services, exchanges, miners, investors)
 - ▶ Robotics
 - ▶ Artificial Intelligence

- ▶ Internet of Things
- ▶ Biometrics
- ▶ Drone

▶ **Assessing the complexity of the IT environment:**

The level of complexity for individual characteristics differs across applications. Complexity is based on the following factors –

- ✓ Automation used in the organisation,
- ✓ Entity's reliance on system generated reports,
- ✓ Customisation in IT applications,
- ✓ Business model of the entity,
- ✓ Any significant changes done during the year; and
- ✓ Implementation of emerging technologies.

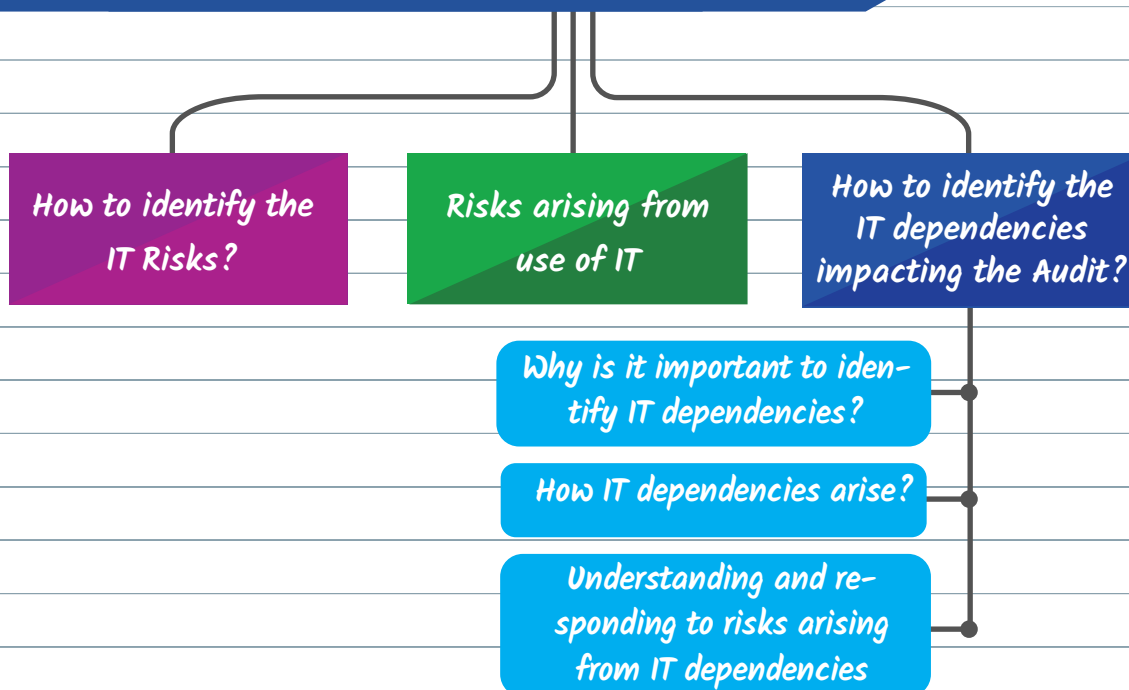
After considering the above factors for each application the over complexity is assessed of the IT environment.



What are the stages involved in understanding the IT environment and what key considerations auditor should consider. (ICAI SM)

4

IDENTIFYING THE RISKS ARISING FROM USAGE OF IT



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Palash Mittal

Ruchit Vakharia

Aayush Khutate

Gaurav Agrawal

Raghav Rathi

Sandeep Varma

Sagar Parwani

Riya Jain

Priya Jain

Dhavnil Shah

Prashant Goyal

Karan Kothari

Amogh Ajay Doshi

Sidharth Choraria

Madhukar Kumar

Agam Agrawal

Arun Borana

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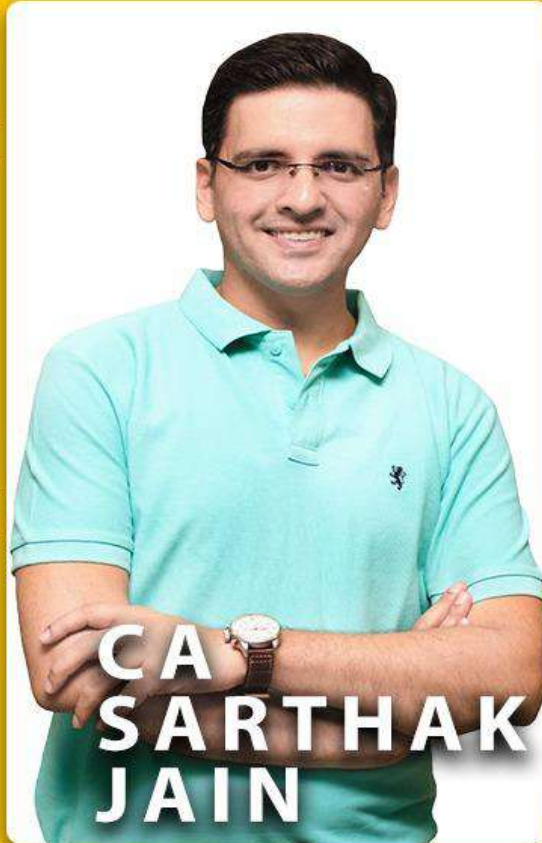


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