

CHAPTER 6 - AUDIT IN AN AUTOMATED ENVIRONMENT

Q	Reference	Question	Answer
1	ICAI Module	Briefly mention three reasons why IT should be considered relevant to an audit of financial statements.	<p>The auditor should consider relevance of IT in an audit of financial statements for the following reasons:</p> <p>(a) Since auditors rely on the reports and information generated by IT systems, there could be risks in the IT systems that could have an impact on audit.</p> <p>(b) Standards on auditing SA 315 and SA 330 require auditors to understand, assess and respond to risks that arise from the use of IT systems.</p> <p>(c) By relying on automated controls and using data analytics in an audit, it is possible to increase the effectiveness and efficiency of the audit process</p>
2	ICAI Module	Describe how risks in IT systems, if not mitigated, could have an impact on audit.	<p>When risks in IT systems are not mitigated the audit impact could be as follows:</p> <p>(i) The auditor may not be able rely on the reports, data obtained, automated controls, calculations and accounting procedures in the IT system.</p> <p>(ii) The auditor has to perform additional audit work by spending more time and efforts.</p> <p>(iii) The auditor may have to issue a modified opinion, if necessary</p>
3	ICAI Module	What are the different testing methods used when auditing in an automated environment. Which is the most effective and efficient method of testing.	<p>When auditing in an automated environment, the following testing methods are used:</p> <p>(a) Inquiry (b) Observation (c) Inspection (d) Reperformance</p> <p>A combination of inquiry and inspection is generally the most effective and efficient testing method.</p> <p>However, determining the most effective and efficient testing method is a matter of professional judgement and depends on the several factors including risk assessment, control environment, desired level of evidence required, history of errors/misstatements, complexity of business, assertions being addressed.</p>