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Module Preparation Seminar – Agenda

- **Identifying and assessing the risks of material misstatement at financial statement and assertion level (HKSA 315 (Revised))**
- **Changes in auditor appointment**
- **Information technology**

HKSA 315 (Revised)

Identifying and assessing the risks of material misstatement at financial statement and assertion level

Audit Risk - Definition & Components

It is "risk that auditor expresses an **inappropriate audit opinion** when the financial statements are materially misstated taken as a whole"

Inherent Risk + **Control Risk** + **Detection Risk**

Within the Client (Inherent Risk, Control Risk)

Auditor's Risk (Detection Risk)

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Inherent Risk ("IR")

- Refers to the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were **no related internal controls**.

- Example :
- Industry environmental factors – competitiveness
- Technological obsolescence or over-dependence on single product
- Accounts which require expert valuations

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Control Risk ("CR")

- Refers the risk that a misstatement that could occur in an account balance or class of transactions and that could be material individually or when aggregated with misstatements in other balances or classes, **will not be prevented or detected and corrected** on a timely basis by the accounting and **control systems**.

- **If the company has good internal controls, there is a high chance that the control system will detect a material error.**

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Detection Risk ("DR")

- Refers risk that the **auditor will not detect a material misstatement** that exists in an assertion where the audit procedures fail in its effectiveness. Auditor should amend his NET (Nature, Extent and Timeliness) of the audit procedures.

- Sampling risk and non-sampling risk are components of detection risk.

- Eg Incoming auditor – ie not familiar with the audit client

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Inverse Relationship

Assertion Level

Combined Assessment of risk

IR + CR

More Audit Work

DR

Perform Risk Assessment only on IR and CR

HKSA 315 (Revised) Risk Assessment

Why revised the standard ? As there are changes in HKSA 610 (Revised) related to internal auditors

Risk Assessment Procedures and Related Activities

(a) Inquiries of Management, the Internal Audit Function and Others within the Entity

- auditor can obtain information through inquiries with the **internal audit function**, if the entity has such a function

- Inquiries directed to the **risk management function**

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HKSA 315 (Revised) Risk Assessment

- Inquiries directed to **information systems** personnel may provide information about system changes, system or control failures

(b) Inquiries of the Internal Audit Function

- the internal audit function is likely to **have obtained insight into the entity's operations and business risks**, and may have findings based on its work, such as identified control deficiencies or risks

- internal audit function provides information to the auditor regarding any **actual, suspected or alleged fraud**

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(c) Considerations specific to public sector entities

- Inquiries of appropriate individuals in the internal audit function can assist the auditors in identifying **the risk of material non-compliance with applicable laws and regulations** and the **risk of deficiencies in internal control** over financial reporting.

(d) Audit Evidence for Elements of the Control Environment

- The auditor may also consider how management has responded to the findings and recommendations of the internal audit function regarding identified deficiencies

- **The auditor may also be able to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures**

HKSA 315 (Revised) Risk Assessment

Requirement: (Must perform)

1. Identify and Assess the risks of material misstatements **at the (Overall)** **financial statement level** and at the **assertion level** for classes of transactions(P/L), account balances (B/S) and disclosures.

2. Determine risks that require **special audit consideration** and consider whether the controls are implemented **("Significant Risks")**

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HKSA 315 (Revised) Risk Assessment

3. **Evaluate the design of entity's controls** and determine the implementation of the entity's controls

4. If is **not possible** or impracticable to reduce the risks of material misstatements at the assertion level to an acceptably low level with audit evidence obtained by substantive testing, then auditor should evaluate the design and implementation of the client's controls i.e. in a computerized system, lack of paper trail

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Collect Audit Evidence

- Main purpose = to obtain sufficient and appropriate audit evidence to support audit opinion

- Ways to collect audit evidence

  - **Risk Assessment**
  - Tests of Controls
  - Substantive Testing

Risk of material misstatement at Financial Statement Level – General

- Applying to the financial statement **as a whole**
- Able to reduce audit risk to an **acceptably low level**
- More **pervasive** to the financial statement at a whole
- **Affect many assertions**

Risk of material misstatement at Financial Statement Level – Factors to consider

*** Always related to management***

- Risks from a weak **control environment** which includes management's attitudes to good internal control practice
- Management's attitude towards a good internal control
- Management's competence, integrity and experience

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Risk of material misstatement at Financial Statement Level – Other Factors to consider

- **Unusual pressures** on management (i.e. plan to go public, bonuses ties to sales or profits)

- Nature of entity's business – risky Industry, market fluctuations

- Industry factors i.e. **Special regulations and reporting changes** (i.e. Listing companies, securities companies, insurance companies, banks)

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Risk of material misstatement at Financial Statement Level – Other Factors to consider

- **Aggressive business strategies** – fast expansion, plenty of acquisition and mergers

- Significant business risk
  - Cannot focus on a specific risk
  - Concern about the client's going concern
  - Concern about fraud

HKSA 330 (Clarified) Responses to assessed risk – FS Level

- Reduce audit risk to an **acceptability low level**, auditor should determine overall responses to assessed risks of material misstatements at the financial statement level and **documentation is required**

- Consider Control Environment

HKSA 330 (Clarified) Responses to assessed risk – FS Level

**** Use general audit strategy ***

For Example:

- Assigning more staff or more training for staff
- More supervision for staff
- Emphasizing to audit staff the need to maintain professional skepticism

HKSA 330 (Clarified) Responses to assessed risk – FS Level

- Collect more persuasive evidence and more procedures
- Using experts
- Incorporating more unpredictability into the audit procedures
- Change nature, extent and timeliness of substantive tests

Risk of material misstatement at Assertion Level

- **Not able** to reduce the risks of material misstatement to an acceptably low level with audit evidence obtained only from substantive procedures
- Refer to specific **classes of transactions, accounts balances**
- Risks arise from the particular characteristics of a class of transaction – **inherent and control risk**
- Identify controls that are likely to **prevent, detect or correct** material misstatements

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Risk of material misstatement at Assertion Level – General

- Comprises of IR and CR **(Combined Assessment of the Risk of Material Misstatements)**
- Auditor would perform **tests of controls** to support the risk assessment

Risk of material misstatement at Assertion Level – Factors to consider

- Accounts likely to be susceptible to misstatements (i.e. required many adjustments in previous year's audit or accounts that include estimated amounts)
- **Complexity of underlying transactions** (i.e. financial instruments)
- Degree of judgement involved in determining account balances (i.e. provision for contingent liabilities and warranty expenses)
- Susceptibility of assets to loss or misappropriation

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Risk of material misstatement at Assertion Level – Responses

- **Design and perform appropriate audit procedures to address** to the assessed risks of material misstatements at the assertion level and for each material class of transactions, account balances and disclosure.

- Determine risks that require special audit considerations and consider whether the controls are implemented

- Evaluate the design of entity's controls and determine the implementation of the entity's controls Vouching etc

- **Documentation of N (Nature) E (Extent) T (Timeliness)** * of further audit procedures, linkage of those procedures with

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N – Nature of Substantive Testing

- Consider performing Substantive Testing only or both
- Tests of controls and substantive testing
- Type such as inspection, observation, inquiry etc
- Use **Substantive Approach** – Perform only substantive testing
- Use **Combined Approach** – Use both test of control and substantive testing

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E – Extent of Substantive Testing

- **Quantity** of a specific audit procedures to be performed
- Required judgment
- After consideration of materiality
- Higher Risk = increase extent
- Use sampling approach or not?

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T – Timeliness of Substantive Testing

- Perform further audit procedures **at an interim or at period end**

- Perform audit procedures before the period end – to identify significant matters at early stage of audit

- Higher risk = perform sub tests nearer to or at period end

Risk of material misstatement at Assertion levels

Statement of Financial Statements – Account Balance – Assertion Risk

- **Existence** – Assets, liabilities, and equity interests do not exist at the Balance Sheet Date

Examples for increase risk

- Multi-locations
- Assets held by third parties
- Assets that have special characteristics – require an expert to identify

Risk of material misstatement at Assertion levels

Statement of Financial Statements – Account Balance – Assertion Risk

- **Completeness** – All assets, liabilities and equity interests that should have been recorded have not been recorded.

Examples for increase risk:

- Multi-locations, assets held by third party
- Wrong posting, off balance sheet items
- Understate of liabilities

Risk of material misstatement at Assertion levels

Statement of Financial Statements – Account Balance – Assertion Risk

- **Valuation and Allocation** – Assets, liabilities, and equity interests are included in the financial statements **at inappropriate amounts** and any resulting valuation or allocation adjustments are not appropriately recorded

Examples for increase risk:

- Valuation subject to heavy estimate/ heavy market fluctuations/ expert's valuation / Heavy complex calculation is involved in the valuation i.e. manufactured goods – DM, DL, OH

Risk of material misstatement at Assertion levels

Statement of Financial Statements – Account Balance – Assertion Risk

- **Rights and Obligations** – The entity does not hold or control the rights to assets, and liabilities are not the obligations of the entity

Examples to increase risk:

- Subsequent events – title has been passed
- Many different contracts with many different terms
- Title is subject to specific HKAS

Risk of material misstatement at Assertion levels

Income Statement – Assertion Risk

- **Occurrence** – Transactions and events that have been recorded have not (1) **occurred** nor (2) pertain to the entity.

Example to increase risk:

- Sales occurred at year end
- Multiple sales – sales last for several years
- Invoice not with the client
- Consignment sales

Risk of material misstatement at Assertion levels

Income Statement – Assertion Risk

- **Completeness** – All transactions and events that should have been recorded have not been **recorded**

Examples to increase projects:

- Consignment sales
- Cutoff dates different for many companies
- No pre-numbering invoice
- No authorization n sales invoice

Risk of material misstatement at Assertion levels

Income Statement – Assertion Risk

- **Cutoff** – Transactions and events have been recorded in an **incorrect accounting period.**

Examples to increase risk:

- Transactions taken after year end
- Management’s cutoff procedures not adequate

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Risk of material misstatement at Assertion levels

Income Statement – Assertion Risk

Accuracy / Measurement – Amounts and other data relating to recorded transactions and events have not been **recorded appropriately**.

Examples to increase risk:

- Complex HKAS
- Transactions terms have different interpretations
- Involve overseas accounting standards
- Require expert to interpret

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Scenario thinking :

ABC Manufacturing Ltd (ABC)'s principal activity is manufacturing medicine and the production line is in Dongguan. During the year, one of its products, ("CURE") was investigated by the Department of Health which had received complaints from patients taking CURE, claiming that they felt heavy heart beat after taking this product. Some of the CURE products were retained by the Department of Health while ABC had to recall all CURE .

Assess the risk of material misstatement of ABC in related to the incident of recall of CURE.

(8 marks)

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Scenario thinking :

Which Item ?	Which assertions
PPE	
Intangible Asset	
Inventories	
Receivables	
Contingent Liabilities	
Sales	

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Exam Techniques :

1. Which item in the FS affected?
2. Which assertions?
3. If figures are given , use them ie Analytical Procedures
4. Relationship between figures

1. What facts are given in the question ?
2. Answer the question risk is low/normal or high?
3. How many marks ?

Exam Questions Review Dec 2012 – Case Qu 5a

Risk Assessment at assertion level

MC Exam Questions

Question : Dec 2012 – Qu 5(a)

You are working on an audit engagement for a client who owns over 150 chain shoe stores in Hong Kong. Your client owns 5 different shoe brands and each of the brands specializes in a different style of shoe products. During the course of the audit, you look into the inventory ledger and find that the inventory balance as at year end increased three-fold to HK$200 million compared to last year, representing 20% of the total assets of the company as at year end, and the inventory aging has been deteriorating significantly compared to last year.

MC Exam Questions

Question : Dec 2012 – Qu 5(a) (Cont’d)

You therefore discuss with the management their assessment on the appropriateness of the inventory provision. The managing director explains to you that he is very optimistic about their future development. According to the managing director, they have just acquired 3 more shoe brands and will open another 50 shoe stores in Hong Kong in the coming year and therefore the inventory balance as at year end had tripled compared to last year. In addition, he is confident that there will be no inventory provision required against their shoe products given that their shoe products are always well-received by their customers in the market.

Question : Dec 2012 – Qu 5(a) (Cont'd)

Required:

a) Assess and explain the risk of material misstatement relating to the accounting estimate over the inventory valuation as at year end.

(5 marks)

b) After talking to the managing director, you are not satisfied with the explanation from the managing director on the inventory. What audit procedures would you further perform in response to the risk of material misstatement discussed in Question 5(a)?

(10 marks)

(15 marks)

MC Exam Questions

Answer: Dec 2012 – Qu 5(a)

The risk of material misstatement over the inventory valuation is **high.** The increase in risk of material misstatement over the inventory valuation is mainly due to:

- the inventory balance as at year end is **significant** to the company's total assets (i.e. 20%). Any material misstatement in the inventory balance could result in pervasive misstatement in the financial statement as a whole.
- **the financial trend does not look reasonable**. The increase in inventory is far more than the company's plan of expansion which indicates that there may be slow-moving inventory piling up.
- the deterioration of inventory aging is supportive that there may be **slow-moving inventory** and management should factor it in the inventory provision assessment.
- management's assessment of inventory provision purely relies on **past trend** without taking into account a totality of facts which may indicate management bias.

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Exam Questions Review
Dec 2012 – Case Qu 6a & 6b

Risk Assessment at assertion level

Question : Dec 2012 – Qu 6(a) & (b)

In a recent dialogue with the Internal Audit, you understand that the Internal Audit has issued an unsatisfactory report on the bank reconciliation process of your client. The Internal Audit report indicated that there was significant control deficiency over the cash management process, and that the management processes and controls were not properly exercised by the operation team.

Required:

a) **Assess and explain the risk of material misstatement relating to the existence and accuracy assertions of the cash and bank balance as at year end. (3 marks)**

b) **Suggest and explain the audit procedures you would perform in response to the risk of material misstatement identified in Question 6(a). (7 marks)**

Answer : Dec 2012 – Qu 6(a)

The risk of material misstatement on cash and bank balances is **high** because of the following:

- the bank reconciliation process does not operate effectively which may increase the risk of unidentified accounting errors and adjustments; and
- there is an increased opportunity for misappropriation of cash given that the management's processes and controls were not properly exercised by the operation team.

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Answer : Dec 2012 – Qu 6(b)

The audit team should consider the following audit procedures in response to the risk of material misstatement over cash and bank balances identified in (a):

- review the Internal Audit Report in detail and discuss with Internal Audit findings with management and reassess the risk of material misstatements of cash and bank balance;
- understand from management the remedial action plan and implementation timeline;
- identify whether there are compensating controls and consider performing the testing of the compensating controls by understanding, evaluating and validating the key management compensating controls;
- instead of relying on management's control over cash management, consider a substantive testing approach by performing test of details;

MC Exam Questions

Answer : Dec 2012 – Qu 6(b) (Cont'd)

- circulate bank confirmations directly to every bank with which the company conducted business; verify the bank balances with the replies to the standard bank letter;
- check the bank balances against the respective bank statements;
- reperform the bank reconciliation by comparing the cash ledger balance and the balance stated on bank statements/ bank confirmations, obtain an explanation from management for any large or unusual items not cleared at the time of audit;
- obtain satisfactory explanations for all items in the cash book for which there are no corresponding entries in the bank statement and vice versa through discussion with finance staff; and
- check subsequent bank statements to confirm the validity of the bank reconciliation items (e.g. un-presented cheques).

Changes in auditor appointment

HKSQC 1/HKSA 220 / Code of Ethics

Code of ethics - Section 440 Professional Clearance

The incoming auditor should:

- find out whether the change of auditor has been **properly dealt** with in accordance with the Companies Ordinance or other legislations; and
- request the client's **permission to communicate** with the outgoing auditor and to obtain professional clearance from the previous auditor.

According to the Code, the incoming auditor should make a request **in writing** to the outgoing auditor to ask if there are any **unusual circumstances** surrounding the proposed change which the incoming auditor should be aware of, so that the incoming auditor may determine whether it should accept the nomination, also any **disagreements with client and any unlawful acts involved.**

Code of ethics - Section 441
Professional Clearance – listed companies

The outgoing auditor should comply with the requirements of Section 441 *Change of Auditors of a Listed Issuer of the Stock Exchange of Hong Kong* since the company is listed on the Hong Kong Stock Exchange.

According to Section 441 of the Code, the outgoing auditor should prepare a **Letter of Resignation** addressed to **the audit committee and the board of directors** of the listed company.

The **Letter of Resignation** should disclose all the occurrences that, in the opinion of, the outgoing auditor affect the relationship between the listed company and the outgoing auditor Such occurrences include, but are not limited to, **"disagreements"** and/or **"unresolved issues"**.

Client Acceptance Procedures

Under **HKSQC 1 (Clarified)** *Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements*, the audit firm should have **policies and procedures** in place for the acceptance of the client's audit nomination.

These policies and procedures are to give reasonable assurance that the audit firm will only undertake engagements where it:

- has considered the **client's integrity** and does not have information that would lead it to conclude that the client lacks integrity
- is **competent to perform** the audit and has the capabilities, time and resources to do so; and
- can comply with **ethical requirements**

Exam Questions Review
Jun 2015 – Short Question 7

Changes in auditor's appointment

MC Exam Questions

Question : Jun 2015 – Qu 7

Aloha Limited is a company dually-listed in the stock exchanges of China and Hong Kong. Aloha Limited is required to change its auditor every five years. Your firm has been approached to act as the auditor of Aloha Limited for the year ending 31 December 2015.

Required:

What are the procedures that you should perform before accepting Aloha Limited as an audit client?

(8 marks)

MC Exam Questions

Answer : Jun 2015 – Qu 7

The incoming auditor can perform the following procedures before accepting Aloha Limited as its audit client:

The incoming auditor can review Aloha Limited's previously published financial statements or any other relevant **information to determine if the management has any integrity problems** in the past.

The incoming auditor can consult the last appointed auditors to ensure that there are **no reasons** behind the vacancy, which the new auditors ought to know. This is also a courtesy to the last appointed auditors to respond to the incoming auditor in a written form. For example, obtaining a professional clearance from the last appointed auditors after receiving **permission** from the prospective client.

MC Exam Questions

Answer : Jun 2015 – Qu 7 (Cont'd)

The incoming auditor can check any other relevant information relating to Aloha Limited or obtain **references from the directors** of Aloha Limited.

The incoming auditor should evaluate whether they are **competent to perform the engagement** and whether they have the capabilities, time and resources to do the engagement.

Since Aloha Limited is a dual-listed company in China and Hong Kong, a different financial reporting framework may be required. The incoming auditor should assess if he has such expertise to carry out the audit of Aloha Limited if an overseas regulatory requirement is required to be observed. In addition, he should ensure that the audit can be carried out without any legal barriers, e.g. any requirement of a professional qualification in China?

MC Exam Questions

Answer : Jun 2015 – Qu 7 (Cont'd)

The incoming auditor should comply with the relevant **ethical requirements.** The incoming auditor should ensure that there are no ethical issues, which are a barrier to accepting this audit client. For example, whether the auditor has a **significant business relationship** with Aloha Limited, which may create a **self-interest threat.**

In addition, as Aloha Limited is a listed company, **s.441** *of the Code of Ethics – Change of Auditors of a Listed Issuer of the Stock Exchange of Hong Kong should be observed.*

The proposed incoming auditor should request a copy of **the letter of resignation/ termination** and any correspondence issued by the last appointed auditors of Aloha Limited. If Aloha Limited refuses to send the proposed incoming auditor the letter of resignation/ termination, the proposed incoming auditor can only decline to accept nomination.

Information technology

General Controls

General computer control relating to Information security

The general IT controls include controls over **data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance.** They create the environment in which the application systems and application controls operate.

Examples include IT policies, standards, and guidelines pertaining to IT security and information protection, application software development and change controls, segregation of duties, service continuity planning and IT project management.

Application Controls

Application controls are particular to an application and may have a direct impact on the processing of **individual transactions** and pertain to specific computer applications. They include controls that help to ensure the proper **authorisation, completeness, accuracy, and validity of transactions**, maintenance and other types of data input. Examples include system edit checks of the format of entered data to help prevent possible invalid input, system enforced transaction controls that prevent users from performing transactions that are not part of their normal duties, and the creation of detailed reports and transaction control totals that can be balanced by various units to the source data to ensure all transactions have been posted completely and accurately.

Implementation of a new computer programme by the client

Risk assessment	The audit firm should assess the **impact of the implementation of the new computer programme** and plan the audit procedures during the risk assessment process.
Consideration of in-house capabilities	The auditor should consider: • whether the audit team possesses the **required expertise** in auditing the new audit programme • the **timing** of the audit procedures, e.g. performing pre-implementation review or post-implementation review; and • the **use of CAATs** and other audit software in carrying out the journal entries testing.

Implementation of a new computer programme by the client

Issues related to data migration from old system into new system	• In addition, the auditor should also consider the audit procedures to ensure the **data migrated from the old system to the new system** is complete and accurate. • The auditor should ensure that management's control is in place for data migration and perform relevant substantive testing, e.g. reconcile the opening balances with the closing balances.

System conversion

Pilot system approach

In this approach, the client implements the new IT system at one representative office prior to rolling out to the remaining to other branches.

This will reduce the risk of implementation because the client could identify any problems and resolve them before implementing the IT system at the remaining branches.

Parallel operation approach

In this approach, the entity operates both the new and existing systems for a period of time until it can be certain that the new system is running successfully.

In this case, it is not practical to ask the bank customers to process their transactions at the counters through the existing computer system and then process them again using the new IT system.

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Exam Questions Review
Dec 2015 – Short Question 6

IT

MC Exam Questions

Question: Dec 2015 – Qu 6

Two years ago, Melon Limited acquired Lychee Limited. Melon Limited and Lychee Limited are both fruit distributors. Both companies use Enterprise Resource Planning (“ERP”) computer software for daily operations and bookkeeping. However, the system specifications and the ERP modules used are very different in the two companies. In order to enhance the operational efficiency, it was decided that Lychee Limited will switch to the ERP system of Melon Limited and scrap its own ERP system this year. You are the auditor of Lychee Limited and in the process of understanding the change of system with the management.

MC Exam Questions

Question: Dec 2015 – Qu 6

Required:

a) Suggest the possible factors that may lead to material misstatements in the financial statements of Lychee Limited as a result of the change of system.

(3 marks)

b) In response to the possible factors identified in Question 6(a), suggest audit procedures to address the possible risks of material misstatements in the financial statements relating to the above change of system.

(7 marks)

MC Exam Questions

Answer: Dec 2015 – Qu 6(a)

The possible factors that may lead to material misstatements of financial statements of Lychee Limited include the following:

- There may **not be appropriate and sufficient training** provided to the staff of Lychee Limited on Melon Limited's system which increases the possibility of human error in recording the transactions during the operation.

- There may be significant changes to the processes and controls over respective significant operating cycles of Lychee Limited that were redesigned to facilitate the use of Melon Limited's system. These new processes and controls **may not be effectively implemented** in Lychee Limited which increases the risks of material misstatements to the financial statements.

MC Exam Questions

Answer: Dec 2015 – Qu 6(a)

- There could be **errors or missing data** in converting Lychee Limited's data from the old ERP system to the new ERP system.

- The system conversion involves **system development processes and data conversion processes.** It creates opportunity for management fraud if these processes are not well planned and closely monitored.

MC Exam Questions

Answer: Dec 2015 – Qu 6(b)

The audit engagement team can consider the following audit procedures in response to possible material misstatements of financial statements relating to the system conversion:

- Understand the **system development processes** and how the changes to the system of Lychee Limited affect the financial statements.
- Understand whether the management has engaged a third party consultant to assist the system switch or Lychee Limited performed the **system change in-house.**
- Assess the **competence and experience** of the management team and / or the third party consultant for system conversion.

MC Exam Questions

Answer: Dec 2015 – Qu 6(b) Cont'd

- Understand the **management's plan** for the system conversion, including the scope of changes, system design, timeframe and key milestones, training and contingency plan, if any.

- Ask the management about any **changes to the processes and controls** in respective significant business processes in response to the changes in the system.

- Perform a **walk-through test** to understand the new processes and controls implemented in response to the system changes.

- Evaluate and validate the **control effectiveness** of the newly implemented controls in the respective significant business processes to ensure the controls are operating effectively since its implementation during the year.

MC Exam Questions

Answer: Dec 2015 – Qu 6(b) Cont'd

- Understand, evaluate and validate **the IT general control** of the new system of Lychee Limited, including controls over the data centre and network operations, system software changes and maintenance; access security; application system development and maintenance.

- Understand the **management's controls** over the data conversion processes.

- Consider testing **the data conversion** either using the **control reliance approach** if the audit engagement team considers the management's data conversion controls are appropriate for the size and operation of Lychee Limited or the audit engagement team can adopt the substantive approach if it considers the controls designed by the management over data conversion are ineffective.

MC Exam Skills

1. Identify audit issues in the case
2. Count the marks
3. Use auditing wordings
4. Writing skills
5. Cross over standards
6. Practical audit procedures
7. Time management