
Answers

Section A

1 B

Where completeness is the key assertion, the sample should be selected to verify where the balance may be understated and therefore should include suppliers with material balances, suppliers with a high volume of business with Poppy Co and major suppliers with no outstanding balance at the year end.

2 A

In order to determine if the balance with Lily Co is understated, the auditor should determine if the goods should be included in payables at the year end by inspecting the goods received note.

3 C

To confirm the balance with Carnation Co, the auditor must determine if the liability exists for the disputed items at the year end by reviewing pre year-end goods returned notes and post year-end credit notes to verify that the goods have been returned and the order cancelled by the supplier.

4 B

Although the error is immaterial, the auditor must reach a conclusion on the sample selected and in order to do so the effect of the error must be considered in relation to the whole population.

5 D

Test data involves inputting fake transactions into the client's system to test how the transactions are processed. The other options are examples of audit software.

6 C

As per ISA 560 *Subsequent Events*, the auditor has an active responsibility to carry out subsequent events procedures between the date of the financial statements and the date of the auditor's report.

7 B

As per ISA 560 paragraph 15, in the circumstances described the auditor should initially discuss the matter with management and understand how management intends to address the matter in the financial statements.

8 C

The auditor is unlikely to ask the finance director, who is no longer an officer of the company and the party involved in the claim, to confirm the level of damages payable. All other procedures would be appropriate.

9 A

As per paragraph 9 of ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, in determining key audit matters, the auditor shall determine from the matters communicated to those charged with governance, those which required significant auditor attention.

10 D

The maximum damages of \$150,000 is not material to the financial statements at 2.3% of profit before tax and 0.2% of revenue. Therefore no modification to the audit opinion is required.

11 D

The fundamental principle at risk is professional competence as many of the audit team are new and do not have relevant experience in relation to the specialised industry in which Fir Co operates. It is not appropriate to reinstate the previous partner as in line with the ACCA *Code of Ethics and Conduct*, the previous partner has been rotated after seven years to prevent a familiarity threat. The audit firm should offer appropriate training for the audit team to ensure they have the necessary knowledge to carry out the work.

12 B

As the previous audit manager has taken up employment with the client as the finance director, there is a familiarity threat due to the ongoing relationship between the old and new audit manager. The familiarity threat is not so severe that the firm would need to resign but a new audit manager should be appointed.

13 C

As per the ACCA *Code of Ethics and Conduct*, the following threats would be created from carrying out the non-audit services requested by Fir Co:

Payroll – Self-review as the auditor will also be involved in auditing the figures included in the financial statements in relation to wages and salaries.

Recruitment – Self-interest as the auditor would be involved in selecting an officer of the company who has significant influence over the financial statements.

Tax – Advocacy as the auditor may be perceived to be representing and promoting Fir Co's interest in liaising with the tax authority.

14 C

Using separate teams will not address the self-interest threat from the fee levels as separating the teams will not alleviate the firm's potential financial dependence on Fir Co and therefore the risk that work is not carried out independently for fear of the losing the client.

15 B

As per ACCA *Code of Ethics and Conduct* 140.7.b – Confidential information may be disclosed when such disclosure is required by law.

Section B

16 (a) Documenting the sales system

There are several methods which can be used to document the sales system.

Narrative notes

Narrative notes consist of a written description of the system; they would detail what occurs in the system at each stage and would include any controls which operate at each stage.

Advantages of this method include:

- They are simple to record; after discussion with staff members, these discussions are easily written up as notes.
- They can facilitate understanding by all members of the audit team, especially more junior members who might find alternative methods too complex.

Disadvantages of this method include:

- Narrative notes may prove to be too cumbersome, especially if the system is complex or heavily automated.
- This method can make it more difficult to identify missing internal controls as the notes record the detail but do not identify control exceptions clearly.

Questionnaires

Internal control questionnaires (ICQs) or internal control evaluation questionnaires (ICEQs) contain a list of questions; ICQs are used to assess whether controls exist whereas ICEQs assess the effectiveness of the controls in place.

Advantages of this method include:

- Questionnaires are quick to prepare, which means they are a timely method for recording the system.
- They ensure that all controls present within the system are considered and recorded; hence missing controls or deficiencies are clearly highlighted by the audit team.

Disadvantages of this method include:

- It can be easy for the staff members to overstate the level of the controls present as they are asked a series of questions relating to potential controls.
- A standard list of questions may miss out unusual or more bespoke controls used by the company.

Flowcharts

Flowcharts are a graphic illustration of the internal control system for the sales system. Lines usually demonstrate the sequence of events and standard symbols are used to signify controls or documents.

Advantages of this method include:

- It is easy to view the system in its entirety as it is all presented together in one diagram.
- Due to the use of standard symbols for controls, it can be effective in identifying missing controls.

Disadvantages of this method include:

- They can sometimes be difficult to amend, as any amendments may require the whole flowchart to be redrawn.
- There is still the need for narrative notes to accompany the flowchart and hence it can be a time-consuming method.

Note: Full marks will be awarded for describing TWO methods for documenting the sales system and explaining ONE advantage and ONE disadvantage for each method.

(b) Deficiencies and controls over the sales system

Control deficiency

New customers' creditworthiness is assessed by a salesperson who sets the credit limit, which is authorised by the sales director.

The sales staff have sales targets, and hence may suggest that new customers are creditworthy simply to meet their targets. This could result in sales being made to poor credit risks.

Sales staff have discretion to grant sales discounts to customers of up to 10%. This could result in a loss of revenue as they may award unrealistic discounts simply to meet sales targets.

The discounts granted by sales staff are not being reviewed and could result in unauthorised discounts allowed.

Control recommendation

New customers should complete a credit application which should be checked through a credit agency with a credit limit set. Once authorised by the sales director, the limit should be entered into the system by a credit controller.

All discounts to be granted to customers should be authorised in advance by a responsible official, such as the sales director. If not practical, then the supervisor of the sales staff should undertake this role.

Control deficiency

Sales staff are able to make changes to the customer master data file, in order to record discounts allowed and these changes are not reviewed.

There is a risk that these amendments could be made incorrectly resulting in a loss of sales revenue or overcharging of customers. In addition, the sales staff are not senior enough to be given access to changing master file data as this could increase the risk of fraud.

Inventory availability does not appear to be checked by the sales person at the time the order is placed. In addition, Heraklion Co markets itself on being able to despatch all orders within three working days.

There is a risk that where goods are not available, the customer would not be made aware of this prior to placing their order, leading to unfulfilled orders and customer dissatisfaction, which would impact the company's reputation.

Customer orders are recorded on a two-part pre-printed form, one copy is left with the customer and one with the sales person.

The sales department of Heraklion Co does not hold these orders centrally and hence would not be able to monitor if orders are being fulfilled on a timely basis. This could result in a loss of revenue and customer goodwill.

Customer orders are given a number based on the sales person's own identification (ID) number. These numbers are not sequential. Without sequential numbers, it is difficult for Heraklion Co to identify missing orders and to monitor if all orders are being despatched in a timely manner, leading to a loss of customer goodwill.

The sales person emails the warehouse despatch team with the customer ID and the sales order details, rather than a copy of the sales order itself, and a pick list is generated from this.

There is a risk that incorrect or insufficient details may be recorded by the sales person and this could result in incorrect orders being despatched, orders being despatched late or orders failing to be despatched at all, resulting in a loss of customer goodwill and revenue.

Sequentially numbered goods despatched notes (GDNs) are completed and filed by the warehouse department. If the finance department does not receive a copy of these GDNs, they will not know when to raise the related sales invoices. This could result in goods being despatched but not being invoiced, leading to a loss of revenue.

The sales person is given responsibility to chase customers directly for payment once an invoice is outstanding for 90 days. This is considerably in excess of the company's credit terms of 30 days which will lead to poor cash flow.

Further, as the sales people have sales targets, they are more likely to focus on generating sales orders rather than chasing payments. This could result in an increase in bad debts and reduced profit and cash flows.

Control recommendation

Sales staff should not be able to access the master data file to make amendments. Any such amendments to master file data should be restricted so that only supervisors and above can make changes.

An exception report of changes made should be generated and reviewed by a responsible official.

Prior to the salesperson finalising the order, the inventory system should be checked in order for an accurate assessment of the availability of goods to be notified to customers.

The order form should be amended to be at least four-part. The third part of the order should be sent to the warehouse department and the fourth part sent to the finance department.

The copy the sales person has should be stored centrally in the sales department. Upon despatch, the goods despatch note should be matched to the order; a regular review of unmatched orders should be undertaken by the sales department to identify any unfulfilled orders.

Sales orders should be sequentially numbered. On a regular basis, a sequence check of orders should be undertaken to identify any missing orders.

The third part of the sales order as mentioned previously should be forwarded directly to the warehouse department.

The pick list should be generated from the original order form and the warehouse team should check correct quantities and product descriptions are being despatched, as well as checking the quality of goods being despatched to ensure they are not damaged.

Upon despatch of goods, a four-part GDN should be completed, with copies to the customer, warehouse department, sales department to confirm despatch of goods and a copy for the finance department. Upon receipt of the GDN, once matched to the fourth part of the sales order form, a clerk should raise the sales invoices in a timely manner, confirming all details to the GDN and order.

A credit controller should be appointed and it should be their role, rather than the salesperson, to chase any outstanding sales invoices which are more than 30 days old.

(c) Controls to reduce risk of payroll fraud

Control	Mitigate risk
Proof of identity checks should be undertaken by the Human Resources (HR) department and recorded on individuals' personnel files for all new employees set up on the payroll system.	This should reduce the risk of fictitious employees being set up, as in order to be set up on the system a fictitious set of identification would be required which would be an onerous process.
A count should be undertaken of the number of employees in each department of Heraklion Co; this should be reconciled to the number of employees on the payroll system.	This would identify if there are extra employees on the payroll system, which could then be investigated further.
The HR department should initiate the process for setting up new joiners by asking new employees to complete a joiner's form which will be approved by the relevant manager and HR. This request should then be forwarded to the payroll department, who should set up the employee.	This control introduces segregation of duties as in order to set up employees both the HR and payroll departments are involved. Without collusion with an HR employee, the payroll supervisor would be unable to set up fictitious employees.
All new joiners should be only be set up by payroll on receipt of a joiner's form and any additions to the system should be authorised by the payroll director. An edit report should be generated and reviewed by HR.	As all new joiners would be authorised by the payroll director, it is unlikely that payroll employees would risk establishing fictitious joiners. A further review by the HR department would also detect any employees without an authorised joiner form.
Where possible, employees who are related should not be allowed to undertake processes which are interrelated whereby they can breach segregation of duty controls for key transaction cycles. A regular review of job descriptions of related employees should be carried out by HR.	This should reduce the risk of related staff colluding and being able to commit a fraud.
The payroll system should be amended to run an exception report which identifies any employees with the same bank account name or number and this should be reviewed by HR.	Identifying the same bank account name or number will prevent multiple fraudulent payments being made to the same employees.
All bank transfer requests should be authorised by a senior responsible official, who is independent of the processing of payments; they should undertake spot checks of payments to supporting documentation, including employee identification cards/records.	This would introduce an additional layer of segregation of duties, which would reduce the risk of fraud occurring. In addition, the spot checks to employee identification cards/records would confirm the validity of payments.

(d) Revenue substantive procedures

- Compare the overall level of revenue against prior years and budgets and investigate any significant fluctuations.
- Obtain a schedule of sales for the year broken down into the main product categories and compare this to the prior year breakdown and for any unusual movements discuss with management.
- Calculate the gross profit margin for Heraklion Co and compare this to the prior year and investigate any significant fluctuations.
- Select a sample of sales invoices for customers and agree the sales prices back to the price list or customer master data information to ensure the accuracy of invoices.
- Select a sample of credit notes raised, trace through to the original invoice and ensure the invoice has been correctly removed from sales.
- Select a sample of customer orders and agree these to the despatch notes and sales invoices through to inclusion in the sales ledger and revenue general ledger accounts to ensure completeness of revenue.
- Select a sample of despatch notes both pre and post year end and follow these through to sales invoices in the correct accounting period to ensure that cut-off has been correctly applied.

17 (a) (i) Substantive procedures for revaluation of property, plant and equipment (PPE)

- Obtain a schedule of all PPE revalued during the year and cast to confirm completeness and accuracy of the revaluation adjustment and agree to trial balance and financial statements.
- Consider the competence and capability of the valuer, Martin Dullman, by assessing through enquiry his qualification, membership of a professional body and experience in valuing these types of assets.
- Consider whether the valuation undertaken provides sufficiently objective audit evidence. Discuss with management whether Martin Dullman has any financial interest in Elounda Co which along with the family relationship could have had an impact on his independence.
- Agree the revalued amounts to the valuation statement provided by the valuer.

- Review the valuation report and consider if all assets in the same category have been revalued in line with IAS 16 *Property, Plant and Equipment*.
- Agree the revalued amounts for these assets are included correctly in the non-current assets register.
- Recalculate the total revaluation adjustment and agree correctly recorded in the revaluation surplus.
- Recalculate the depreciation charge for the year to ensure that for the assets revalued during the year, the depreciation was based on the correct valuation and was for 12 months.
- Review the financial statements disclosures relating to the revaluation to ensure they comply with IAS 16.

(ii) Substantive procedures for inventory valuation

- Obtain a schedule of all raw materials, finished goods and work in progress (WIP) inventory and cast to confirm completeness and accuracy of the balance and agree to trial balance and financial statements.
- Obtain the breakdown of WIP and agree a sample of WIP assessed during the count to the WIP schedule, agreeing the percentage completion as recorded at the inventory count.
- For a sample of inventory items (finished goods and WIP), obtain the relevant cost sheets and confirm raw material costs to recent purchase invoices, labour costs to time sheets or wage records and overheads allocated are of a production nature.
- For a sample of inventory items, review the calculation for equivalent units and associated equivalent unit cost and recalculate the inventory valuation.
- Select a sample of year-end finished goods and review post year-end sales invoices to ascertain if net realisable value (NRV) is above cost or if an adjustment is required.
- Select a sample of items included in WIP at the year end and ascertain the final unit cost price, verifying to relevant supporting documentation, and compare to the unit sales price included in sales invoices post year end to assess NRV.
- Review aged inventory reports and identify any slow moving goods, discuss with management why these items have not been written down or if an allowance is required.
- For the defective chemical compound E243, discuss with management their plans for disposing of these goods, and why they believe these goods have a NRV of \$400,000.
- If any E243 has been sold post year end, agree to the sales invoice to assess NRV.
- Agree the cost of \$720,000 for compound E243 to supporting documentation to confirm the raw material cost, labour cost and any overheads attributed to the cost.
- Confirm if the final adjustment for compound E243 is \$320,000 (720 – 400) and discuss with management if this adjustment has been made; if so follow through the write down to confirm.
- Review the financial statements disclosures relating to inventory and WIP to ensure they comply with IAS 2 *Inventories*.

(iii) Substantive procedures for bank loan

- Agree the opening balance of the bank loan to the prior year audit file and financial statements.
- For any loan payments made during the year, agree the cash outflow to the cash book and bank statements.
- Review bank correspondence to identify whether any late payment penalties have been levied and agree these have been charged to profit or loss account as a finance charge.
- Obtain direct confirmation at the year end from the loan provider of the outstanding balance and any security provided; agree confirmed amounts to the loan schedule and financial statements.
- Review the loan agreement for details of covenants and recalculate to identify any breaches in these.
- Agree closing balance of the loan to the trial balance and draft financial statements and that the disclosure is adequate, including any security provided, that the loan is disclosed as a current liability and disclosure is in accordance with accounting standards and local legislation.

(b) Going concern procedures

- Obtain Elounda's cash flow forecast and review the cash in and out flows. Assess the assumptions for reasonableness and discuss the findings with management to understand if the company will have sufficient cash flows to meet liabilities as they fall due.
- Discuss with management their ability to settle the next instalment due for repayment to the bank and the lump sum payment of \$800k in January 20X7 and ensure these have been included in the cash flow forecast.
- Review current agreements with the bank to determine whether any key ratios or covenants have been breached with regards to the bank loan or any overdraft.

- Review the company's post year-end sales and order book to assess the levels of trade and if the revenue figures in the cash flow forecast are reasonable.
- Review post year-end correspondence with suppliers to identify whether any restrictions in credit have arisen, and if so, ensure that the cash flow forecast reflects the current credit terms or where necessary an immediate payment for trade payables.
- Enquire of the lawyers of Elounda Co as to the existence of litigation and claims; if any exist, then consider their materiality and impact on the going concern basis.
- Perform audit tests in relation to subsequent events to identify any items which might indicate or mitigate the risk of going concern not being appropriate.
- Review the post year-end board minutes to identify any other issues which might indicate financial difficulties for the company.
- Review post year-end management accounts to assess if in line with cash flow forecast and to identify any issues which may be relevant to the going concern assessment.
- Consider whether any additional disclosures as required by IAS 1 *Presentation of Financial Statements* in relation to material uncertainties over going concern should be made in the financial statements.
- Obtain a written representation confirming the directors' view that Elounda Co is a going concern.

18 (a) Benefits of audit planning

Audit planning is addressed by ISA 300 *Planning an Audit of Financial Statements*. It states that adequate planning benefits the audit of financial statements in several ways:

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor to identify and resolve potential problems on a timely basis.
- Helping the auditor to properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by experts.

(b) Audit risk and auditors responses

Audit risk	Auditor's response
<p>Sitia Sparkle Co purchases their goods from suppliers in Africa and the goods are in transit for up to three weeks. At the year end, there is a risk that the cut-off of inventory, purchases and payables may not be accurate and may be under/overstated.</p>	<p>The audit team should undertake detailed cut-off testing of purchases of goods at the year end and the sample of GRNs from before and after the year end relating to goods from suppliers in Africa should be increased to ensure that cut-off is complete and accurate.</p>
<p>Sitia Sparkle Co has incurred expenditure of \$1.3 million in developing a new range of cleaning products. This expenditure is classed as research and development under IAS 38 <i>Intangible Assets</i>. The standard requires research costs to be expensed to profit or loss and development costs to be capitalised as an intangible asset.</p> <p>If the company has incorrectly classified research costs as development expenditure, there is a risk the intangible asset could be overstated and expenses understated.</p> <p>In addition, as the senior management bonus is based on year-end asset values, this increases this risk further as management may have a reason to overstate assets at the year end.</p>	<p>Obtain a breakdown of the expenditure and verify that it relates to the development of the new products. Undertake testing to determine whether the costs relate to the research or development stage. Discuss the accounting treatment with the finance director and ensure it is in accordance with IAS 38.</p>
<p>In September 20X5, the company invested \$0.9 million in a complex piece of plant and machinery. The costs include purchase price, installation and training costs. As per IAS 16 <i>Property, Plant and Equipment</i>, the cost of an asset includes its purchase price and directly attributable costs only.</p> <p>Training costs are not permitted under IAS 16 to be capitalised as part of the cost and therefore plant and machinery and profits are overstated.</p>	<p>Obtain a breakdown of the \$0.9 million expenditure and undertake testing to confirm the level of training costs which have been included within non-current assets. Discuss the accounting treatment with the finance director and the level of any necessary adjustment to ensure treatment is in accordance with IAS 16.</p>

Audit risk

The bonus scheme for senior management and directors of Sitia Sparkle Co has been changed; it is now based on the value of year-end total assets.

There is a risk that management might be motivated to overstate the value of assets through the judgements taken or through the use of releasing provisions or capitalisation policy.

The finance director of Sitia Sparkle Co believes that an allowance for receivables is excessive and unnecessary and therefore has not provided for it at the year end and has credited the opening balance to profit or loss.

There is a risk that receivables will be overvalued; some balances may be irrecoverable and so will be overstated if not provided for.

In addition, releasing the allowance for receivables will increase asset values and hence the senior management bonus which increases the risk further.

A new general ledger system was introduced in May 20X6 and the old and new systems were run in parallel until August 20X6.

There is a risk of the balances in May being misstated and loss of data if they have not been transferred from the old system completely and accurately. If this is not done, this could result in the auditor not identifying a significant control risk.

In addition, the new general ledger system will require documenting and the controls over this will need to be tested.

A number of reconciliations, including the bank reconciliation, were not performed at the year end, however, they were undertaken in June and August.

Control account reconciliations provide comfort that accounting records are being maintained completely and accurately. At the year end, it is important to confirm that balances including bank balances are not under or overstated. This is an example of a control procedure being overridden by management and raises concerns over the overall emphasis placed on internal control.

The purchase ledger of Sitia Sparkle Co was closed down on 8 August, rather than at the year end 31 July.

There is a risk that the cut-off may be incorrect with purchases and payables over or understated.

Auditor's response

Throughout the audit, the team will need to be alert to this risk and maintain professional scepticism.

Detailed review and testing on judgemental decisions, including treatment of provisions, and compare treatment against prior years. Any manual journal adjustments affecting assets should be tested in detail.

In addition, a written representation should be obtained from management confirming the basis of any significant judgements.

Review and test the controls surrounding how Sitia Sparkle Co identifies receivables balances which may require a provision to ensure that they are operating effectively in the current year.

Discuss with the finance director the rationale for not maintaining an allowance for receivables and releasing the opening provision.

Extended post year-end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation and the need for an allowance for receivables.

The auditor should undertake detailed testing to confirm that all of the balances at the transfer date have been correctly recorded in the new general ledger system.

The auditor should document and test the new system. They should review any management reports run comparing the old and new system during the parallel run to identify any issues with the processing of accounting information.

Discuss this issue with the finance director and request that the July control account reconciliations are undertaken. All reconciling items should be tested in detail and agreed to supporting documentation.

The audit team should undertake testing of transactions posted to the purchase ledger between 1 and 8 August to identify whether any transactions relating to the 20X7 year end have been included or any 20X6 balances removed.

(c) Supervision and reviewing of the assistants' work

Supervision

During the audit of Sitia Sparkle Co, the supervisor should keep track of the progress of the audit engagement to ensure that the audit timetable is met and should ensure that the audit manager and partner are kept updated of progress.

The competence and capabilities of individual members of the engagement team should be considered, including whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit.

In addition, part of the supervision process should involve addressing any significant matters arising during the audit of Sitia Sparkle Co, considering their significance and modifying the planned approach appropriately.

The supervisor would also be responsible for identifying matters for consultation or consideration by the audit manager or engagement partner of Sitia Sparkle Co.

Review

The supervisor would be required to review the work completed by the assistants and consider whether this work has been performed in accordance with professional standards and other regulatory requirements and if the work performed supports the conclusions reached and has been properly documented.

The supervisor should also consider whether all significant matters have been raised for partner attention or for further consideration and where appropriate consultations have taken place, whether appropriate conclusions have been documented.

		<i>Marks</i>
Section A		
Questions 1–15 – each worth 2 marks		<u>30</u>
Section B		
	<i>Marks available</i>	<i>Marks awarded</i>
16 (a) Methods for documenting the sales system		
– Narrative notes	3	
– Questionnaires	3	
– Flowcharts	3	
Restricted to	<u>6</u>	
(b) Control deficiencies and recommendations (only 7 issues required)		
– New customers’ creditworthiness assessed by sales staff	2	
– Sales staff have discretion to grant discounts up to 10%	2	
– Access to master file data	2	
– Inventory not checked by sales people prior to order being placed	2	
– No copy of order with the sales ordering department, unable to identify unfulfilled orders	2	
– Orders not sequentially numbered	2	
– Warehouse despatch team do not receive a copy of the sales order	2	
– Goods despatch notes filed by warehouse despatch team	2	
– Salesperson responsible for chasing invoices over 90 days old	2	
Max 7 issues, 2 marks each	<u>14</u>	
(c) Controls to reduce risk of payroll fraud		
– Proof of identity checks undertaken for all new joiners	2	
– Review of the number of employees per department to the payroll system	2	
– Human resources department initiates request for new joiners	2	
– Authorisation of all new joiners by payroll director	2	
– Relatives not permitted to undertake interrelated processes	2	
– Payroll system reviews same bank account name and number	2	
– Bank transfer requests authorised by senior responsible official, independent of processing of transactions	2	
Restricted to	<u>6</u>	
(d) Substantive procedures for revenue		
– Analytical review over revenue compared to budget and prior year	1	
– Analytical review of main product categories of sales compared to prior year	1	
– Gross margin review	1	
– Agree sales prices for customers to price list or master file data	1	
– Review credit notes	1	
– Follow orders to goods despatched note to sales invoice to sales ledger	1	
– Sales cut-off	1	
Restricted to	<u>4</u>	
Total marks		<u>30</u>

17 (a) (i) Substantive procedures for revaluation of property, plant and equipment (PPE)	
– Cast schedule of PPE revalued this year and agree to TB/FS	1
– Consider reasonableness of the valuer’s qualifications, membership of professional body and experience	1
– Discuss with management if the valuer has financial interests in the company which along with family relationship may impact his independence	1
– Agree the revalued amounts to the valuation statement provided by the valuer	1
– Consider if all items in the same class of assets have been revalued	1
– Agree the revalued amounts included correctly in the non-current assets register	1
– Recalculate the total revaluation adjustment and agree recorded in the revaluation surplus	1
– Recalculate the depreciation charge for the year	1
– Review the financial statements disclosures for compliance with IAS 16 <i>Property, Plant and Equipment</i>	1
Restricted to	<u>5</u>
(ii) Substantive procedures for inventory valuation	
– Cast a schedule of all raw materials, finished goods and work in progress (WIP) inventory and agree to TB/FS	1
– Obtain breakdown and agree sample of WIP from the count to the WIP schedule, agree percentage completion	1
– For a sample, obtain relevant cost sheets and confirm raw material costs to recent purchase invoices, labour costs to time sheets or wage records and overheads allocated are of a production nature	1
– For a sample of inventory items, review the calculation for equivalent units and associated equivalent unit cost and recalculate the inventory valuation	1
– Select a sample of year-end finished goods and review post year-end sales invoices to ascertain if net realisable value (NRV) is above cost or if an adjustment is required	1
– Select a sample of items included in WIP at the year end and ascertain the final unit cost price, verifying to relevant supporting documentation, and compare to the unit sales price included in sales invoices post year end to assess NRV	1
– Review aged inventory reports, identify slow moving goods, discuss with management	1
– Compound E243, discuss with management plans for disposing of goods, why NRV is \$400,000	1
– If any of defective goods have been sold post year end, agree to the sales invoice to assess NRV	1
– Agree the cost of \$720,000 for compound E243 to supporting documentation	1
– Confirm the final adjustment for compound E243, discuss with management if adjustment made, if so, follow through the write down to confirm	1
– Review the financial statements disclosures for compliance with IAS 2 <i>Inventories</i>	1
Restricted to	<u>6</u>
(iii) Substantive procedures for bank loan	
– Agree the opening balance to the prior year audit file and FS	1
– For loan payments made, agree to cash book and bank statements	1
– Review the bank correspondence for late payment penalties, agree to statement of profit or loss	1
– Obtain direct confirmation of year-end balance from bank, agree to the loan schedule	1
– Review loan agreement for details of covenants and recalculate to identify any breaches	1
– Agree closing balance to the trial balance and draft financial statements and review the disclosure of the current liability bank loan in the draft financial statements	1
Restricted to	<u>4</u>

(b) Going concern procedures

- Review cash flow forecasts 1
- Review bank loan agreements, breach of key ratios or covenants 1
- Review post year-end sales and order book 1
- Review suppliers correspondence 1
- Enquire of lawyers for any litigation 1
- Subsequent events 1
- Board minutes 1
- Management accounts 1
- Consider additional disclosures under IAS 1 *Presentation of Financial Statements* 1
- Written representation 1

Restricted to 5

Total marks 20

18 (a) Benefits of audit planning

- Important areas of the audit 1
- Potential problems 1
- Effective and efficient audit 1
- Selection of engagement team members and assignment of work 1
- Direction, supervision and review 1
- Coordination of work 1

Restricted to 4

(b) Audit risks and responses (only 6 risks required)

- Goods in transit from Africa 2
- Research and development expenditure 2
- Capitalisation of costs of plant and machinery 2
- Senior management bonus scheme 2
- Allowance for receivables 2
- Introduction of new general ledger system 2
- July 20X6 control account reconciliations not undertaken 2
- Purchase ledger closed down on 8 August 2

Max 6 issues, 2 marks each 12

(c) Supervising and reviewing audit assistants' work

- Monitor the progress of the audit engagement to ensure the audit timetable was met 1
- Consider the competence and capabilities of team members re sufficient available time, understanding of instructions and if work in accordance with planned approach 1
- Address any significant matters arising, consider their significance and modifying the approach 1
- Responsible for identifying matters for consultation/consideration by senior team members 1
- Work performed in line with professional standards and other requirements 1
- Work supports conclusions reached and properly documented 1
- Significant matters raised for partner attention or further consideration 1
- Appropriate consultations have taken place with conclusions documented 1

Restricted to 4

Total marks 20