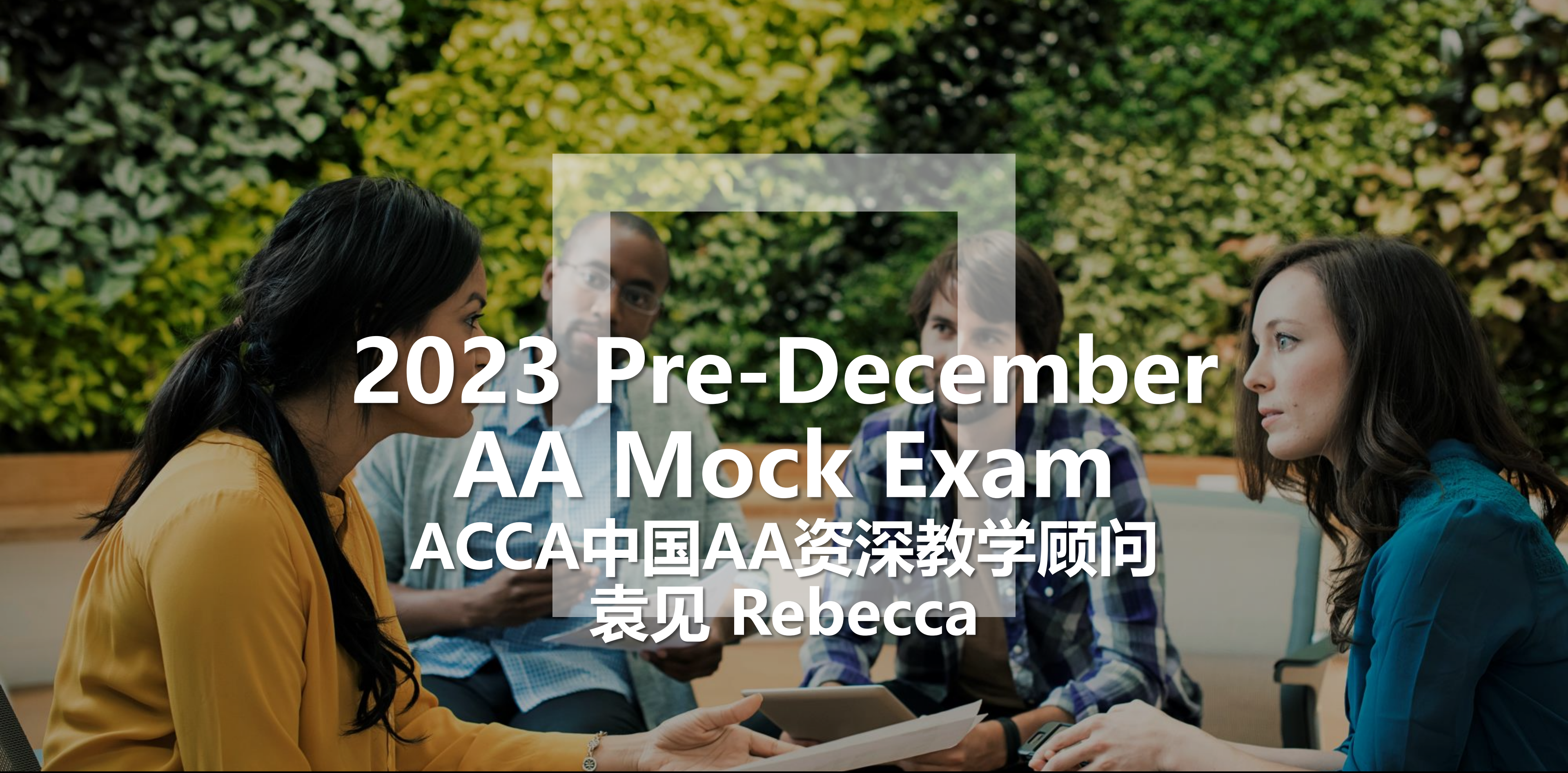

2023 Pre-December AA Mock Exam

ACCA中国AA资深教学顾问
袁见 Rebecca

Mock答题情况分析

Section A	Syllabus
mini case 1	PPE-SP
mini case 2	GC + Report
mini case 3	Professional ethics
Sub-total	
Section B	**Syllabus**
constructive response question 1	Audit risk
constructive response question 2	Internal control
constructive response question 3	SP+ Report
Sub-total	

Mock答题情况分析

Think Ahead ACCA

2023年 12 月考季审计与鉴证（AA）模拟考试问题和建议汇总

本报告总结了本次 Audit and Assurance（AA）课程模拟考试的结果，并结合模考中实际情况归纳了考试过程中考生普遍面临的共性问题，同时提出相应建议。本报告旨在帮助考生更好的掌握该门课程的考试技巧。

1. 总体评价

根据本次考试主观题部分的反馈结果，整体情况略好于近年的 AA 全球统考通过率，但也暴露出考生一些常见的问题，这些问题将在本报告的 1.2 部分进行详细讨论。

Mock答题情况分析

Section B	Syllabus	Performance
CASE1	Audit risk	1. 未结合比率分析风险 2. 解释风险未落实到具体科目
CASE2	Internal control	1. 未有效区分关键控制和控制缺陷 2. 提出的建议过于片面
CASE3	SP+ Report	未结合题目背景书写程序
Sub-total		

Case 1

The following scenario relates to questions 1 - 5

It is 1 July 20X5. You are the audit senior working on the audit of Dreamcatcher Co. Dreamcatcher Co's main activity is the extraction and supply of building materials including sand, gravel and cement. The company's year-end is the 31st July 20X5.

You are preparing the audit plan for the non-current assets section ready for the forthcoming audit.

Case 1

Dreamcatcher Co has the following non-current assets included in the financial statements:

	Length of ownership	Cost	Accumulated depreciation	Depreciation policy
Land	12 years	$200,000	$0	No depreciation
Buildings	12 years	$500,000	$120,000	2% straight line
Railway trucks	1 year	$1,000,000	$200,000	20% reducing balance

Case 1

Dreamcatcher Co has the following non-current assets included in the financial statements:

	Length of ownership	Cost	Accumulated depreciation	Depreciation policy
Fixtures and fittings	3 years	$80,000	$24,000	10% straight line
Other plant and machinery	6 years	$300,000	$120,000	10% reducing balance

Case 1

Audit Procedures

The following audit procedures are included in the audit plan for non-current assets:

1. Physically inspect the assets for signs of damage to investigate with the client

2. Trace a sample of physical assets into the non-current asset register

3. Recalculate the depreciation charge using the client's policy

4. Trace a sample of assets from the non-current asset register to the physical asset.

Case 1

Revaluation of land and buildings

The directors of Dreamcatcher Co are planning to revalue the land and buildings at the year end. They plan to use an expert to perform the revaluations and have decided on a shortlist of two companies, Hank Valuations, which is a company run by the wife of one of the directors of Dreamcatcher Co, and Panther Properties, an estate agent which also provides property valuations. Both companies are registered with the Chartered Institute of Surveyors and all property valuation experts are qualified.

Case 1

Q1. Select which assertion is being tested by the audit procedures included in the audit plan.

1	Completeness	Existence	Accuracy, Valuation, Allocation
2	Completeness	Existence	Accuracy, Valuation, Allocation
3	Completeness	Existence	Accuracy, Valuation, Allocation
4	Completeness	Existence	Accuracy, Valuation, Allocation

Case 1

Audit Procedures

The following audit procedures are included in the audit plan for non-current assets:

1. Physically inspect the assets for signs of damage to investigate with the client

2. Trace a sample of physical assets into the non-current asset register

3. Recalculate the depreciation charge using the client's policy

4. Trace a sample of assets from the non-current asset register to the physical asset.

Case 1

Q1. Select which assertion is being tested by the audit procedures included in the audit plan.

1	Completeness	Existence	Accuracy, Valuation, Allocation √
2	Completeness √	Existence	Accuracy, Valuation, Allocation
3	Completeness	Existence	Accuracy, Valuation, Allocation √
4	Completeness	Existence √	Accuracy, Valuation, Allocation

Case 1

Q2. Which of the following procedures provides the most reliable evidence when verifying rights and obligations of the railway trucks?

A. Enquire of management whether Dreamcatcher Co is the legal owner of the trucks

B. Inspect the purchase invoice or registration documents of the trucks

C. Contact the supplier and ask for external confirmation that Dreamcatcher purchased the trucks

D. Physically inspect the trucks to ensure they are being used by Dreamcatcher Co

Case 1

Q3. Based on the information provided, which of the following categories of asset appears to be overstated

A. Land

B. Buildings

C. Fixtures and fittings

D. Other plant and Machinery

Case 1

Dreamcatcher Co has the following non-current assets included in the financial statements:

	Length of ownership	Cost	Accumulated depreciation	Depreciation policy
Land	12 years	$200,000	$0	No depreciation
Buildings	12 years	$500,000	$120,000	2% straight line
Railway trucks	1 year	$1,000,000	$200,000	20% reducing balance

Case 1

Dreamcatcher Co has the following non-current assets included in the financial statements:

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Fixtures and fittings	3 years	$80,000	$24,000	10% straight line
Other plant and machinery	6 years	$300,000	$120,000	10% reducing balance

Case 1

Q3. Based on the information provided, which of the following categories of asset appears to be overstated

A. Land

B. Buildings

C. Fixtures and fittings

D. Other plant and Machinery √

Case 1

Q4. Which of the following statements are true in respect of the revaluation of land and buildings?

1. Dreamcatcher Co do not need to use a firm of Chartered Surveyors to perform the revaluation.

2. The financial statements must disclose details of the revaluation and details of who performed the revaluation.

3. The audit firm would not be able to rely on the work of Hank Valuations.

A. 2 only

B. 1 and 3 only

C. 1 and 2 only

D. 1, 2 and 3

√

Case 1

Q5. Which TWO of the following financial statement assertions will need to be tested when auditing the non-current assets of Dreamcatcher Com.

A. Occurrence

B. Classification

C. Cut-off

D. Presentation

Case 2

The following scenario relates to questions 6 - 10

It is 1 July 20X5. you are an audit senior in Starhawk & Co and you are working on the audit of Yondu Co for the year ended 31 March 20X5. The audit is nearing completion and you are performing the going concern review. The auditor’s report is due to be signed next week.

Case 2

The following scenario relates to questions 6 - 10

Yondu Co grows crops on a large farm according to strict organic principles that prohibits the use of artificial pesticides and fertilisers. The farm has an organic certification which guarantees its products to be organic. The certification had increased its sales of flour, potatoes and other products, as customers seek to eat more healthily.

Case 2

The following scenario relates to questions 6 - 10

Last year, a neighbouring farm, Falcon Co started growing genetically modified (GM) crops, the pollen from which blows over Yondu Cos fields on a regular basis. This is a threat to Yondu Co's organic status because organic crops must not be contaminated with GM material. Yondu Co is considering court action against Falcon Co for loss of income and to stop Falcon Co growing GM crops.

Case 2

The following scenario relates to questions 6 - 10

The statement of profit or loss of Yondu Co shows a significant reduction in revenue and profit for the year. The statement of financial position shows an overdraft balance of $0.2 million.

Case 2

Q6. Which of the following indicates a company is NOT a going concern?

A. The company is profitable, but the directors have decided to cease trading

B. The company is able to pay its liabilities when they fall due

C. The company has no intention of ceasing trading

D. The company is not in financial difficulties

Case 2

Q7. Select whether the following are responsibilities of the directors or auditors in relation to going concern.

Considers implications for the auditor's report	**Auditors** √	**Directors**
Prepares forecasts to assess the going concern status	**Auditors**	**Directors** √
Select the basis of preparation for the financial statements	**Auditors**	**Directors** √
Evaluate the appropriateness of the basis of preparation	**Auditors** √	**Directors**

Case 2

Q8. Which of the following audit procedures would provide the auditor with evidence regarding the going concern uncertainties faced by Yondu Co?

1. Review the cash flow forecasts to assess whether Yondu Co will have sufficient cash to pay their liabilities when they fall due

2. Assess the reasonableness of the forecast for example where the cash inflows have been reduced to reflect the loss of income.

Case 2

3. Review correspondence from Yondu Co's lawyer regarding the expected outcome of the legal action.

4. Contact Falcon Co for their comment on the contamination issue.

A. 1, 2 and 3 only √

B. 2, 3 and 4 only

C. 1 and 4 only

D. 1, 2, 3 and 4

Case 2

Q9. The auditor of Yondu Co believes there is a material uncertainty relating to going concern. How should Yondu Co reflect this in the financial statements?

A. The financial statements should be prepared on an alternative basis such as the break-up basis

B. Disclosure of the uncertainties should be included in the financial statements

C. Unless the company is closing down there is no impact to the financial statements

D. The final statements should include the cash flow forecast showing the expected impact of the uncertainties

Case 2

10. The auditor agrees with the client's treatment of the going concern uncertainties. Which two of the following best described the impacts to the auditors reports?

A. The auditor's report should contain a Other Matter paragraph

B. The audit opinion should be adverse

C. The auditor's report should contain a section called Material Uncertainties Relating to Going Concern

D. The auditor's report should contain an Emphasis of Matter paragraph

E. The audit opinion should be unmodified

Case 3

The following scenario relates to questions 11 - 15

You are an audit senior in Starfox & Co. Your firm has been contacted by the managing director of Tigra Co to discuss the possibility of performing an audit of their financial statements. Tigra Co earns revenues of approximately $7 million and employs 30 staff which means that currently it does not meet the company size criteria for requiring an audit. Forecasts prepared by management suggest that it will meet the audit threshold within the next two to three years.

Case 3

The following scenario relates to questions 11 - 15

The managing director has asked if there are any benefits of having an audit earlier than required by law. The managing director would also like to explain that a review of the financial statements would involve as this is being considered as an alternative to having an audit.

Case 3

The following scenario relates to questions 11 - 15

If Tigra Co decides to appoint your firm as auditor you have been requested to appoint Helen Jocasta as audit manager as she is the wife of the finance director. Tigra Co is also interested in using your firm to prepare the financial statements as they believe this would reduce the amount of audit work required due to there being a lower risk of error. They would expect the audit fee to reflect this.

Case 3

Q11. Select the level of assurance given and type of conclusion expressed by a review of the financial statements

Level of assurance
Moderate
Reasonable

Conclusion
Positive
Negative

Case 3

Q12. Which of THREE of the following procedures will be used if Starfox & Co are engaged to perform a review of the financial statements?

A. Enquiries of management and client staff

B. Analytical procedures

C. Test of controls

D. Obtain written representations from management

E. Obtain external confirmations from receivables

Case 3

Q13. Which of the following is NOT a benefit of Tigra Co having an audit?

A. The financial statements will be independently scrutinised increasing the reliability of the information

B. Starfox & Co will be able to confirm the accuracy of the financial statements

C. Fraud and error may be detected

D. Internal control deficiencies may be highlighted and reported to management

Case 3

Q14. Which TWO of the following threats to objectivity would be created if Helen Jocasta is appointed as audit manager for the audit of Tigra Co?

A. √ Familiarity

B. Self-review

C. √ Self-interest

D. Advocacy

E. Intimidation

Case 3

Q15. Which of the following statements is TRUE in respect of the preparation of the financial statements of Tigra Co?

A. The financial statements of Tigra Co should not be prepared by Starfox & Co

B. The audit fee will be lower if Starfox & Co prepares the financial statements and audits them

C. The same person who prepared the financial statements should be assigned to the audit team to reduce the time needed to perform the audit

D. The auditor should take care not to assume management responsibilities such as deciding on the company's accounting policies

Q16-Audit risk

Required:

(a) Explain the purpose and importance of an audit engagement letter. (3 marks)

(b) Using the information provided, describe EIGHT audit risks and explain the auditor's response to each risk in planning the audit of Firebird Co.

Note: Prepare your answer using two columns headed Audit risk and Auditor's response respectively.

(16 marks)

Q16-Audit risk

Required:

(c) Describe the audit procedures which the auditor should perform in assessing whether or not Firebird Co is a going concern.

(6 marks)

(d) Describe substantive procedures the auditor should perform to confirm the trade discount receivable for Firebird Co at 31 December 20X8.

(5 marks)

(30 marks)

Q16-Audit risk

Required:

(a) Explain the purpose and importance of an audit engagement letter. (3 marks)

Q16-Audit risk - Answers

(a) Purpose and importance of an audit engagement letter

An engagement letter provides a written agreement of the terms and conditions of the audit engagement between the auditor and management or those charged with governance.

It defines the scope of the audit and sets out respective responsibilities.

It is important because confirming that there is a common understanding between the auditor and management, or those charged with governance, of the terms of the audit engagement helps to avoid misunderstanding with respect to the audit.

Q16-Audit risk

Required:

(b) Using the information provided, describe EIGHT audit risks and explain the auditor's response to each risk in planning the audit of Firebird Co.

Note: Prepare your answer using two columns headed Audit risk and Auditor's response respectively.

(16 marks)

Q16-Audit risk

You are an audit supervisor of Mockingbird & Co and you are planning the audit of Firebird Co for the year ending 31 December 20X8. The company develops and manufactures electrical components and has been a client of your firm for several years. The audit manager attended a planning meeting with the finance director and has provided you with the following notes of the meeting.

Q16-Audit risk

Planning meeting notes

The company experienced difficult trading conditions for the first part of the year. However, the directors are confident that profitability will improve going forward as a major new customer, Moon Co, was obtained in September 20X8. Moon Co agreed to use Firebird Co as its main supplier for two years, providing it was granted favourable credit terms including an extended payment period of 60 days.

Q16-Audit risk

	Forecast 20X8	Actual 20X7
Receivables collection period	71 days	38 days
Current ratio	0.98	1.62
Inventory holding period	55 days	42 days

Audit risk - Answers

Audit risk	Auditor's response
The receivables collection has increased from 38 to 71 days and management has granted an extended payment period to a major new customer, MoonCo. While the increase in the collection may be due to the favourable credit terms offered to MoonCo, it could also indicate an increased risk over recoverability of receivables. If this is the case, trade receivables may be overvalued, and expenses understated.	Review and test the controls implemented by FirebirdCo to identify trade receivables balances which may not be recoverable and the procedures around credit control to ensure that they are operating affectively. Extended post year end cash receipts testing and a review of the aged receivables Ledger to be performed to assess valuation. Also consider the adequacy of any allowance for receivables.

Q16-Audit risk

Planning meeting notes

Inventory is valued at the lower of cost and net realisable value. Cost is made up of the purchase price of raw materials and costs of conversion, including labour and production overheads. The finance director has reviewed the inventory valuation policy and has decided to include some additional overheads this year as they consider them to be production related.

Audit risk - Answers

Audit risk	Auditor's response
The finance director has made a change to the inventory valuation in the year with additional overheads being included. In addition, the inventory holding period has increased from 42 to 55 days. There is a risk that inventory is overvalued due to the inclusion of inappropriate costs	The change in the inventory policy will be discussed with management and a review performed of the additional overheads included to ensure that these are of a production nature. Detailed cost and net realisable value testing to be performed and the aged inventory report to be reviewed to assess whether inventory requires writing down to net realisable value.

Q16-Audit risk

Planning meeting notes

Inventory is held in two main warehouses close to the manufacturing facility. The company plans to conduct full inventory counts at the warehouses on 29th and 30th December, and any necessary adjustments will be made post year end to reflect movement of inventory occurring on 31st December.

Audit risk - Answers

Audit risk	Auditor's response
The company is planning to undertake the full year end inventory counts on 29 and 30 December and then adjust post year end for movements on the last day of the year. If the adjustments are not made accurately and cut-off is not correctly applied, then the year-end inventory could be under or overstated	The auditor should attend the inventory counts held prior to the year end to test the controls over the count and request details of goods received and dispatched on 31 December, in order to agree to the reconciliation. During the final audit, the year-end inventory adjustment schedule should be reviewed in detail and agreed to supporting documentation of goods received and dispatched, using third party documents where possible, which were requested during the inventory count. The audit team should increase the extent of inventory cut-off testing at the year-end date 31st December

Q16-Audit risk

Planning meeting notes

In line with industry practice, Firebird Co offers its customers a two-year product warranty, which covers any defects. Based on previous years' experience, the finance director anticipates this provision will be lower than last year.

Audit risk - Answers

Audit risk	Auditor's response
Firebird Co offers its customers a two-year product warranty which covers any defects. This represents an assurance type warranty provision which will be required under IAS 37 Provisions, contingent liabilities and Contingent Assets. Calculating warranty provisions requires judgement as it is an uncertain amount. The finance director anticipates this provision will be lower than last year based on prior years' experience. However, there is a risk that this provision could be understated and is being used as a mechanism to manipulate profit, especially in the light of the difficult trading conditions.	Discuss with management the basis of the provision calculation and compare this to the basis used in previous years and the level of post year-end claims, if any, made by customers. In particular, discuss the rationale behind reducing the level of provision this year. Compare the prior year provision with the actual level of claims in the year, to assess the reasonableness and reliability of the judgements made by management

Q16-Audit risk

Planning meeting notes

The company receives a trade discount from one of its main suppliers, Marrina Co, which is linked to the total amount purchased during the year. The amount is reclaimed post year end in February 20X9, and is based on the actual volumes purchased in 20X8. During the last month it has become clear that Firebird Co will reach the volume required to reclaim this discount.

Q16-Audit risk

Planning meeting notes

The finance director has advised that they are expecting to include a receivable in relation to this trade discount of $0.9m at the year end along with a corresponding entry in cost of sales, as the discount relates to goods which will have all been sold by the year end.

Audit risk - Answers

Audit risk	Auditor's response
Firebird Co receives as annual trade discount from its main supplier, Marrina Co, and a trade discount receivable of $0.9m is expected to be recognised at the year end. The receivable should only be recognised if the company has purchased the required volume levels. If the annual volumes are over or understated, then the receivable recognised and cost of sales may be over or understated	Discuss with management the basis of the discount calculation and agree the calculations back to supporting documentation, including the supplier contract. Review post year-end correspondence with Marrina Co for evidence of the discount being applied or post year-end bank statements for evidence of receipt

Q16-Audit risk

Planning meeting notes

In order to accommodate the increased level of orders from Moon Co, the company conducted a review of its plant and machinery. As part of this review, surplus plant and machinery was sold, resulting in a loss on disposal of $380,000. Additionally, the directors decided to upgrade the manufacturing process and in November 20X8 an order was placed for a significant item of plant.

Audit risk - Answers

Audit risk	Auditor's response
Surplus plant and machinery was sold during the year, resulting in a loss on disposal of $380,000. The assets may not have been correctly removed from the non-current assets register and the loss on disposal not correctly adjusted for. This would result in overstated assets and profits. Significant profits or losses on disposal are an indication that the depreciation policy of plant and machinery may not be appropriate. Therefore, depreciation may be understated, and profit and assets overstated	Review the non-current assets register to confirm the removal of the disposed assets. Recalculate the loss on disposal calculations and agree all items to supporting documentation Discuss the depreciation policy for plan and machinery with the finance director to assess its reasonableness.

Q16-Audit risk ★

A non-refundable deposit of $0.4m was paid to the supplier at this stage and the balance of $0.6m is to be paid on receipt of the asset in February 20X9. In order to finance this capital expense, Firebird Co raised $1.1m through issuing shares at a premium in November 20X8.

The report to management issued by Mockingbird & Co following last year's audit highlighted significant deficiencies relating to Firebird Co's purchases cycle.

Audit risk - Answers

Audit risk	Auditor's response
Firebird Co placed an order in November 20X8 for a significant item of plant. The asset is due to be delivered in February 20X9. A non-refundable deposit of $0.4m was paid pre year-end. There is a risk that this expenditure may be incorrectly classified as part of non-current assets at the year end. The deposit paid represents a prepayment and should be recognised with current assets. If this has not been correctly recorded, non-current assets may be overstated and current assets understated	Discuss with management how the deposit of $0.4m has been accounted for. Agree the pre year-end payment of $0.4m to cash book and bank statements. Review the order documentation to confirm the delivery date for the plant and machinery to assess whether the purchase was completed by the year end

Audit risk - Answers

Audit risk	Auditor's response
In November 20X8, Firebird Co raised new finance through issuing $1.1m of shares at a premium. The equity finance needs to be allocated correctly between share capital and share premium with adequate disclosure made. If this is not done, then the financial statements may be misstated due to a lack of disclosure or share capital and share premium may be misstated.	The Audit team should confirm that proceeds of $1.1m were received and that the split of share capital and share premium is correct and appropriately recorded. In addition, the disclosures for this finance should be reviewed in detail to ensure compliance with relevant accounting standards and local legislation.

Audit risk - Answers

Audit risk	Auditor's response
The report to management issued after the prior year audit highlighted significant deficiencies relating to the purchases cycle. If these deficiencies have not been rectified, the controls over purchase and payables may continue to be weak leading to an increased risk of misstatements arising. Cost of sales, expense and trade payables may not be complete or accurate	Discuss with management whether the purchase cycle recommendations suggest by Mockingbird & Co were implemented successfully this year. If so, undertake tests of these controls to assess if they are operating efficiently. If the controls are not in place or operating efficiently, adopt a full substantive approach for confirming the completeness and accuracy of cost of sales and other expenses and trade payables

Q16-Audit risk

	Forecast 20X8	Actual 20X7
Receivables collection period	71 days	38 days
Current ratio	0.98	1.62
Inventory holding period	55 days	42 days

Audit risk - Answers

Audit risk	Auditor's response
The company has experienced difficult trading conditions, the current ratio has decreased from 1.62 to 0.98 and the bank overdraft has increased from $0.2m to £1.7m despite the new finance raised. These factors indicate that the company is experiencing a reduction in cash flow which could result in going concern difficulties or uncertainties. These uncertainties may not be adequately disclosed in the financial statements	Detailed going concern testing to be performed during the audit, including the review of cash flow forecasts and the underlying assumptions. These should be discussed with management to ensure that the going concern basis is reasonable

Q16-Audit risk

Required:

(c) Describe the audit procedures which the auditor should perform in assessing whether or not Firebird Co is a going concern.

(6 marks)

Q16-Audit risk - Answers

(c) Going concern procedures

- Obtain the company's cash flow forecast and review the cash inflows and outflows. Assess the assumptions for reasonableness and discuss the findings with management to understand if the company will have sufficient cash flows to meet its liabilities as they fall due.
- Perform a sensitivity analysis on the cash flows to understand the margin of safety the company has in terms of its net cash in/outflow..

Q16-Audit risk - Answers

(c) Going concern procedures

- Evaluate management's plan for future actions, including their contingency plans in relation to ongoing financing and plans for generating revenue, and consider the feasibility of these plans.
- Review the company's post year-end sales and order book to assess if the levels of trade are likely to increase and if the revenue figures in the cash flow forecast are reasonable taking into account the impact of the new customer, Moon Co.

Q16-Audit risk - Answers

(c) Going concern procedures

- Obtain the contract with Moon Co to assess the payment terms in relations to Firebird Co's cash position and whether Firebird Co is able to manage these increased terms.
- Review any agreements with the bank to determine whether there are any covenants in relation to the overdraft and whether any have been breached.
- Review post year-end correspondence with suppliers to identify if any have threatened legal action.

Q16-Audit risk - Answers

(c) Going concern procedures

- With the client's permission, enquire of the lawyers of Firebird Co as to the existence of any litigation and if so, the likely outcome of any litigation.
- Perform audit procedures in relations to subsequent events to identify any items which might indicate or mitigate the risk of the going concern basis not being appropriate.
- Examine warranty claims post year end to assess if significant refunds have been given or if there are any likely problems over the quality of products, leading to high returns; if so, confirm this has been adjusted for in the cash flow forecast.

Q16-Audit risk - Answers

- Examine if the final payment has been made for the asset in February 20X9, as if it has not, Firebird Co may not be able to continue without the increased plant.
- Review the post year-end board minutes to identify any other issues which might indicate further financial difficulties for the company.
- Review post year-end management accounts to assess if in line with cash flow forecast.
- Obtain a written representation confirming the directors’ view that Firebird Co is a going concern

Q16-Audit risk

Required:

(d) Describe substantive procedures the auditor should perform to confirm the trade discount receivable for Firebird Co at 31 December 20X8.

(5 marks)

Q16-Audit risk - Answers

(d) Trade discount receivable

- Obtain a schedule analysing the $0.9m trade discount receivable, cast and agree to inclusion in the trial balance.
- Agree to supplier contract/correspondence that Firebird Co does qualify for an annual trade discount, noting the % discounts to be applied and the required levels of volumes to be achieved.
- Review any correspondence received from Marrina Co which confirms the amount receivable Review the level of purchases as per the purchase ledger and agree to the supplier the contract with Marrina Co to confirm the Firebird Co has purchased the minimum required volumes to qualify for a trade discount.

Q16-Audit risk - Answers

(d) Trade discount receivable

- Recalculate the expected discount, agreeing the % discount to supplier correspondence and the level of purchases to date per supplier to the purchase daybook.
- Agree that the trade discount has been correctly allocated to cost of sales.
- Review inventory records to confirm whether any goods purchased from Marrina Co remain in inventory at the year end.
- Agree the trade discount receivable to post year-end payments/credit notes or supplier statements to confirm adjustment by supplier
- Compare the level of discounts receivable to the previous year and discuss with management any significant fluctuations.

Q17-Internal Control

Required:

(a) In respect of the inventory system for Turbo Co:

(i) Identify and explain FOUR DIRECT CONTROLS which the auditor may seek to place reliance on; and

(ii) Describe a TEST OF CONTROL the auditor should perform to assess if each of these key controls is operating effectively.

Note: Prepare your answers using two columns headed Direct control and Test of control respectively. The total marks will be split equally between each part

(8 marks)

Q17-Internal Control

Required:

(b) Identify and explain FOUR DEFICIENCIES in Turbo Co's inventory system and provide a recommendation to address each of these deficiencies.

Note: Prepare your answers using two columns headed Control deficiency and Control recommendation respectively.

(8 marks)

Q17-Internal Control

Required:

(c) Explain how the internal audit department of Turbo Co could assist the directors in preventing and detecting fraud within the inventory system.

(4 marks)

(20 marks)

Q17-Internal Control

Turbo Co is a manufacturer of mobile phones and telecommunications equipment. It operates from a large production facility, where it operates continuous production 24 hours a day, seven days a week. The company has an internal audit (IA) department based at head office. Turbo Co's year end is 31 March.

Q17-Internal Control

You are an audit supervisor of Wiz & Co and you are in the process of reviewing the inventory system documentation for Turbo Co. Finished goods are stored in five of the company's six warehouses located close to the production facility. Raw materials are stored in the sixth warehouse. Additionally, to meet the delivery needs for a key customer, some finished goods are stored in a third party warehouse located in the north of the country where Turbo Co is based. Work-in-progress is expected to be immaterial at the year end.

Q17-Internal Control

Inventory is valued in accordance with IAS 2 Inventories and the company uses standard costing for calculating the cost of goods. On a quarterly basis, standard costs are reviewed and variance reports of actual versus standard costs are produced for the production director. Where there are significant differences, the production director investigates the reasons for the variance and if required, revises the standard costs.

Internal control

Direct control	Test of control
On a quarterly basis, Turbo Co reviews standard costs and variance reports of action Versus standard costs or produced for the production director. For significant differences, the production director investigates the reasons for the variance and if required, revises the standard costs. IAS 2 Inventories allows standard costs as a method for valuing inventory, providing it is a close approximation to actual cost. Regularly reviewing standard costs ensures that any necessary adjustments are made promptly, and inventory valuation is appropriate and in line with the requirements of the standard	Obtain variance reports to confirm they have been prepared quarterly and discuss the latest variance report with the production director to assess the level of differences arising and inquire whether any adjustments have been made to standard costs. Review the inventory records for details of changes to the standard costs, selected sample and agree to the documentation and review performed by the production director. Confirm that the changes made are appropriate in line with the current costs

Q17-Internal Control

As Turbo Co, operates continuous production, it maintains a perpetual (continuous) inventory system where goods are counted monthly throughout the year rather than just at the year end. To minimise disruption to production caused by inventory counting, movements of raw materials and finished goods in and out of the warehouse continue during each count.

Internal control

Direct control	Test of control
Inventory is counted on a monthly basis and at each of the six locations twice a year, ensuring that all product lines are counted at least twice a year. Where perpetual (continuous) inventory counting is used, management is required to ensure that all product lines are counted at least once a year. This ensures that the records used to measure inventory quantities at the year-end have been compared to actual levels at least once and any necessary adjustments made to the records.	Review the file for completed inventory count to date to assess whether all locations have been visited this year. Discuss with IA the schedule of inventory count dates for the remainder of the year to confirm all inventory lines will be counted at least once a year.

Internal control - Answers

Control deficiency	Control recommendation
Movements of raw materials and goods continued during each inventory count as production does not cease. Inventory records could be under/overstated Is good so missed or double counted due to movements in the warehouses.	It is not practical to stop all inventory movements as production needs to continue. However, in relation to the raw materials warehouse, materials required for production on the day of the count should be estimated and put to one side. These will not be included as raw materials and instead will be work in progress. any goods transferred from the manufacturing site to the warehouse on the day of the count should be kept to a minimum. They should be stored to one side, and at the end of the count should be counted and included in finished goods.

Q17-Internal Control

The IA department is responsible for supervising each of the inventory counts and ensuring that the counting teams are following their instruction. Each month a count is undertaken at one of the company's six warehouses, with the aim that each warehouse is counted twice a year. This ensures that all product lines are also counted at least twice a year.

Internal control

Direct control	Test of control
The IA Department is responsible for supervising each of the inventory counts and ensuring that the counting teams are following their instructions. This increases the level of independence associated with account, making the results more reliable. if warehouse staff were supervising the counts, they may wish to hide inefficiencies and inventory discrepancies so that their Department is not criticised.	The auditor should attend at least one of the perpetual (continuous) inventory counts and they should observe who is responsible for supervising the count.

Q17-Internal Control

On a monthly basis, the internal auditor undertakes a reconciliation of goods stored in the third-party warehouse per Turbo Co's records with the monthly count records submitted by the third-party warehouse. Any variances are investigated by internal auditor.

Internal control

Direct control	Test of control
On a monthly basis, IA undertakes a reconciliation of goods stored in a third-party warehouse per TurboCo's records, with the monthly count records submitted by the third-party warehouse. Any variances or investigated by IA. This ensures that inventory records used by the company when confirming sales orders are complete and accurate with regards to goods held by third parties	Select a sample of reconciliations undertaken by a of goods held by third parties to the company records. For those differences, discussed with a member of IA any actions undertaken to resolve the discrepancies

Q17-Internal Control

The inventory counts undertaken at the raw materials warehouse require the inventory to be estimated by measuring the height and width of the raw material piles. This year, rather than involving a specialist, the quantities have been approximated by the raw materials warehouse manager.

Internal control - Answers

Control deficiency	Control recommendation
The raw materials warehouse manager has estimated the quantities of raw materials for the first time. In the past, a specialist has undertaken this role and the warehouse manager may not be suitably qualified to undertake the estimation. If he makes a mistake, then inventory could be incorrectly updated. In addition, he may wish to hide inefficiencies and inventory discrepancies so that his Department is not criticized	A specialist should be utilised on the two inventory counts held at the raw materials warehouse to assess quantities for the counts undertaken in the current year, the warehouse manager could estimate the raw materials and the specialist could cheque it. This would give an indication as to whether he is able to accurately assess the quantities for subsequent inventory counts.

Q17-Internal Control

Inventory count sheets are sequentially numbered and contain detailed product descriptions and codes of the inventory to be counted. During the monthly counts, all inventory lines stored within the selected warehouse are counted. The warehouse is divided into separate areas and each area is counted once by the allocated team

Internal control

Direct control	Test of control
The inventory count sheets are sequentially numbered and at the end of the count, they are given to the count supervisor who checks the sequence of the sheets. This ensures that if sheets are missing, it is promptly identified so that the inventory record adjustments are complete and accurate.	For a sample of inventory counts, review the sequence of the inventory sheet for any gaps in the sequence and evidence of review from the count supervisor. Obtain an explanation from the account supervisorfor any gaps.

Internal control - Answers

Control deficiency	Control recommendation
Each area of the warehouse is counted once only. If inventory is only checked once, then counting errors may arise resulting in under or overstated inventory being recorded in the accounting records	Once all inventories have been counted once, each area should be recounted by a different team. Any differences on the 1st count should be promptly notified to the count supervisor and a third count undertaken if necessary. If a second count at each warehouse would be too time consuming, then sample checks should be undertaken by a different counting team or members of IA.

Q17-Internal Control

In counting their designated area, if the counters identify any goods which are not detailed on their sequential count sheets, they enter the product code and quantities counts onto a "surplus inventory sheet", which is not numbered.

Internal control - Answers

Control deficiency	Control recommendation
If the accounting team encounters any product lines not listed on the inventory count sheets, this is entered onto a surplus inventory sheet, which is not sequentially numbered. Therefore, the supervisor will not be able to ensure the completeness of all such inventory sheets and hence of inventory.	Each team should be given a blank surplus inventory sheet for entering any inventory which is not on their count sheets. The circus inventory sheet should be sequentially numbered, any unused sheet should be returned at the end of the count, and the supervisor should checkthat the sequence of sheet is complete at the end of the count.

Q17-Internal Control

Any damaged goods identified during the counts are left where they are, but the counter makes a note on the inventory sheets detailing the level of damage.

Once all the counting is complete, the sequence of the count sheets is checked by the count supervisor and if any surplus inventory sheets have been used, they are also handed in at this stage.

Internal control - Answers

Control deficiency	Control recommendation
Damaged goods are not being clearly identified as such as the counter is not noting the level of damage on the inventory sheets. If these goods are left in the aisles, they could be inadvertently sold to customers resulting in a loss of customer goodwill.	Damaged goods should be clearly flagged by the counting teams and should be moved to a designated central location. This will avoid the risk of selling these goods.

Internal control - Answers

Control deficiency	Control recommendation
The counters are those who make an assessment of the level of damage, it will be difficult for the finance team to decide on an appropriate level of write down if they are not able to see the damaged goods, resulting in overvalued inventory	A senior member of the finance team should attend each of the perpetual/continuous inventory counts and inspect the damaged goods to assess the level of any written down or allowance.

Q17-Internal Control

All the count sheets are sent to the finance department where any differences between these and the inventory records are promptly identified and investigated. The inventory records are then updated within the following two weeks.

Internal control

Direct control	Test of control
The count sheets are sent to the finance Department where any differences within the inventory records are promptly identified and investigated. This will ensure that any issues arising as a result of control deficiencies in accounting procedures, deficiencies in recording of received and dispatch goods or due to fraud by warehouse employees are swiftly identified and then mitigated	For a sample of monthly inventory counts, obtained details from the finance Department of the differences identified between the count and the inventory records and review for evidence of investigation of the cause of the differences. In addition, discuss with management the steps taken to reduce the risk of such differences arising in the future.

Internal control - Answers

Control deficiency	Control recommendation
Inventory count differences identified and investigated by the finance team are only updated into inventory records in the following two weeks. If the differences are not promptly updated in the inventory records, this will reduce their completeness and accuracy. Orders may be taken for goods which are showing as available in the record but are not, resulting in a loss of revenue and customer goodwill	After the monthly inventory count discrepancies have been investigated to identify possible causes, the inventory record should immediately be updated. Upon completion of the investigation of account discrepancies, ace senior member of the finance team should review for evidence of the revised figures being promptly updated into the inventory records.

Q17-Internal Control

Required:

(c) Explain how the internal audit department of Turbo Co could assist the directors in preventing and detecting fraud within the inventory system.

(4 marks)

(20 marks)

Q17-Internal Control - Answers

(c) Preventing and detecting fraud

The internal audit Department can help the directors by assessing the main areas of fraud risk, assessing the adequacy and effectiveness of control systems and making recommendations regarding controls to mitigate key risks. Once the controls have been implemented by the company, the internal audit.

Q17-Internal Control - Answers

(c) Preventing and detecting fraud

Department can undertake regular reviews of compliance by each warehouse of these controls. When non-compliance is identified, they can instigate further training if necessary, make additional control recommendations and report suspect fraud to senior management. When fraud is suspected, the internal audit Department can undertake a detailed fraud investigation to identify who is involved, how much was stolen and gather evidence for any subsequent police investigation.

Q17-Internal Control - Answers

(c) Preventing and detecting fraud

In addition, the presence of any internal audit Department can itself act as a fraud deterrent, as the risk of being discovered means individuals or less likely to undertake fraudulent activities.

Q18-Substantive procedure

Required:

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to depreciation

(6 marks)

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate order evidence in relation to the company restructure.

(6 marks)

Q18-Substantive procedure

Required:

(c) Describe substantive procedures that auditors should perform to obtain sufficient and appropriate audit evidence in relation to inventory.

(3 marks)

(d) Discuss the issue and describe the impact on the auditor’s report, if any, should this issue remain unresolved

(5 marks)

Q18-Substantive procedure

It is 1 July 20X5. you are an audit manager in Spidey & Co. You are currently assigned to a new audit client, Ironman Co which has a year ended 31 March 20X5. The draught financial statements show total assets of $15 million and profit before tax of $3 million. The following matters have been brought to your attention

Q18-Substantive procedure

Depreciation

Depreciation has not been provided on any non-current asset for a number of years. When asked why no depreciation is charged, the finance director gave the following response:

Q18-Substantive procedure

‘Property prices generally increase over time, so we don't depreciate buildings. Anyhow, if we had the buildings revalued, we would need to constantly amend the depreciation calculation to reflect the new valuation so it's easier and less time consuming not to bother with it at all. Other assets are not as significant in value and we usually sell them rather than scrap them so the losses on disposal are minimal and that's why we don't bothered appreciating those. Our previous auditors never questioned our approach so it can't be that much of a problem’.

Q18-Substantive procedure - Answers

(a) Depreciation [1 mark per procedure]

- Enquire of management why they have not charged appreciation on assets and discuss the requirement to follow accounting standards.
- If buildings have been valued recently, inspect the valuation report to assess whether the cost is significantly higher than the valuation
- Research market values of similar properties on the Internet to assess the market value and compare this with the cost recorded in the financial statements.

Q18-Substantive procedure - Answers

- Physically inspect the assets for signs of damage which may indicate impairment. Review profits / losses on disposals in previous years to determine whether the finance directors' claims are valid.
- Calculate the recoverable amount of the assets and compare with carrying amount to determine whether the assets are impaired and should be written down.
- Using an appropriate depreciation rate, calculate the estimated misstatement for the current year and prior years.
- Review the financial statement disclosure on accounting policies to confirm that the company's policy for not depreciation assets is disclosed and explained

Q18-Substantive procedure

Company restructure

At a meeting in March 20X5, the board approved the closure of a manufacturing site as part of a company restructure. The cost of the restructure is expected to be $1 million. the restructure was announced to employees in April 20X5.

Q18-Substantive procedure - Answers

(b) Company restructure [1mark per procedure]

- Review board minutes you confirm the decision was made before the year-end.
- Inspect a copy of the announcement made to staff to confirm this occurred after the year-end.
- Review the financial statements to ensure that the restructure is accounted for as a material non-adjusting event. The financial statements should include disclosure of the event but should not include a provision for the restructuring costs as there was no obligation at the year-end.

Q18-Substantive procedure - Answers

- Obtain a breakdown of the restructuring costs, cast and agree to the disclosure not relating to the non-adjusting event
- Review the breakdown of costs for any obvious emissions to ensure completeness.
- Review subsequent events to obtain further evidence regarding the accuracy of the costs which should be included in the disclosure note.
- For costs such as redundancies, calculate the estimated cost and compare with management's estimate to ensure reasonableness.
- For other restructuring costs, inspect quotations or draft agreements to ensure reasonableness

Q18-Substantive procedure

Inventory

Spidey & Co were appointed auditors after the end of the financial year of Iron Man ko. Consequently, the auditors could not attend the year-end inventory count. Inventory is included the financial statements at a value of $700,000.

Q18-Substantive procedure - Answers

(c) Inventory [1mark per procedure]

- Enquire of management whether the previous auditor attended the count. If so, contact the previous auditor and review their working papers.
- Perform counts on a sample of items of inventory at the current date and perform a rollback to the year-end inventory count to evaluate the accuracy of the year-end account.
- If the company has an internal audit Department which was involved in overseeing the count, review their working papers to assess the reliability of the County records.

Q18-Substantive procedure

Required:

(d) Discuss the issue and describe the impact on the auditor's report, if any, should this issue remain unresolved

(5 marks)

Q18-Substantive procedure

The audit work is almost complete, and the auditor's report is due to be signed next week. The auditor has concluded that there are no material misstatements in respect of the company restructure and inventory. Sufficient and appropriate evidence has been obtained in respect of both of these matters.

Q18-Substantive procedure

The audit conclusion in respect of depreciation is that depreciation of $2.5 million should have been charged on assets held by Ironman Co, $0.5 million depreciation in respect of the current year, and $2 million in respect of previous years.

Q18-Report - Answers

(d) Auditor’s report

Discussion of issue

IAS 16 Property, Plant and Equipment Requires depreciation to be charged which reflects the usage of the asset. By not charging depreciation, non-current assets and profits are overstated in the financial statements.

Materiality calculation

The estimated depreciation charge for the year of $0.5 million represents 3.3% of the assets and16.7% of the profit before tax. This Is material to the years of financial statements. The total depreciation of $2.5 million represents 16.7% of total assets which is material.

Q18-Report - Answers

Audit opinion

The audit opinion will be modified [½mark]due to material misstatement. [½mark]The misstatement is material but not pervasive [½mark]as it is isolated and does not represent a substantial proportion of assets. [½mark]The opinion will be qualified [½mark]which states that ‘except for’ the misstatement, the financial statements give a true and fair view. [½mark]

Q18-Report - Answers

Auditor's report

The basis for opinion section within the auditor's report will change to a basis for qualified opinion. [½mark]The basis for qualified opinion will explain the issue [½mark]and quantify the effects of the misstatement on the financial statement figures for the current year and accumulated reserves. [½mark]

Summary

1. Audit risk部分解释一定要落实到具体科目，切忌莫能两可；
2. 解释关键控制或控制缺陷时，要落实到对企业运营有效、财报真实公允、是否合法合规的影响，提建议时要全面，TOC要与题目相关联；
3. Substantive procedure要注意结合题目背景，做提前思考一下做账中涉及到什么资料、哪里可能出错，这样写程序会更有针对性。

Thank you