



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – HONOURS

FOURTH SEMESTER – APRIL 2022

UBH 4503 – AUDITING AND ASSURANCE

Date: 15-06-2022

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

PART -A

CHOOSE THE CORRECT OPTION FOR THE FOLLOWING (15*2=30)

1. Which TWO of the following should be included in an audit engagement letter?

- (1) Objective and scope of the audit
- (2) Results of previous audits
- (3) Management's responsibilities
- (4) Need to maintain professional scepticism.

A 1 and 2

B 1 and 3

C 2 and 4

D 3 and 4

2 Auditors have a professional duty of confidentiality under ACCA's Code of Ethics and Conduct; voluntary disclosure of information may be necessary in certain situations.

For which TWO of the following situations should an auditor make VOLUNTARY disclosure?

- (1) If an auditor knows or suspects his client is engaged in money laundering
- (2) Where disclosure is made to non-governmental bodies
- (3) Where it is in the public interest to disclose
- (4) If an auditor suspects his client has committed terrorist offences

A 1 and 4

B 1 and 3

C 2 and 4

D 2 and 3

3 ISA 580 Written Representations require auditors to obtain written representations to support other evidence. For which of the following matters would a written representation NOT be suitable as audit evidence?

A That all deficiencies in internal control known to management have been communicated to the auditor

B That subsequent events requiring adjustment or disclosure in the financial statements have been dealt with appropriately

C That the payroll charge for three months of the year when the accounting records were unavailable is correctly stated.

D That management has fulfilled their responsibility for the preparation and presentation of the financial statements

4 Which TWO of the following substantive procedures provide evidence over the EXISTENCE of trade receivables?

- (1) Agreeing a sample of goods dispatched notes to sales invoices and to the sales ledger
- (2) Undertaking a receivables circularisation
- (3) Review of post year-end cash receipts, if these relate to year-end receivables follow through to the sales ledger
- (4) Recalculating the allowance for uncollectible accounts

A 1 and 3

B 2 and 4

C 2 and 3

D 1 and 4

5 Which of the following is NOT a responsibility of the auditor?

A To provide an opinion on the truth and fairness of the financial statements

B To conduct an audit in accordance with International Standards on Auditing

C To express an opinion on the company's going concern status

6 Which of the following procedures are TESTS OF CONTROL an auditor should perform in testing the inventory cycle of their client whilst attending the inventory count?

- (1) Observe whether the client's staff are following the inventory count instructions
- (2) Review inventory present in the warehouse for evidence of damage or obsolescence
- (3) Obtain a sample of the last goods received notes and goods dispatched notes and follow through to ensure inclusion in the correct accounting period.
- (4) Inspect and review management's inventory count instructions

A 2 and 3

B 1 and 4

C 1 and 2

D 3 and 4

7 Which of the following is NOT an advantage of a company outsourcing its internal audit function?

A There will always be a reduction in costs

B Provides access to specialist skills

C Can provide access to an internal audit team immediately

8. Which of the following is NOT an audit software technique?

A Using computer programs to extract a sample for a receivable's circularisation

B Running a computer program to test the addition of the cash book

C Using a computer to perform an analytical review comparison of administration expenses against the prior year

D Entering a sample of dummy sales orders through the computer system which takes customers over their credit limit to ensure the system rejects the orders

9 Which of the following is a DISADVANTAGE of recording accounting and control systems using internal control questionnaires?

A They may contain a large number of irrelevant controls

B It can be difficult to identify missing controls

C They are time consuming to complete

10 Which of the following statements, if any, is/are correct?

(1) Internal auditors should report to the finance director as they understand internal controls and are best placed to implement any recommendations in a timely manner

(2) Companies are not required to establish and maintain an internal audit function

A 1 only

B 2 only

C Both 1 and 2

D Neither 1 nor 2

11 Is the following statement true or false? Audit risk is a function of two components, inherent risk and control risk.

A True

B False

12 Which of the following statements, relating to the auditor's reporting responsibilities for going concern, if any, is/are correct?

(1) Where management is unwilling to make their assessment of the company's ability to continue as a going concern, the auditor should include an emphasis of matter paragraph in the audit report

(2) Where the use of the going concern assumption is inappropriate, the auditor should include a qualified opinion in the audit report

A 1 only

B 2 only

C Both 1 and 2

D Neither 1 nor 2

13. Which of the following are indicators of going concern problems?

(i) Declining revenues. (ii) Significant outstanding receivables.

(iii) Loan repayments due to be made.

(iv) Declining current and quick ratios.

A (i), (ii) and (iii) only

B (ii), (iii) and (iv) only

C (i), (ii), (iii) and (iv)

D (iii) only

14. Which of the following statements is FALSE in respect of subsequent events?

- A The auditor must ensure the client has complied with IAS 10 Events After the Reporting Period when performing the audit of subsequent events
- B The auditor must comply with IAS 10 Events After the Reporting Period when performing the audit of subsequent events
- C The auditor must comply with ISA 560 Subsequent Events when performing the audit of subsequent events
- D Events after the reporting period may be adjusting or non-adjusting

15. Which of the following statements is TRUE in respect of the audit plan?

- A The audit plan sets out the scope, direction and framework for the audit
- B The audit plan contains the detailed audit procedures designed to obtain sufficient appropriate evidence including the objective of each procedure and the sample size to be tested
- C The plan includes preliminary engagement activities such as materiality and risk assessment
- D The audit plan is developed before the audit strategy

PART -B

ANSWER ALL THE QUESTIONS (6X5=30MARKS)

16. Explain the factors that should be considered by an external auditor before reliance can be placed on the work performed by a company's internal audit department.
17. Explain the difference between the interim audit and the final audit, along with details of work carried out in each of the audit.
18. ISA 320 *Materiality in Planning and Performing an Audit* provides guidance on the concept of materiality in planning and performing an audit. Required: Define materiality and determine how the level of materiality is assessed
19. Explain written representation and the purpose of written representation. Explain the process of obtaining written representations?
20. Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to bank balances.
21. Bring out the various types of opinion an auditor can place in the audit report.

PART -C

READ THE CASE SCENARIO AND ANSWER THE REQUIRED. (2 * 20=40)

22. You are an audit senior in Scarlet & Co and you are in the process of reviewing the systems testing completed on the payroll cycle of Bronze Industries Co (Bronze), as well as preparing the audit programmes for the final audit.

Bronze operate several chemical processing factories across the country, it manufactures 24 hours a day, seven days a week and employees work a standard shift of eight hours and are paid for hours worked at an hourly rate. Factory employees are paid weekly, with approximately 80% being paid by bank transfer and 20% in cash; the different payment methods are due to employee preferences and Bronze has no plans to change these methods.

The administration and sales teams are paid monthly by bank transfer. Factory staff are each issued a sequentially numbered clock card which details their employee number and name. Employees swipe their cards at the beginning and end of the eight-hour shift and this process is not supervised. During the shift employees are entitled to a 30-minute paid break and employees do not need to clock out to access the

dining area. Clock card data links into the payroll system, which automatically calculates gross and net pay along with any statutory deductions. The payroll supervisor for each payment run checks on a sample basis some of these calculations to ensure the system is operating effectively.

Bronze has a human resources department which is responsible for setting up new permanent employees and leavers. Appointments of temporary staff are made by factory production supervisors. Occasionally overtime is required of factory staff, usually to fill gaps caused by staff holidays. Overtime reports which detail the amount of overtime worked are sent out quarterly by the payroll department to production supervisors for their review.

To encourage staff to attend work on time for all shifts Bronze pays a discretionary bonus every six months to factory staff; the production supervisors determine the amounts to be paid. This is communicated in writing by the production supervisors to the payroll department and the bonus is input by a clerk into the system.

For employees paid by bank transfer, the payroll manager reviews the list of the payments and agrees to the payroll records prior to authorising the bank payment. If any changes are required, the payroll manager amends the records. For employees paid in cash, the pay packets are prepared in the payroll department and a clerk distributes them to employees; as she knows most of these individuals, she does not require proof of identity.

REQUIRED: (i) Identify and explain FIVE internal control deficiencies
(ii) Recommend a control to address each of these deficiencies, and
(iii) Describe a test of control Scarlet & Co should perform to assess if each of these controls is operating effectively.

Note: Prepare your answer using three columns headed Control deficiency, Control recommendation and Test of control respectively. The total marks will be split equally between each part.

23. You are an audit supervisor of Pluto & Co and are currently planning the audit of your client, Venus Magnets Co (Venus) which manufactures decorative magnets. Its year-end is 31 December 20X5 and the forecast profit before tax is \$9.6 million.

During the year, the directors reviewed the useful lives and depreciation rates of all classes of plant and machinery. This resulted in an overall increase in the asset lives and a reduction in the depreciation charge for the year.

Inventory is held in five warehouses and on 28 and 29 December a full inventory count will be held with adjustments for movements to the year-end. This is due to a lack of available staff on 31 December. In October, there was a fire in one of the warehouses; inventory of \$0.9 million was damaged and this has been written down to its scrap value of \$0.2 million. An insurance claim has been submitted for the difference of \$0.7 million. Venus is still waiting to hear from the insurance company with regards to this claim, but has included the insurance proceeds within the statement of profit or loss and the statement of financial position.

The finance director has informed the audit manager that the October and November bank reconciliations each contained unreconciled differences; however, he considers the overall differences involved to be immaterial.

A directors' bonus scheme was introduced during the year which is based on achieving a target profit before tax. In order to finalize the bonus figures, the finance director of Venus would like the audit to commence earlier so that the final results are available earlier this year.

REQUIRED: Identify and describe any FIVE audit risks, and explain the auditor's response to each risk, in planning the audit of Venus Magnets Co.

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