

Certified Accounting Technician Examination
Advanced Level

Implementing Audit Procedures (International Stream)

Monday 13 June 2011

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL TEN questions are compulsory and **MUST**
be attempted

Section B – ALL FOUR questions are compulsory and **MUST**
be attempted

Do NOT open this paper until instructed by the supervisor.

**During reading and planning time only the question paper may
be annotated. You must NOT write in your answer booklet until
instructed by the supervisor.**

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper T8 (INT)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

Section A – ALL TEN questions are compulsory and MUST be attempted

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

Each question in this section is worth 2 marks.

- 1 Which of the following is NOT one of the fundamental principles of ACCA's Code of Ethics and Conduct?**
- A Integrity.
 - B Confidentiality.
 - C Independence.
 - D Professional competence and due care.
- 2 Which of the following circumstances may give rise to a SELF-REVIEW threat to compliance with the fundamental principles of ACCA's Code of Ethics and Conduct?**
- A An auditor acting on behalf of an audit client company to resolve a dispute over the non-payment of a sales invoice.
 - B An auditor of a company's financial statements assisting in the preparation of those financial statements.
 - C An auditor being pressured into reducing the level of supervision of the audit of a client's financial statements in order to reduce fees.
 - D A member of the audit team of an audit client company owning a significant shareholding in the client company.
- 3 Which of the following procedures should auditors use to obtain an understanding of an entity and its internal control?**
- (i) Observation.
 - (ii) Inquiry.
 - (iii) Reperformance.
 - (iv) Inspection.
- A (i) and (ii) only
 - B (i), (ii) and (iii)
 - C (i), (ii) and (iv)
 - D (ii), (iii) and (iv)
- 4 Which of the following are accounting controls?**
- (i) The maintenance of a trade receivables control account.
 - (ii) Reconciliation of suppliers' statements.
 - (iii) Training of accounting staff to use a new accounting system.
 - (iv) The use of batch control procedures in a computer-based accounting system.
- A (i) and (iv) only
 - B (i), (ii) and (iv)
 - C (i), (ii) and (iii)
 - D (ii) and (iii) only

- 5 Which of the following are analytical procedures in the context of the audit of the financial statements of a limited liability company?**
- (i) Comparing the monthly sales trends of the company with those of other companies in the same business sector.
 - (ii) Calculating the average gross wage per employee of the company.
 - (iii) Comparing the balance on the company's trade receivables control account in the company's general ledger with the total of the balances of the company's individual trade receivable accounts.
 - (iv) Comparing the forecasted operating profit of the company for the period under review with the actual reported operating profit.
- A** (i), (ii) and (iii)
B (i), (ii) and (iv)
C (i), (iii) and (iv)
D (ii), (iii) and (iv)
- 6 On which of the following controls would an auditor of a manufacturing company's financial statements NOT place any reliance to obtain assurance that production employees were paid at the correct rate of pay?**
- A** Appropriate and adequate segregation of duties over payroll processing.
B Appropriate and adequate controls over the access to and amendment of the wages master file.
C Appropriate and adequate controls over the authorisation of payroll procedures.
D Appropriate and adequate controls over the clocking-on and clocking-off procedures of production personnel.
- 7 What is the PRIMARY objective of an auditor when attending the inventory count of a limited liability company?**
- A** To supervise the inventory count and obtain assurance on the value of inventory in the company's financial statements.
B To obtain sufficient appropriate audit evidence regarding the ownership of inventory and the company's cut-off procedures.
C To obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory.
D To obtain assurance on the value of inventory and the company's cut-off procedures.
- 8 Which of the following is TRUE with regard to the use of test data as a computer-assisted audit technique?**
- (i) It is used when carrying out tests of controls.
 - (ii) It is used when carrying out substantive procedures.
 - (iii) It may be used when carrying out tests of controls *and* substantive procedures.
 - (iv) It may be processed simultaneously with or separately from the client's normal processing runs.
- A** (i) and (iii)
B (ii) and (iii)
C (i) and (iv)
D (ii) and (iv)

9 Which of the following statements are TRUE regarding written management representations received by the auditors of a limited liability company audit client?

- (i) They may include information provided to the directors by in-house lawyers of the company about provisions for legal claims.
- (ii) Their primary purpose is to provide sufficient, appropriate reliable audit evidence to support the opinion expressed in the auditor's report.
- (iii) They may confirm that the selection and application of accounting policies are appropriate.
- (iv) They should confirm that all transactions have been recorded and are reflected in the financial statements.

- A** (i), (iii) and (iv)
- B** (ii), (iii) and (iv)
- C** (i) and (iii) only
- D** (ii) and (iv) only

10 Where an auditor concludes that a material misstatement in a company's financial statements DOES NOT have a pervasive effect on them, the auditor should issue a modified audit report.

Which of the following should be included in the report in such circumstances?

- A** Disclaimer of opinion.
- B** Adverse opinion.
- C** Emphasis of matter paragraph.
- D** Qualified opinion.

(20 marks)

Section B – ALL FOUR questions are compulsory and MUST be attempted

1 Viola Co manufactures bedroom furniture from large factory premises, and it has a wide customer base comprising retail stores and outlets. The company's board of directors are committed to the company having a strong control environment and have spent a considerable amount of time and resources in developing each element of it. Recently, three board members also participated in reviewing the effectiveness of Viola Co's internal controls exercised over the company's accounting systems. Whilst the outcome of the review was satisfactory, the directors are aware that, as with all internal control systems, Viola Co's system has inherent limitations. For example, they realise that a system designed with adequate segregation of duties between employees will not in itself ensure that all duties will be performed satisfactorily.

Viola Co has use of a sophisticated computer-based costing system to calculate accurate valuations of inventory throughout the various stages of production. The majority of the company's inventory is stored at the factory site. However – consistent with its sale or return policy, a material amount of the company's inventory is located at customers' premises.

You will be a member of the audit team responsible for auditing the area of inventory as reported in Viola Co's financial statements for the year ending 30 June 2011. The manager responsible for the audit has reviewed the company's proposed inventory count procedures and is satisfied that they will meet the required objectives. He is now about to brief the team on the procedures that they will need to carry out whilst attending and then after attending the inventory count.

Required:

- (a) **Identify FOUR elements, other than 'participation by those charged with governance' that should be encompassed in the control environment of Viola Co.** (4 marks)
- (b) **State THREE inherent limitations that apply to internal control systems generally, and for each one provide an example of how each limitation stated may apply to any internal control system.** (6 marks)
- (c) **Explain why the audit manager would assess the inherent risk associated with inventory as 'high', when assessing the risk of material misstatement in the financial statements of Viola Co for the year ending 30 June 2011.** (4 marks)
- (d) (i) **State FIVE procedures that members of your audit team should carry out whilst attending the inventory count at Viola Co's factory;** (5 marks)
(ii) **State THREE follow-up procedures that members of your audit team should carry out after attending the inventory count of Viola Co.** (3 marks)
- (e) **Identify TWO benefits that Viola Co could derive by adopting a continuous (perpetual) inventory counting system rather than a year-end count.** (3 marks)

(25 marks)

- 2** Drum Co provides management consultancy services and your firm has been retained as the company's auditors since 2004.

Lucy Lee, an audit manager at your firm, has just completed the formulation of the overall audit strategy to be adopted for the audit of the company's financial statements for the year ended 31 May 2011 and is now in the process of developing the audit plan. Whilst carrying out these functions, Lucy has also given ongoing consideration to the staffing of the audit engagement team. Amongst other procedures already carried out, she has referred back to the documents and information contained in the current audit file for the year ended 31 May 2010. This included the report to management (often referred to as a letter on internal control deficiencies) and the representation letter.

Required:

- (a) **Explain the purpose of Lucy Lee formulating an overall audit strategy for the audit of Drum Co's financial statements for the year ended 31 May 2011.** (2 marks)
- (b) **Identify SIX different examples of working papers that should be contained on the current audit file relating to the audit of Drum Co's financial statements for the year ended 31 May 2010.**
Note: You are not required to identify the report to management or the representation letter. (6 marks)
- (c) **Explain the factors that Lucy Lee would need to take into account when considering the staffing of the team to be engaged on the audit of the financial statements of Drum Co for the year ended 31 May 2011.** (6 marks)
- (d) **Explain why Lucy Lee referred back to the previous year's current audit file as part of her audit procedures for the year ended 31 May 2011.** (3 marks)
- (e) **Explain the purpose of your firm issuing a report to management (often referred to as a letter on internal control deficiencies) as part of its procedures when auditing the financial statements of Drum Co.** (4 marks)
- (f) **State TWO audit objectives of your firm receiving written management representations from the directors of Drum Co.** (4 marks)

(25 marks)

- 3** At a social evening arranged by your firm for its recent intake of trainee auditors, you overheard the following statements made by your fellow trainees:
- (a)** 'At my last audit firm, the only work we did in order to verify the existence, value and ownership of motor vehicles as reported in audit clients' financial statements, was to inspect the relevant suppliers' invoices. I assume this met the required audit objectives ...' (5 marks)
 - (b)** 'I do not see any point in an auditor sending a bank letter to an audit client's bank. Any assurance that the auditor requires in respect of bank balances can be obtained by carrying out audit procedures on the company's bank reconciliations ...' (5 marks)
 - (c)** 'At my interview I was asked to explain the term 'professional scepticism' in the context of the audit of the financial statements of a limited liability company. I explained that it simply meant that the auditor should not rely on any audit evidence provided by the directors of the company unless it could be corroborated by evidence obtained directly by the auditor ...' (5 marks)

Required:

Discuss the validity of each of the above statements.

Note: The mark allocation is shown against each of the three statements.

(15 marks)

- 4 (a) Your firm was recently appointed as auditors of Trumpet Co, a company with a large internal audit department. The audit engagement partner will evaluate the work carried out by the internal auditors to determine the extent to which your firm should rely upon the work carried out by them, in order to reduce its own audit procedures.

Required:

State FIVE matters that the audit engagement partner should consider when evaluating the work of Trumpet Co's internal auditors, before concluding as to the extent it could be relied upon as a basis for reducing your firm's own audit procedures. (5 marks)

- (b) As part of a training session at your firm, you have been asked to make a presentation entitled, '*An Introduction To Audit Sampling*'.

Required:

Explain the meaning of the following terms:

- (i) **Audit sampling;** (3 marks)
(ii) **The population; and** (1 mark)
(iii) **Sampling risk.** (2 marks)
- (c) As part of its standard audit procedures on all limited liability company audit engagements, your firm carries out a thorough review of the appropriateness of the going concern assumption.

Required:

- (i) **Explain the significance of the going concern assumption in relation to the preparation of the financial statements of a limited liability company.** (2 marks)
(ii) **State the type of opinion your firm should express in its audit report on the financial statements of a limited liability company, prepared on a going concern basis, when this assumption is deemed to be inappropriate.**

You should state the basis for expressing this opinion. (2 marks)

(15 marks)

End of Question Paper