

Advanced Auditing & Professional Ethics (New Course)

1. This year you were included in the audit team with portfolio of few not-for- profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?
 - a. Time card clocking in to ensure that the employees including resident doctors are only paid for those hours worked
 - b. Strict controls over the authorisation of overtime to ensure it is only worked where really needed
 - c. There are any restrictions imposed by the objectives and powers given by hospital's governing documents
 - d. A recognised plan of the organisation's structure clearly showing the areas of responsibility and lines of authority and reporting.
2. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?
 - a. You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.
 - b. You observe that there is an existence of a software program for virus prevention.
 - c. You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.
 - d. You identify that there are physical protection devices in use for hardware, software, and library facilities.
3. As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?
 - (1) For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off.
 - (2) Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger.
 - (3) For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation.
 - (4) For a sample of purchase invoices, examine for proper classification into purchase accounts.
 - a. Procedure (1) and (2)
 - b. Procedure (1) and (3)
 - c. Procedure (2) and (4)
 - d. Procedure (3) and (4)

4. You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.

	Rs.	Rs.
Balance per bank statement 31 March 2018		
1,35,111.00		
Add: deposits outstanding		
30 March (ref 112)	1,10,222.00	
31 March (ref 113)	25,000.00	<u>1,35,222.00</u>
		2,70,333.00
Less: outstanding cheques		
240	20,250.00	
272	12,300.40	
274	25,000.00	
276	21,345.25	
280	19,000.00	
281	22,200.00	
		<u>1,20,095.65</u>
Balance per bank in the general ledger 31 March 2018		<u>1,50,237.35</u>

Which of the following procedures would not be followed to verify the bank reconciliation statement?

- Verify by checking paying-in slips that the uncleared bankings (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated.
 - Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements.
 - Scrutinise the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand.
 - Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter.
5. You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:
- As at 31 March 2017, the company had 350 employees
 - On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line
 - On 1 June 2017, all remaining staff received a 5% pay rise

- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.

The following audit evidence has been gathered relating to the accuracy of wages and salaries for Bingham Co.

- (1) Proof in total calculation performed by an audit team member
- (2) Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries
- (3) Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries
- (4) Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co.

What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?

- a. Audit evidence - 1, 2, 3, 4
 - b. Audit evidence - 1, 4, 2, 3
 - c. Audit evidence - 4, 1, 2, 3
 - d. Audit evidence - 4, 1, 3, 2
6. Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidences were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations.
- What would be your response to the above?
- a. Agree with management since you have been provided full access to whatever records, documents and evidences were available with management without any exception
 - b. Document that management gave oral representation in audit working paper and issue unmodified opinion.
 - c. After corroborating the audit evidences, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question.
 - d. Give unmodified opinion and include the observation in "other matter" paragraph, stating that the written representations of the concerned matters could not be obtained.
7. The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased by 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue?

- (1) Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences
- (2) Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book
- (3) Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co
- (4) Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co.

- a. Procedure 1 and 3
- b. Procedure 1 and 2
- c. Procedure 2 and 4
- d. Procedure 3 and 4

8. You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

	Supplier Statement balance	Payables ledger balance
	Rs.	Rs.
AB Co	90,000	70,000
CD Co	1,85,000	1,15,000

AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018.

CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018.

The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample?

- a. Exclude with material balances at the year-end.
 - b. Exclude suppliers which have a high volume of business with Stalwart Co
 - c. Include major suppliers with nil balances at the year-end.
 - d. Include suppliers where the statement agrees to the ledger.
9. The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity's supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payables ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated?
- a. Inspect the goods received note to determine when the goods were received
 - b. Inspect the purchase order to confirm it is dated before the year end
 - c. Review the post year-end cashbook for evidence of payment of the invoice
 - d. Send a confirmation request to PR Co to confirm the outstanding balance

10. One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly?
- Test transaction around the year end to determine whether amounts have been recognised in the correct financial period.
 - For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct.
 - Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries.
 - For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

11. The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information:

	Rs.
Revenue	52,00,000
Cost of sales	37,00,000
Gross profit	15,00,000
Trade receivables	18,00,000
Trade payables	10,00,000

The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end?

- Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits
 - For a sample of vouchers, inspect supporting documentation, such as authorised purchase orders.
 - Test transactions around the year end to determine whether amounts have been recognised in the correct financial period.
 - Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year.
12. The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2-storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?
- Ensure disposals are properly accounted for and recalculate gain/loss on disposal

- (2) Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment
- (3) Review the repairs and maintenance expense account for evidence of items of a capital nature
- (4) Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register
- (5) Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PT Co.
- (6) Review physical condition of non-current assets for any sign of damage.

- a. Audit Procedures 1, 2, 5 and 6
- b. Audit Procedures 1, 3, 4 and 6
- c. Audit Procedures 2, 3, 4 and 5
- d. Audit Procedures 3, 4, 5 and 6

13. The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
	Rs	Rs	
M Co	2,25,000	2,25,000	
N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018
O Co	6,20,000	4,80,000	Payment made 30 March 2018
P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.
R Co	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

- a. No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co
 - b. The difference in relation to N Co represents a timing difference and should be agreed to a pre-year-end invoice
 - c. The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements
 - d. Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularised
14. For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?
- a. Selection of a sample of receivables for confirmation
 - b. Calculation of receivables days

- c. Production of receivables' confirmation letters
- d. Evaluation of the adequacy of the allowance for irrecoverable receivables

15. Top Pizzas Co operates a large chain of fast food restaurants. You are an audit supervisor of Shivam & Associates and are currently preparing the audit programmes for the audit of Top Pizza's financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity.

In the past Top Pizza has received negative press reports over the condition of its fast food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore during the year the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants.

Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?

- a. Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings.
- b. Select a sample of additions and agree cost to supplier invoice to confirm valuation.
- c. Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza.
- d. Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy.

16. RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested.

The testing results indicate that there is a Rs. 58,000 error in the sample:

Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk.

What would be an appropriate course of action on the basis of these results?

- a. The error is immaterial and therefore no further work is required
- b. The effect of the control error should be projected across the whole population
- c. RK Co should be asked to adjust the payables figure by Rs. 58,000
- d. A different sample should be selected as these results are not reflective of the population

17. Sula Hotels Co operates a number of hotels providing accommodation, leisure facilities and restaurants. You are an audit supervisor of Pai & Co, conducting the audit of Sula Hotels Co for the year ended 31 March 2018. The following information has been brought to your attention:

Non-current assets: Sula Hotels Co incurred significant capital expenditure during the year updating the leisure facilities at several of the company's hotels. Depreciation is charged on all assets monthly on a straight line basis (SL) and it is company policy to

charge a full month's depreciation in the month of acquisition and none in the month of disposal. The rates are as per Schedule II of the Companies Act, 2013.

The audit team has obtained the following extract of the non-current assets register detailing some of the new leisure equipment acquired during the year.

Extract from Sula Hotels Co's non-current assets register:

Date	Description	Cost	Depreciation policy	Charge for the year	Carrying amount
		Rs		Rs	Rs
01/08/2017	8 treadmills	3,60,000	36 months SL	80,000	2,80,000
15/08/2017	10 exercise bikes	1,50,000	3 years SL	50,000	1,00,000
17/11/2017	10 rowing machines	2,00,000	36 months SL	44,444	1,55,556
19/11/2017	8 cross trainers	1,20,000	36 months SL	16,667	1,03,333
		8,30,000		1,91,111	6,38,889

In order to verify the depreciation charge for the year, the audit team has been asked to recalculate a sample of the depreciation charges. The audit team has also been asked to carry out detailed testing on the valuation of non-current assets.

Which of the following correctly calculates the depreciation charge for the new assets for the year ended 31 March 2018 and the resultant impact on non-current assets?

- Depreciation should be Rs.1,57,777, assets are understated
- Depreciation should be Rs. 2,76,667 assets are understated
- Depreciation should be Rs.1,34,722 assets are overstated
- Depreciation should be Rs.1,74,444, assets are overstated

18. You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll

- As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees.
- One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect.
- 10% of the employees were promoted and they received a 8% rise in their salaries.
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.

Which of the following are substantive ANALYTICAL PROCEDURES to be performed to complete the audit work for wages and salaries of Kapoor Industries?

- (1) Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries.
 - (2) Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies.
 - (3) Compare the current year total payroll expense to the prior year and investigate any significant differences
 - (4) Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements
- a. Analytical procedure 1 and 2
 - b. Analytical procedure 1 and 3
 - c. Analytical procedure 2 and 4
 - d. Analytical procedure 3 and 4

19. You are the audit manager responsible for the audit of AB & Co. AB specializes in the manufacture of electricals goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. The external audit of AB for the year ended 31 March 2018 is at the review and finalisation stage. The draft financial statements show a profit after tax of Rs.52.5 crores and a total assets of Rs. 190 crores. The following issue has been noted by the audit senior. The company has set up a provision for warranty costs of Rs.3.45 crores in the financial year. These costs are not deductible for tax purposes until AB pays the claims. The company has not made any adjustments for the provision in the financial statements. The tax rate is 20%.

Which of the audit evidence would not be appropriate to be added in the audit working papers relating to the above provision?

- a. Copy of the assumptions and calculations from the management of AB to arrive at the figure of Rs.3.45 crores.
- b. The provision amount seems to be material since, 6.6% of the profit after tax. Auditor need to consider qualifying the audit report.
- c. Calculation of the deferred tax asset as per Ind AS 12 Income Tax, since there is a deductible temporary difference arising on the provision.
- d. Written representation point from the management of AB confirming the amount of provision in respect of warranties.

20. Your audit firm has been appointed as auditors of Red White Limited a manufacturing entity. The year under audit is 31 March 2018. While verifying account heads with high risk areas like revenue and inventory, you identify certain issues for which you are not provided satisfactory replies and documents by the client. At the same time Red White Limited approaches you to change the scope of the engagement. They give you the reason that they have misunderstood the scope of assignment earlier. What course of action would you adopt in this situation?

- a. Accept the revised terms of engagement, as the change is resultant of change in circumstance which affect entity's requirements or misunderstanding concerning nature of service originally requested and consider aforesaid as reasonable basis for requesting change in the engagement.
- b. Accept the revised terms of engagement and record justification of the change in the engagement letter.

- c. Disagree to the revised terms and withdraw from the engagement where possible under applicable law and regulations and determine whether there is any obligation, either contractual or otherwise, to report the circumstance to other parties such as those charged with governance, owners or regulators.
- d. Disagree to the revised terms of the engagement and have your terms of increased fees since the scope of the engagement has changed.

Answers for MCQs for Examiners for the Audit

1	c.	6.	c.	11.	d.	16.	b.
2.	c.	7.	a.	12.	a.	17.	a.
3.	b.	8.	c.	13.	b.	18.	d.
4.	c.	9.	a.	14.	d.	19.	b.
5.	b.	10.	b.	15.	d.	20.	c.