**MARKING GUIDE FOR ADVANCED AUDITING AND OTHER ASSURANCE SERVICES**

**Question 1**

1. **Direct controls and tests of control**

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| **Direct controls** | **Tests of control** |
| The new sales system was **fully tested** before it was implemented and both the new and old systems are being run in parallel until the year end with internal audit performing checks on the output and following up any discrepancies.  This reduces the risk of **data being lost** or being processed incorrectly. It also reduces the risk of **processing errors** and misstatements in the accounting records. | The audit team should review the procedures and documentation relating to the testing which has been undertaken and agree that the tests undertaken are appropriate and that any errors were fully investigated and resolved.  The audit team should review internal auditor’s testing schedule to understand what checks are being undertaken and when they expected to be complete. For internal audit checks which have been completed, the audit team should obtain and review documentation which details the test performed and any follow up actions to confirm the tests are appropriate and to understand how errors or inconsistences have been communicated and resolved.  For a new transaction being entered into the system, the audit team should observe the transaction being recorded in the old and new system and agree that the information is processed and output is generated consistently between the two systems. |
| New customers undergo a **full credit check** and a credit limit is set using an automated system. The credit limit is approved by the sales director. The credit check reduces the risk of uncollectible trade receivables as credit sales are made only to credit worthy customers.  The **automated process** ensures that there is no bias in accepting credit worthy customers or setting credit limits which ensures the credit limits are appropriate and the receivables are recoverable.  The **sales director review** helps to ensure that any anomalies in the automated credit limits are identified and addressed before orders are received. | The audit team should select a sample of new customers accounts opened in the period and confirm, by reference to information on the system, that a credit check has been performed.  They should also agree there is evidence of approval, such as a signature or electronic sigh-off, by the sales director before the credit limit is set.  For a sample of new customers, the audit team should obtain a copy of the first order placed by the customer and agree that the date of the first order placed by the customer and agree that the date of the first order was after the credit check was completed. |
| The receivables ledger accountant performs **monthly review of the aged receivables** listing and identifies those aged more than 30 days which are followed up with the relevant customers by the credit controller. The monthly review of the aged receivables listing and follow up by the credit controller ensures debts are collected on a timely basis which reduces the risk of irrecoverable debts. It also ensures that balances are appropriately identified as irrecoverable and accounted for accordingly. | The audit team should obtain a copy of the aged receivables report downloaded and confirm there is evidence of review, such as a signature or electronic sign-off, by the receivables ledger accountant.  The audit team should inquire as to which receivables balances are passed to the credit controller and should confirm this is appropriate based on the entity’s credit control policies. The audit should review a sample of follow up documentation from the credit controller to confirm action taken. |
| The receivables accountant **reconciles the receivables ledger control account** to the receivables ledger monthly. Any errors detected are corrected and the reconciliations are reviewed and approved by the chief finance officer. The reconciliation is reviewed and approved by the chief finance officer. Monthly reconciliation ensures the accuracy of the receivables balance in the financial statements.  Timely identification and correction of errors ensures that recording issues are resolved and the accounting records are accurate. Review by the chief finance officer ensures the accuracy of the reconciliation. | The audit team should review the file of the receivables ledger control account reconciliations and confirm that these are being performed monthly.  For a sample of reconciliations with reconciling items trace to supporting documentation to confirm that errors have been corrected.  The team should also review the reconciliations for a signature or electronic sign-off as evidence of approval and review by the chief finance officer. |

*Three marks for each properly explained direct control, two marks for each properly described test of control, total, 9 marks.*

1. **Control deficiencies and recommendations**

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| **Control deficiency** | **Control recommendation** |
| **Access to the master file** data for suppliers is available to all staff in the purchasing department who may make changes to the data, add new suppliers to the payables ledger system that increases the risk of fraud. | Amendments to the master file data should be restricted so that only authorized staff of the department are able to make changes.  A log of changes to the master file data, including details of which staff made the change, should be produced and reviewed by a responsible official on a regular basis and signed as evidence of their review. |
| Goods received notes (GRNs) and orders are matched and filed in the store and the finance department does not receive a copy. Therefore, on receipt of purchase invoices, they are not agreed to the relevant GRNs and orders before they are input into the purchases ledger.  This could result in invoices being paid for goods which were mot received or ordered. | A copy of the GRN should be provided on timely basis to the finance department. On receipt, all purchase invoices should be matched to the related GRN and purchase order and this should be undertaken before the invoice is logged in the payables ledger. |
| The payables ledger accountant only utilizes document count controls when inputting invoices into the payables ledger. Document count controls can confirm the completeness of input. However, they do not verify the accuracy or validity of input. If the invoices are not input correctly, suppliers may not be paid on time or may be paid incorrect amounts. This could lead to loss of supplier goodwill or suppliers withdrawing credit facilities. | The payables leger accountant should instead input the invoices in batches and apply information processing controls, such as control total, rather than just completeness checks to ensure both completeness and accuracy over the input of purchase invoices. In addition, sequence checks should be built into the system to ensure completeness of input. |
| The payables ledger and the general ledger are not reconciled on a monthly basis. This means that errors in the payables ledger may not be identified promptly, resulting in suppliers being under or overpaid. In addition, there may be errors in the general ledger resulting in the payables balance in the financial statements being under or overstated. | On a monthly basis, the payables ledger control account reconciliations should be undertaken with all reconciling items fully investigated. The account reconciliation should be reviewed by a responsible official who should evidence this review by way of signature. |

*One mark for each properly described direct control, one mark for each properly described test of control, total, 6 marks*

**Question 2**

1. **Substantive procedures for depreciation of property, plant and equipment**
2. Obtain details of the **depreciation accounting policy** from the notes to the financial statements and confirm that there have been **no changes** to this policy.
3. Review the **depreciation rates** in the policy and consider whether they are reasonable considering asset lives by inspecting their physical condition, residual values, entity’s replacement policy, past experience of gains and losses on disposal of similar assets, consistency with prior years and other entities in the industry and possible obsolescence.
4. Review non-current assets register to ensure that depreciation has been **charged on all assets** with a limiteduseful life.
5. For revalued assets, ensure that depreciation is based on the **revalued amount** by recalculating it to ensure its accuracy.
6. Compare the amount to depreciation charge in the **asset register** for each item in the sample.
7. **Compare ratios** of depreciation to non-current assets (by category) with previous years and depreciation policy rates.
8. Review draft financial statements to ensure that depreciation policies and rates are **disclosed** in accordance with IAS 16.

***(A mark for any properly described procedure, up to five, five marks)***

1. **Substantive procedures for valuation of trade receivables**
2. Review the **aged receivables listing** to identify slow moving or old balances. Discuss the status of these balances with the credit controller to assess whether the customers are likely to pay or if an allowance for receivables is required.
3. Review whether there are any **after-date cash receipts** for slow moving/old receivable balances.
4. Review **correspondence** with customers in order to identify any balances which are in dispute or unlikely to be paid and discuss with management whether any allowance is required.
5. Review **board minutes** to identify whether there are any significant concerns in relation to outstanding receivables balances and assess whether the allowance is reasonable.
6. Obtain a breakdown of the allowance for trade receivables. **Recalculate** it and compare it to any potentially irrecoverable balances to assess if the allowance is adequate.
7. Discuss with the finance director the **rationale for decreasing** **the allowance** for receivables despite an increase in the collection period and the absence of the credit controller.
8. Inspect **post year-end sales returns/credit notes** and consider whether an additional allowance against receivables is required.

***(A mark for any properly described procedure, up to five, five marks)***

1. **Substantive procedures during attendance at the inventory count**
2. **Observe** whether the client's staff are following instructions to ensure the count is complete and accurate.
3. Perform **test counts** (concentrating on high value items) to ensure internal controls are working properly:

* Select a sample of inventory (concentrating on high value items) from inventory sheets and physically inspect them to verify the existence of inventory.
* Physically inspect a sample of inventory items and trace them to inventory sheets to verify the completeness of the inventory count.

1. Observe the counts in order to confirm that the procedures for identifying and segregating **damaged goods** are operating correctly and inspect inventory for evidence of any damaged or slow moving items.
2. Observe the procedures for **movements** of inventory during the count in order to confirm that all movements have ceased (where there has been no closure, goods received during the count is kept separately).
3. Obtain **copies** of inventory sheets for follow up testing to determine whether the entity’s final inventory records accurately reflect actual inventory count results.
4. Obtain **copies of the last GRNs and GDNs** before the count date and the first **GRNs and GDNs** after the inventory count in order to perform cut-off procedures at the year end.
5. Observe the procedures carried out by the entity staff in identifying **third party** inventories are operating correctly and review the completed inventory count sheets to confirm no third inventory is included.

***(A mark for any properly described procedure, up to five, five marks)***