

External auditor of shuffle ltd



All FIVE inquiries are mandatory and MUST be attempted

1. Your house is the external hearer of shuffling ltd, and you late attended the year-end stock list count at the company 's warehouse. The company manufactures high quality tableware (home bases, cups and disks etc.) and it maintains an integrated computerised system that shows the stock list held at any given point in clip. At the year-end stock list count, the assorted classs of stock lists (but non the measures) are printed off the system and the measures of stock lists really counted are inserted manually by the counters, for later comparing with the computerised quantity. The count instructions were received by both you and the counters the twenty-four hours before the count was due to take topographic point. The instructions included the following inside informations:

1. Counters must get at 8am on the forenoon of the count.
2. They will work in squads of 2 people.
3. Each squad will be assigned a specific country of the warehouse to number. They will have stock sheets naming the merchandise to be found in their country.
4. The stock sheets are numbered.
5. Once the counters have finished the stock list count, the stock sheets must be handed to the warehouse director.

This system has proved successful in recent old ages but unluckily, your notes show a figure of

lacks in the current year-end count: Many countries in which the count took topographic point were untidy and stock list was sometimes hard to happen

because it was non in the allocated country. The same classs of stock lists were sometimes found in several different countries and some stock list was falsely labelled. The count was conducted in a haste in order to shut the warehouse before a public vacation and there were deficient counters to carry on the count decently in the clip available. The issue and reception of stock list sheets (on which the measures were recorded by counters) was non decently controlled. It was hard to accommodate the stock list measures recorded at the count to the computerised records and some important differences remain outstanding. Although no finished goods were dispatched during the stock list count, a big bringing of natural stuffs was received into the warehouse.

Required

(a) Explain why stock list rating and the year-end stock list count are of import to the audit of

fiscal statements and depict the options to a year-end count as a footing for the year-end

rating. (6 Markss)

(B) Draft for the inclusion in a study to the direction on shuffling ltd.

(I) The lacks you found

(two) The possible effects

(three) Your recommendations for rectifying the lacks in the current twelvemonth count, and your

recommendations for future old ages. (9 Markss)

(degree Celsius) Being and completeness are two cardinal averments hearers must see when proving stock list.

What processs are performed at the stock count to supply grounds to back up these averments?

(8 Markss)

(vitamin D) List the audit processs to be performed to set up which stock lists are deserving less than cost at

Shuffle ltd. Explain the ground for each process. (7 Markss)

(Entire = 30 Markss)

2. (a) ISA 500 Audit Evidence explains that audit grounds must be obtained utilizing a recognized audit process such as Inspection.

Required:

Apart from Inspection, list and explicate FIVE recognised audit processs.

(5 Markss)

(B) Explain the intent of a direction representation missive and the actions the hearer will take if ab initio direction garbage to supply this missive.

(5 Markss)

(Entire 10 Markss)

3 You are the senior in charge of the audit of Celeron Co, a distributor of electrical constituents. A member of the audit squad has undertaken a

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reappraisal of the accounting and control systems and has identified and confirmed the following important points of lack:

(1) Purchases

Purchase ledger clerks amend the payables master file with inside informations of new providers on unwritten authorization of the fiscal accountant. No printout of amendments is obtained.

(2) Gross saless

Credit bound parametric quantities within the gross revenues order processing package are unrealistically low, ensuing in a high volume of points being rejected as exclusions.

(3) Cash at bank

The monthly bank rapprochements prepared by the helper comptroller are non reviewed.

(4) Eventuality planning

There is no formal catastrophe recovery program.

Required

Set out, in a mode suited for inclusion in a study to direction, the possible effects of the above lacks and the recommendations to rectify the lacks. Your recommendation should clearly depict how the control processs should run.

(12 Markss)

Note: You are non required to reiterate the lacks in your reply.

(B) Explain how a study on these affairs written by internal audit would differ from the external hearers ' study to direction. (8 Markss)

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(Entire = 20 Markss)

4. Aneela, a spouse in a house of Chartered Certified Accountants, is engagement spouse on the audit of Tweeter, a publically quoted integrated concern. She is reexamining the audit file for the twelvemonth ended 31 October 20X9. At the forepart of the file is a memo from the audit director urging the issue of a qualified audit sentiment. Tweeter 's major client is known to be in fiscal troubles yet no proviso has been made against the stuff sum owed to Tweeter. Tweeter 's Financial Director is reasoning that the client has about completed development of a new merchandise, gross revenues of which will enable the company to refund all its debts. He claims to hold consulted another house of comptrollers who have indicated that an allowance might non be necessary. Aneela is unhappy with the state of affairs for the undermentioned grounds:

(a) She is moderately certain that, if she issues a qualified sentiment, the managers of Tweeter will urge assignment of another house as hearers.

(B) Her house supplies many other non-audit services to Tweeter such as revenue enhancement and consultancy which bring in twice every bit much gross as the audit and are more profitable. It is extremely improbable the house would

continue to be asked to supply these services if the audit is lost. In entire, fees paid by Tweeter for the

audit and these other services sum to 9 % of the audit house 's gross.

(degree Celsius) She has been the engagement spouse for 10 old ages and has no ground to doubt the unity of the

Finance Director with whom she has worked closely over that period of clip.

She is prepared to

believe his averment that the debt will be repaid. However, she besides accepts that grounds in the audit

file is every bit persuasive that the client is, presently, in fiscal trouble.

She calls the Finance Director to rede him that she will hold no option but to publish a qualified

sentiment if the fiscal statements do non incorporate an allowance against the debt.

Required

(a) In connexion with the menace of remotion from office

(1) Describe actions the engagement spouse can take when being threatened with remotion by the

managers.

(4 Markss)

(two) Explain how an audit commission can supply extra precautions to scrutinize independency in

such a state of affairs. (3 Markss)

(B) Point (B) in the scenario raises the issue of supplying non-audit services to scrutinize clients.

(I) State the demands of ACCA 's Code of moralss and behavior relating to the supply of non-audit

services to scrutinize clients. (4 Markss)

(two) Explain why the proviso of non-audit services to scrutinize clients might be seen as a job

and why it is sometimes suggested that hearers should non supply such services. (4 Markss)

(degree Celsius) Point (degree Celsius) in the scenario raises the issue of 'audit rotary motion ' . What is meant by audit rotary motion and what are its supposed benefits and drawbacks? (5 Markss)

Where appropriate, your replies should be illustrated by mention to the state of affairs described.

(Entire = 20 Markss)

5. You are the hearer of EastWest Pharmaceuticals Co, a limited liability company that researches and prepares assorted medicative drugs. The audit for EastWest Pharmaceuticals Co for the twelvemonth ended 30 June 2010 revealed the undermentioned subsequent events:

Events:**18 August 2010**

Amazon Ltd, one of the major providers of penicillin to EastWest closed down operations. Henceforth, the demand of this natural drug will hold to be satisfied through a figure of little providers in the market and the monetary value to be paid will be approximately 15 % higher, ensuing in a loss of net income for East West.

23 September 2010

The fiscal statements are approved by the managers.

25 September 2010

Audit work is completed and the audit study is signed.

4 November 2010

The fabrication procedure of the drug & A ; lsquo ; sylax ' generates toxic waste which is disposed of through a grapevine after treating. However, the grapevine transporting the toxic waste has late developed a leak which resulted in the disposal of the toxic waste into the nearby lake, doing considerable harm to the environment. Management had made equal revelation of this in the fiscal statements to the twelvemonth ended 30th June 2010.

25 November 2010

The fiscal statements are issued.

29 November 2010

An temblor hit Riverdale metropolis and destroyed one of the biggest warehouses of EastWest. Inventories worth 1. 2 million were destroyed and

the company has made an insurance claim towards the loss of stock lists. The insurance company contends that the stock list was overvalued and the existent loss amounted to 0.8 million merely. The affair will be disputed in tribunal.

Required:

(I) State whether the events happening on the undermentioned day of the months are setting or non-adjusting harmonizing to IAS 10 Events After the Reporting Period, giving grounds for your determination: (6 Markss)

* 18 August 2010

* 4 November 2010

* 29 November 20

(two) Explain the hearer 's duty and the audit processs that should be carried out.

(B) ISA560, Subsequent Events explains the audit work required in connexion with subsequent events.

Required:

List the audit processs that can be used prior to the hearer 's study being signed in order to place events that may necessitate accommodation or revelation in the fiscal statements.