

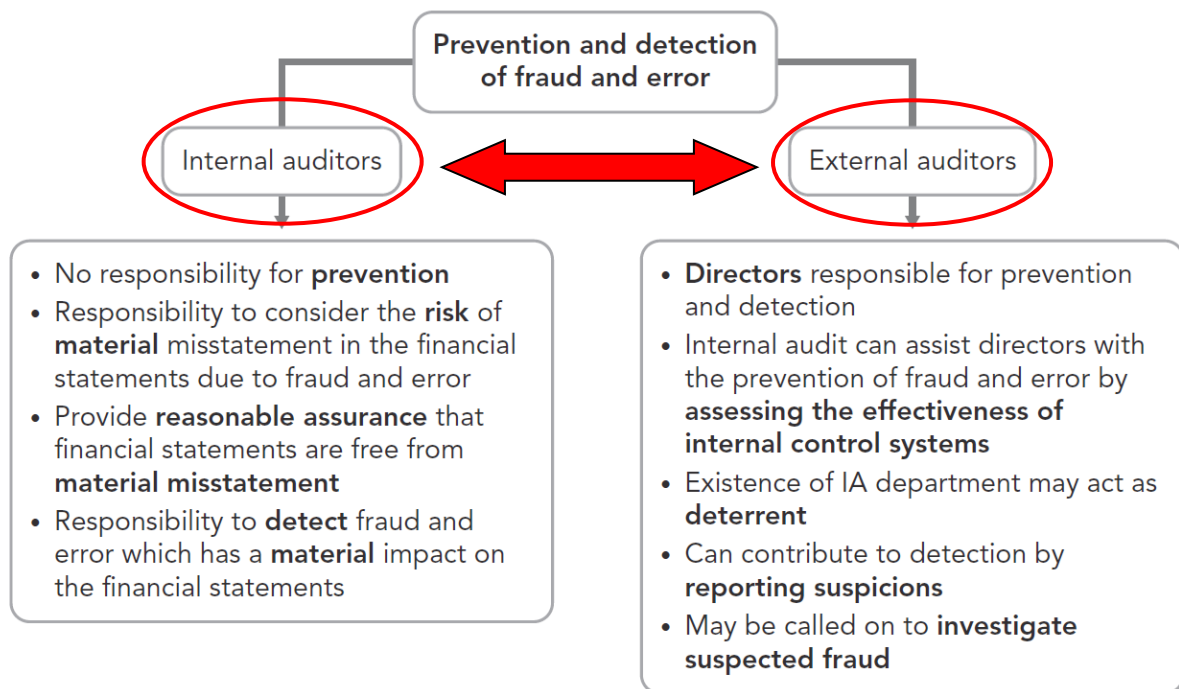
## AUDIT AND ASSURANCE WORKBOOK

02/2021

### Chapter 4 Internal audit, Section 5.2 (p68)

The headings in the diagram in Section 5.2 are the wrong way round. The heading 'Internal auditors' should say 'External auditors' and the heading 'External auditors' should say 'Internal auditors'. The content in the lower boxes is correct once the headings have been switched around.

### 5.2 Responsibilities for fraud and error (ISA 240)



### Chapter 5 Professional ethics and quality control procedures, Section 2.4.1 (p97)

The first bullet point in the right hand column should say 'Accounting services ...' rather than 'ccounting services ...'.

### Chapter 8 Introduction to audit evidence, Activity 1: Analytical procedures (p173)

The first distractor should read 'Finance charge should be \$96,000, profit is overstated' rather than 'Finance charge should be \$6,000, profit is overstated'. Note that the solution remains unchanged.

### Chapter 11 Audit sampling and automated tools and techniques, Activity 1: Preparation (p265)

The scenario should include a line which says: 'Materiality is \$100,000'. Note that the solution remains unchanged.

### Chapter 11 Audit sampling and automated tools and techniques, Activity 2: Results - tests of detail (p268)

The penultimate line of the scenario should read 'Value of items tested \$407,000' rather than 'Number of items tested \$407,000'. Note that the solution remains unchanged.

### Chapter 16 Payables and accruals, Example - Analytical review of purchases (p375)

Several of the amounts/percentages for differences have been calculated incorrectly. The correct figures are highlighted below. The percentages used in the commentary also need to be substituted for the new figures although the explanations remain valid.

Purchase	30/09/20X6 \$'000	30/09/20X5 \$'000	Difference \$'000	Difference %
Fabric	45,276	37,912	7,364	19%
Buckles, hooks and clips	75	75	-	0%
Thread	185	180	5	3%
Buttons	89	89	-	0%
Zips	50	75	(25)	-33%
Beads and sequins	102	66	36	55%
Payroll	12,677	11,721	956	8%
Telephone and internet	50	49	1	2%
Electricity	85	82	3	4%
Insurance	33	32	1	3%
Equipment maintenance	39	25	14	56%
Transportation costs	145	189	(44)	-23%
Other purchases	469	485	(16)	-3%
<b>Total cost of sales</b>	<b>59,275</b>	<b>50,980</b>	<b>8,295</b>	<b>16%</b>

### Chapter 18 Not-for-profit organisations, solution to Activity 1: Audit risks (p422)

The first paragraph in the solution does not comply with the requirements of IFRS 16 *Leases* as it refers to Midvale League having an operating lease. The first paragraph of the solution should be replaced with the following paragraphs:

The **valuation of Midvale League's club lease** may be problematic, it is certainly likely to be their biggest financial commitment. The auditor will need to determine whether a lease contract exists and if so the premises will need to be included **at cost as a right-of-use asset** on the statement of financial position. The cost of the right-of-use asset is likely to be the initial measurement of the lease liability (ie the present value of future lease payments) plus any initial direct costs incurred by Midvale League. Midvale League will also need to recognise a

**lease liability** and this is initially measured at the **present value of lease payments not paid at the commencement date of the lease**. The discount factor used in the calculation of the present value is the interest rate implicit in the lease (or Midvale League's incremental borrowing rate if the interest rate implicit in the lease is not readily determinable). Midvale League may well not have this information which increases audit risk. Over the lease term, the lease liability is increased by the interest on the lease liability and recognised as a finance cost in the statement of profit or loss. The lease liability is reduced by the lease payments (instalments made).

If Midvale League does not have the cash flow to meet the lease payments, this may impact **going concern** as it could lose the facilities and have nowhere from which it can operate its activities in the foreseeable future, in which case the purpose of the association is gone.

Note that the lease is **unlikely** to satisfy the optional recognition exemption criteria from IFRS 16 *Leases* unless the lease is a short-term lease (lease term less than 12 months) which seems unlikely from the scenario.

#### **Chapter 20 Reports, Activity 2 Q3 (p458)**

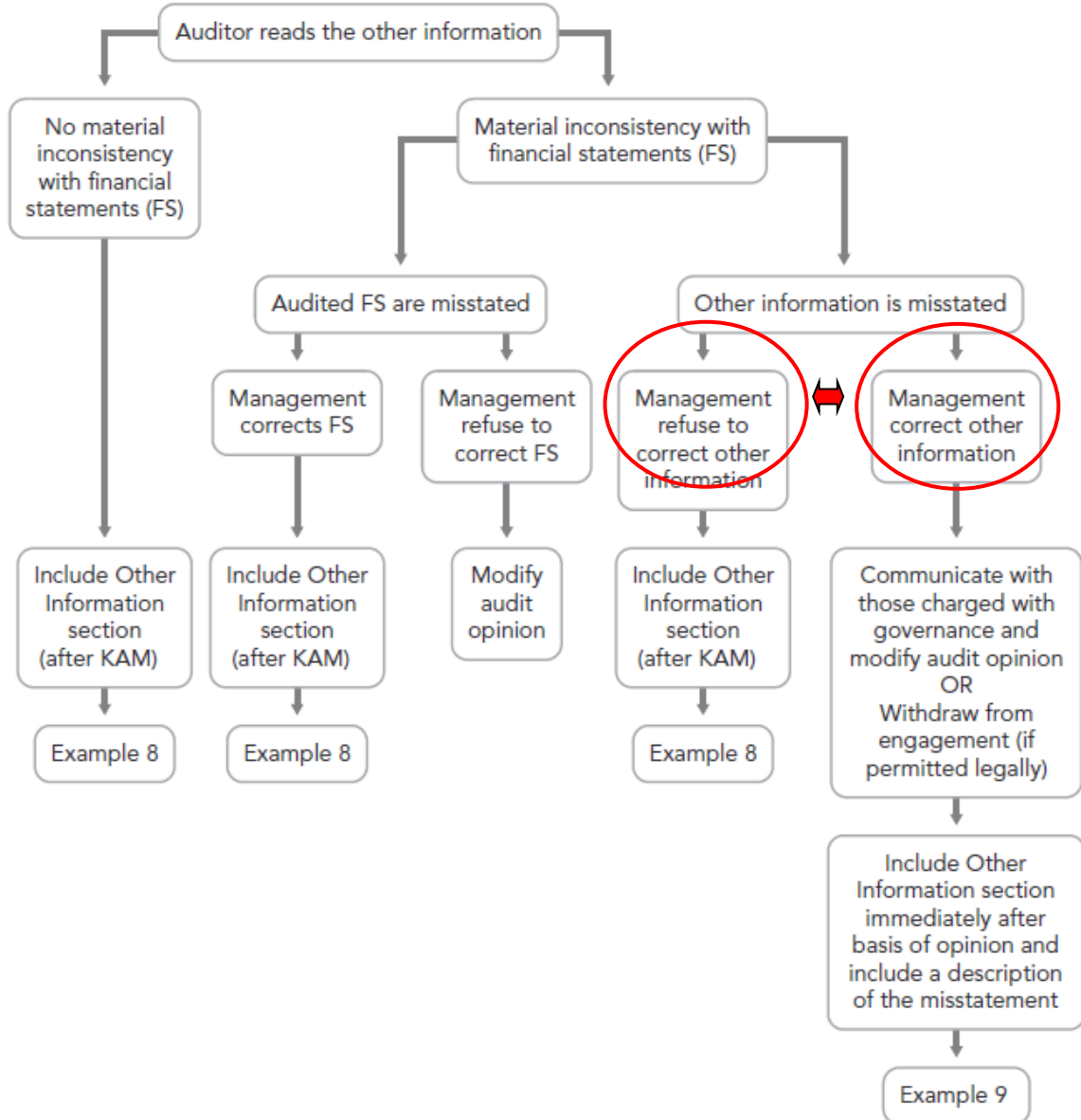
The dates in question 3 should read '20X6' rather than '20X26'. Note that the solution is unchanged.

#### **Chapter 20 Reports, Section 5.1 (p462)**

The headings in the diagram in Section 5.1 under 'Other information is misstated' are the wrong way round. The heading 'Management refuse to correct other information' should say 'Management correct other information' and vice versa. The content in the lower boxes is correct once the headings have been switched around. See next page.

## 5.1 Material inconsistencies

ISA 720 (Revised) (para. 14) states that the auditor shall read the other information to identify **material inconsistencies** with the audited financial statements. In reading and considering the other information, the auditor should also consider whether the auditor's understanding of the entity and its environment needs to be updated. The process is as follows:



### Further Study Guidance

The end of each chapter has a section entitled 'Further Study Guidance' which references question practice from the Further Question Practice Bank (which can be found in the digital edition of the Workbook).

The question numbers referenced are incorrect and the table below provides the correct references.

Chapter	Current references	Corrected references
1 (page 15)	Section A Q16 & Q17 Section B Q2 Audit and assurance engagements	Section A Q4 & Q5 Section B Q46 Audit and assurance engagements
2 (page 33)	Section A Q18 & Q19 Section B Q3 Standards	Section A Q6 & Q7 Section B Q47 Standards
3 (page 52)	Section A Q1 to 5 Section B Q4 Corporate governance	Section A Q1 Section B Q48 Corporate governance
4 (page 73)	Section A Q1 to 5, Q20, Q25, Q27, Q30 and Q31 Section B Q7 ZX	Section A Q1, Q8, Q9, Q12, Q32 Section B Q45 Objectives, characteristics and responsibilities Section B Q51 ZX
5 (page 111)	Section A Q22 & Q23 Section B Q5 Independence Section B Q6 Confidentiality and independence	Section A Q10 & Q11 Section B Q49 Independence Section B Q50 Confidentiality and independence
6 (page 140)	Section A Q25, Q27, Q30 & Q31 Section B Q9 Stone Holidays Section B Q10 Parker (a) and (b) (i) Section B Q11 Heels (a), (b), (c) Section B Q12 Turbo (a) and (b)	Section A Q13, Q15, Q18 & Q19 Section B Q52 Glo Section B Q53 Stone Holidays Section B Q54 Parker (a) and (b) (i) Section B Q55 Heels (a), (b), (c) Section B Q56 Turbo (a) and (b)
7 (page 164)	Section A Q28 & Q32 Section B Q13 Audit planning and documentation	Section A Q16 & Q20 Section B Q57 Audit planning and documentation
8 (page 181)	Section A Q40 Section B Q14 Audit evidence considerations	Section A Q17 Section B Q58 Audit evidence considerations
9	Section A Q33 & Q34	Section A Q21 & Q22

(page 201)	Section B Q15 Internal control systems	Section B Q59 Internal control systems
10 (page 245)	Section A Q35 to Q39 Section B Q16(a) Fenton Distributors Section B Q17 Cheque payments and petty cash	Section A Q23 to Q27 Section B Q60(a) Fenton Distributors Section B Q61 Cheque payments and petty cash
11 (page 277)	Section A Q42 on audit sampling Section B Q19 Elsams	Section A Q30 Section B Q63 Elsams
12 (page 298)	Section A Q6-7 and Q45 tangible non-current assets Section A Q52 intangibles Section B Q11(d) and (e) Heels (estimates) Section B Q21 Boston Manufacturing (tangible non-current assets)	Section A Q2 (items 1 and 2) and Q33 tangible non-current assets Section A Q40 intangibles Section B Q55(d) and (e) Heels (estimates) Section B Q65 Boston Manufacturing (tangible non-current assets)
13 (page 324)	Section A Q44 on the external auditor's reliance on the internal audit function Section A Q46 on cut off Section B Q18(b) on using the work of an auditor's expert Section B Q19(a) Elsams on use of computers when auditing inventory Section B Q20 ZPM on using the work of internal auditors Section B Q22 Wandsworth Wholesalers on the inventory count Section B Q23 Snu on perpetual inventory counting Section B Q24 Sitting Pretty on the inventory count, inventory valuation and cut off	Section A Q32 on the external auditor's reliance on the internal audit function Section A Q34 on cut off Section B Q62(b) on using the work of an auditor's expert Section B Q63(a) Elsams on use of computers when auditing inventory Section B Q64 ZPM on using the work of internal auditors Section B Q66 Wandsworth Wholesalers on the inventory count Section B Q67 Snu on perpetual inventory counting Section B Q68 Sitting Pretty on the inventory count, inventory valuation and cut off
14 (page 348)	Section A Q9-10, Q43 on trade receivables Section A Q40 on revenue Section B Q25 Bright Sparks	Section A Q2 (items 4 and 5), Q31 on trade receivables Section A Q28 on revenue Section B Q69 Bright Sparks
15 (page 364)	Section B Q26 Audit of cash and bank	Section B Q70 Audit of cash and bank
16	Section A Q46 on cut-off	Section A Q34 on cut-off

(page 382)	Section B Q16(b) (i) Fenton Distributors on audit procedures to verify the accuracy of purchases Section B Q27 Understatement on payables and accruals	Section B Q60(b) (i) Fenton Distributors on audit procedures to verify the accuracy of purchases Section B Q71 Understatement on payables and accruals
17 (page 400)	Section A Q8 on litigation Section B Q11(e) Heels on provisions	Section A Q2 (item 3) on litigation Section B Q55(e) Heels on provisions
18 (page 421)	Section B Q28 Tap! Section B Q30 Ajio	Section B Q72 Tap! Section B Q74 Ajio
19 (page 441)	Section A Q11-13, Q26, Q47-50 Section B Q10(b) (ii) Parker on going concern Section B Q31 Going concern Section B Q32 Audit review and finalisation	Section A Q3 (items 1-3), Q14, Q35-38 Section B Q54(b) (ii) Parker on going concern Section B Q75 Going concern Section B Q76 Audit review and finalisation
20 (page 468)	Section A Q14-15 and Q51-55 Section B Q2(b) Audit and assurance engagements on reporting by exception Section B Q33 Wiseguys National Bakeries Section B Q34 Homes 'r' Us Section B Q35 Builders Merchants	Section A Q3 (items 4 and 5) and Q39-43 Section B Q46(b) Audit and assurance engagements on reporting by exception Section B Q77 Wiseguys National Bakeries Section B Q78 Homes 'r' Us Section B Q79 Builders Merchants

## AUDIT AND ASSURANCE PRACTICE & REVISION KIT

02/2021

### Q211 (p114)

Q211 should read as follows:

**Which of the following must be included in an unmodified auditor's report?**

- (1) A statement that the auditor believes the audit evidence obtained is sufficient and appropriate
- (2) Title indicating the report is that of the independent auditor
- (3) Description of the meaning of materiality
- (4) A statement that the auditor is independent of the entity and has fulfilled their ethical responsibilities

1, 2 and 3 only

1 and 3 only

2 and 4 only

1, 2, 3 and 4

The correct answer is: 1, 2, 3 and 4

Although straightforward many candidates found this question challenging. This question demonstrates the level of detailed knowledge of an ISA which may be tested, in this case ISA 700 Forming an Opinion and Reporting on Financial Statements.

Items described in (1) and (4) would be included in the basis for opinion paragraph.

Item (2) would appear at the start of the auditor's report so that the auditor's report is clearly distinguished from reports issued by others.

The item described in (3) would be included as part of the auditor's responsibilities for the audit of the financial statements section.