ICPAR
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CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.4: AUDITING

DATE: FRIDAY, 27 AUGUST 2021

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

(a) Substantive procedures for research and development (R&D)	Marks
• Intangible assets, opening balances, capitalised, amortisation closing balances	1
• Closing balances to general ledger, trial balance & financial statements	1
• Discuss rationale for the three-year useful life and consider its reasonableness	1
• Recalculate the amortisation charge for a sample of intangible assets	1
• Discuss with the management the details of capitalized or expensed projects	1
• Expensed research costs incurred agree to invoices and supporting documents	1
• Capitalised costs incurred agree to invoices &technically feasible	1
• Confirm **Mukorogo Co** has the ability to sell their product once complete	1
• Review the disclosure of intangible assets in the draft financial statements	1
• Any other valid point	1
Maximum Marks	**5**

(b) Substantive procedures regarding depreciation of Property, Plant and Equipment

• Rationale for the changes to depreciation rates, useful lives, residual valuers	1
• Reasonableness of these changes, by comparing the revised depreciation rates,	1
• Review the expenditures budgets for the next few years to assess revised asset	1
• Review revised depreciation rates to have been applied consistently.	1
• Review and recalculate profits and losses on disposal of assets sold/scrapped	1
• Ensure that new depreciation rates have been appropriately applied correctly	1
• Obtain a breakdown of depreciation by asset categories, compare to prior year;	1
• For asset additions and disposal, perform a proof in total calculation	1
• Disclosure ensure it is in line with IAS 16 property, Plant and equipment	1
• Any other valid point	1
Maximum Marks	**5**

(c) Substantive procedures for bonus

• Bonus paid in 2018 cast the schedule to ensure accuracy and agree amount	1
• Review current liabilities and confirm the bonus accrual is included	1
• Agree the individual bonus payments to the payroll records	1
• Recalculate the bonus payments and agree the criteria, including	1
• Confirm bonus paid post year end by agreeing to the cashbook	1
• Agree the amounts paid per director to board minutes	1
• Review additional payments this year have been agreed for any directors	1
• Obtain representation confirming completeness of directors' remuneration bonus	1

- Review the disclosures made regarding the bonus paid to directors 1
- Any other valid point 1

Maximum Marks 5

(d) Discuss the issues and describe the impact on the auditor's report, if any, should this issue remain unsolved?

- Products does not meet the recognition criteria for capitalisation 1
- Error material represents 6.9% (0.44m/6.4m) and 1.2% of net assets 1
- Management should adjust the financial statements by removing 1
- IAS 38 requires costs to date to be expensed; . 1
- Any costs already expensed cannot be written back to assets. 1
- If management refuses to amend auditor's opinion will need to be modified. 1
- Management not complied with IAS 38 a qualified opinion would be necessary 1
- As basis for qualified opinion paragraph would be needed after the opinion 1
- The opinion paragraph would be qualified except for. 1
- Any other valid point 1

Maximum Marks 5

Total Marks 20

Model answers

a. Substantive procedures for research and development (R&D)

- Obtain and cast a schedule of intangible assets, detailing opening balances, amount capitalised in the current year, amortisation and closing balances
- Agree the closing balances to general ledger, trial balance and draft financial statements
- Discuss with CFO the rationale for the three-year useful life and consider its reasonableness
- Recalculate the amortisation charge for a sample of intangible assets which have commenced production and confirm it is in line which the amortisation policy of straight line over three years and the amortisation only commenced from the point of production
- For the nine three projects, discuss with the management the details of each project along with the stage of development and whether it has been capitalized or expensed
- For those expensed as research, agree the costs incurred to invoices and supporting documents and to conclusion if profit or loss
- For those capitalised as development, agree cost incurred to invoices and confirm technically feasible by discussion with development managers or review of feasibility study reports
- Review market research reports to confirm **Mukorogo Co** has the ability to sell their product once complete and probable future economic benefit will arise
- Review the disclosure of intangible assets in the draft financial statements to verify that they are in accordance with IAS 38 Intangible assets.

b. Substantive procedures for depreciation of Property, Plant and Equipment.

- Discuss with the management the rationale for the charge to PPE depreciation rates, useful lives, residual valuers and depreciation methods and ascertain how these changes were arrived at.
- Confirm the reasonableness of these changes, by comparing the revised depreciation rates, useful lives and methods applied to PPE to industry averages and knowledge of the business
- Review the expenditures budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories.
- Review the non-current asset register to assess if the revised depreciation rates have been applied.
- Review and recalculate profits and losses on disposal of assets sold/scrapped in the year, to assess the reasonableness of the depreciation rates
- Select the sample of PPE and recalculate the depreciation charge to ensure that the non-current assets register is correct and ensure that new depreciation rates have been appropriately applied
- Obtain a breakdown of depreciation by asset categories, compare to prior year; where significant changes have occurred, discuss with management and assess whether this change is reasonable
- For asset categories where there have been a minimal number of additions and disposal, perform a proof in total calculation for deprecation charged on PPE, discuss with management if significant fluctuations arise
- Review the disclosure of the depreciation charges and policies in the draft financial statements and ensure it is in line with IAS 16 property, Plant and equipment

c. Substantive procedures for bonus

- Obtain a schedule of directors' bonus paid in February 2018 and cast the schedule to ensure accuracy and agree amount disclosed in the financial statements.
- Review the schedule of current liabilities and confirm the bonus accrual is included as a year-end liability
- Agree the individual bonus payments to the payroll records
- Recalculate the bonus payments and agree the criteria, including the exclusion of intangible assets, to supporting documentation and the percentage rates to be paid to the directors' service contracts.
- Confirm the amount of each bonus paid post year end by agreeing to the cashbook and bank statements
- Agree the amounts paid per director to board minutes to ensure the sums included in the current year financial statements are fully accrued and disclosed

- Review the board minutes to identify whether any additional payments relating to this year have been agreed for any directors
- Obtain a written representation from management confirming the completeness of directors' remuneration including bonus
- Review the disclosures made regarding the bonus paid to directors and assess whether these are in compliance with local legislation.

d. Impact on auditor's report

One of the new health and beauty products Mokorogo Co has developed in the year does not meet the recognition criteria under IAS 38 Intangible assets for capitalisation but has been included within intangible assets. This is contrary to IAS 38, as if the criteria are not met, then this project is research expenditure and should be expensed to the statement of profit or loss rather than capitalised.

The error is material as it represents 6.9% (0.44m/6.4m) and 1.2% of net assets (0.44m/37.2m) and hence management should adjust the financial statements by removing this amount from intangible assets and charging it to the statement of profit or loss instead. IAS 38 requires costs to date to be expensed; if the project meet the criteria in 2019, then only for the point an any new costs incurred b capitalise. Any costs already expensed cannot be written back to assets.

If management refuses to amend this error, then the auditor's opinion will need to be modified. As management has not complied with IAS 38 and the error is material but not pervasive, then a qualified opinion would be necessary.

As basis for qualified opinion paragraph would be needed after the opinion paragraph and would explain the material misstatement in relation to the incorrect treatment of research and development and the effect on the financial statements. The opinion paragraph would be qualified except for.

QUESTION TWO

Marking guide

	Marks
a) Definition of management letter	**2**
b) **Items that might be included in a management letter are:**	
• Recommendations to switch inventory valuation methods	1.5
• Recommendation to install a formal security system	1.5
• Recommendation to prepare more timely bank reconciliations	1.5
• Recommendations to segregation of duties	1.5
• Recommendation to have certain transactions authorized by specific individuals	1
• Any other valid point	1
Maximum Marks	**6**
c) **Difference between management letter and audit report**	
• Management letter highlights weaknesses and recommendations	1
• Audit report is the means by which the external auditors express their opinion	1
• Audit report is usually kept on public record with the filed financial statements	1
• Management letter is principally for the benefits of those charged with governance.	1
• It is by product of the audit report.	1
• Any other valid point	1
Maximum Marks	**4**
d) **Users of audit reports**	
❖ Those parties with vested interests in a business	2
❖ Those with potential interests	2
❖ Those with representation interests	2
❖ Others	2
Maximum Marks	**8**
Total Marks	**20**

Model answers

a) Definition of management letter

A management letter is a letter directed to the client to inform management of certain recommendations about the business which the auditor believes would be beneficial to client. It is issued recommending how to improve the weaknesses or deficiencies noted.

b) Items that might be included in a management letter are:

- Recommendations to switch inventory valuation methods
- Recommendation to install a formal security system
- Recommendation to prepare more timely bank reconciliations
- Recommendations to segregation of duties
- Recommendation to have certain transactions authorized by specific individuals

c) Difference between management letter and audit report

Management letter highlights the weaknesses in the business and recommendations to alleviate such weaknesses in the future.

Whereas the audit report is the means by which the external auditors express their opinion on the truth and fairness of a company's financial statement. It is for the benefit of the shareholder principally but also for other users, as the audit report is usually kept on public record with the filed financial statements. Management letter is principally for the benefits of those charged with governance. It is by product of the audit report.

d) Users of audit reports

❖ **Those parties with vested interests in a business**

- Employees
- Creditors or suppliers
- Lenders and debenture holders
- The management
- The shareholders to whom the financial statements are addressed
- Credit rating agencies

❖ **Those with potential interests**

- Potential shareholders
- Trustees
- Suppliers
- Customers

- ❖ **Those with representation interests**
- Lawyers
- The government
- The general public
- ❖ **Others**
- Competitors
- Sock brokers
- Statisticians
- Financial journalist

QUESTION THREE

Marking guide

	Marks
a) Difference between tests of control and substantive tests	
Tests of control: obtain the evidence of how effectively the controls operate in practice	1
Substantive audit procedures: detect material misstatement in financial statements.	1
Types of substantive procedures:	
Substantive analytical procedures	1
Substantive tests of details	1
Maximum Marks	**4**
b) Control objectives in respect of cycle of stock	
• Recording of stock	1.5
• Safeguarding	1.5
• Valuation	1.5
• Holding an inventory	1.5
• Any other valid point	1.5
Maximum Marks	**6**

(c) Explain the meaning of the following terms as used in auditing:

• The risk-based approach	1.5
• Systems and controls approach	1.5
• Cycles and transaction approach	1.5
• Balance Sheet approach	1
• Directional testing approach	1.5
• Auditing around the computer approach	1.5
• Auditing through the computer system	1.5
Maximum Marks	**10**
Total Marks	**20**

Model answers

a) Difference between tests of control and substantive tests

Tests of control: are the type of audit procedures performed in order to evaluate whether the client's internal control works effectively in preventing or deterring risks of material misstatements at assertion level. While obtaining an understanding of client's internal control, auditor usually identify the internal controls that can reduce the risks of material misstatement. Then, performs the tests of controls to obtain the evidence of how effectively the controls operate in practice before relying on them.

Substantive audit procedures: are the audit processes that auditor preforms to detect material misstatement that could occur in financial statements.

As a result, we can choose to rely on the controls and reduce some of substantive works if the client's controls work as intended after obtaining the result of the tests of control.

On the other hand, if the controls are weak and not effective in preventing or deterring risks of material misstatements, the control risk will be high. In this case, auditor needs to increase substantive tests in order to reduce the audit to an acceptable level.

Auditors usually, perform substantive audit procedures after tests of controls to obtain evidence about various audit assertions. This can be done by various audit procedures such as an inspections, conformation, recalculation, and analytical procedures, etc.

Four types of controls are: inquiry, observation, inspection and re-performance.

Likewise, auditor perform substantive audit procedures to obtain substantive evidence about account balances, classes of transactions, and disclosures of the client's financial statements.

In audit, auditor have the responsibility to design and perform substantive audit procedures to properly respond to the assed risk of material misstatement. In other words, the nature, timing and extent of substantive audit procedures are directly influenced by the level of risk of material misstatement.

Types of substantive procedures

There are two types of substantive procedures which are substantive analytical procedures and the tests of details. Auditors must decide when it is most appropriate to use which type of substantive procedures.

- **Substantive analytical procedures:** is the process of analysing plausible relationships among data including both financial and non-financial data. Likewise, substantive analytical procedures are the audit procedures that the auditor performs to obtain evidence about the reasonableness of amounts shown in the financial statements by using such plausible relationship among data.
- **Substantive tests of details:** these are the audit procedures that auditors perform to test various audit assertions of significant account balances, classes of transaction, and disclosures of the client's financial statements.

b) Control objectives in respect of cycle of stock

Cycle	Control objective
Recording of stock	❖ All movements are recorded and authorised ❖ Record only items that belong to entity ❖ Records show all inventory that exists and is in stock ❖ All quantities are recorded correctly ❖ Proper cut-off procedures apply
Safeguarding	❖ Loss is guarded against ❖ theft is guarded against ❖ damage is guarded against
Valuation	❖ Stock is priced correctly
Holding an inventory	❖ Levels of stock are reasonable

c) Explanation of different audit approach:

i. The risk-based approach: is a methodology that links risk auditing to an organization's audit strategy. Auditors apply judgment to determine what level of risk pertains to different areas of a client's system and devise appropriate audit tests. Risk-based auditing ensures that the greatest effort is directed at those areas of the financial statements that are most likely to be misstated. The chance of detecting errors is therefore improved and time is not wasted on testing safe areas.

ii. Systems and controls approach: Management is required to institute a system of controls which is capable of safeguarding the assets of the shareholders. Auditors assess the controls put in place by directors and ascertain whether they are effective and can be relied on for the purposes of the audit. They carry out tests to ensure that the systems operate as they are supposed to. If the controls are ineffective, the control risk is high and it is important to undertake higher levels of substantive testing.

iii. **Cycles and transaction approach:** An auditor may choose to carry out substantive tests on the transactions of the business in the relevant period. Cycles' testing is closely linked to systems testing, as it is based on the same systems. However, with the cycles approach, the auditors test the transactions which have occurred, resulting in the entries in the books, such as sales transactions, purchases, expenses etc. The auditor substantiates the transactions which appear in the financial statements. A sample of transactions is selected and each transaction is tested to ensure that the transaction is complete and is processed correctly through the complete cycle.

iv. **Balance Sheet approach:** consists of checking for the correct recording of the existence, ownership and value of a company's assets and liabilities. With balance sheet approach, the assumption is made, that if all the balance sheet accounts are tested and verified, then the company's profit/loss statement will not be significantly misstated. Usually, this type of audit focuses heavily on the reporting of a company's transactions, such as cash and assets and the receipt and disbursement of funds (accounts receivable and accounts payable). An auditor may choose to carry out substantive tests on the year end balances. This is the most common approach to substantive testing after controls have been tested. The balance sheet shows a snapshot of the financial position. If it is fairly stated and the previous years' figures were also fairly stated, then it is reasonable to undertake lower-level testing on the profit and loss transactions e.g., analytical review.

v. **Directional testing approach:** Directional testing is a method of discovering errors and omissions in the financial statements through undertaking detailed substantive testing. It can be broken down into two categories, tests to discover errors and tests to discover omissions. Checking entries from the books back to supporting documentation should help to detect errors causing an overstatement or an understatement. For example, selecting sales transactions from the sales ledger and tracing them back to sales invoices and price lists to ensure that sales are priced correctly. To discover omissions the auditor must start from outside the accounting records and trace through to the records in the books. For example, to check the completeness of purchases, select a number of GRNs and check through to the stock records and the purchase ledger. Directional testing is appropriate when testing the financial statement assertions of existence, completeness, rights & obligations, and valuation.

vi. **Auditing around the computer approach:** The auditor is primarily interested in verifying that the data are being correctly input and processed by the computer. Audit activity is focused on ensuring that the source documentation is processed correctly and the auditor would verify this by checking the output documentation. What happens within the computer itself is ignored.

vii. **Auditing through the computer system:** The auditor performs tests on the computer and its software to evaluate if they are both effective. If the auditor finds that the computerised controls and systems are effective, the auditor will perform reduced substantive testing. This is likely to involve the use of computer assisted auditing techniques (CAATs). The use of a computer as an audit tool or the use of CAATs may improve the efficiency and effectiveness of audit procedures. It is particularly of use in tests of numerous details of transactions and balances.

QUESTION FOUR

Marking guide

	Marks
a) Qualitative factors for materiality	
• Illegal payments which may not be material but if revealed have serve repercussions	2
• Inadequate description of accounting policy user would be misled by description	2
• Personal expenses of CFO charged to company; the amount may not be material	2
• Non-compliance with laws and regulation	2
• Error that may convert a loss into a profit and versa	2
• Failures to make required important disclosures	2
• Non-disclosure of failure to meet debt covenant requirement	2
• complains for supplying substandard food and sanitary products	2
• Any other valid point	2
Maximum Marks	**10**
b) Role of office of Auditor General (OAG) in public procurement and administration	
• Checks the spending of public funds and resources	1
• Assist the parliament to hold to account and call to account, all persons entrusted	1
• Checks the compliance with laws, regulations governing financial matters,	1
• Checks reliability and credibility of financial information	1
• Checks the fair presentation and absence of significant misstatements	1
• Special audits/investigations for financial and fraud mismanagement	1
• Checks the deviation from lawful procedures	1
• Restore public trust and confidence	1
• OAG provides recommendations to:	
❖ keep proper financial records daily	1
❖ hire the right people for the job with the right skills	1
❖ fill key positions with competent people	1
❖ remove people who do not perform	1
❖ enforce accounting rules	1
❖ ensure a robust and functioning committee of public accounts	1

- ❖ control daily performance 1
- ❖ ensure that internal controls are in place and minimise the risk 1
- ❖ Any other valid point 1

Maximum Marks **10**

Total Marks **20**

Model answers

a) Qualitative factors for materiality

- ✓ Illegal payments which may not be material but if revealed have serve repercussions
- ✓ Inadequate or improper description of accounting policy when it is likely that a user of financial statements would be misled by description
- ✓ Personal expenses of CFO charged to company, the amount may not be material
- ✓ Non-compliance with laws and regulation
- ✓ Error that may convert a loss into a profit and versa
- ✓ Failures to make required important disclosures
- ✓ Non-disclosure of failure to meet debt covenant requirement
- ✓ Complains for supplying substandard food and sanitary products

b) Role of office of Auditor General (OAG) in public procurement and administration

- Checks the spending of public funds and resources by looking at whether these were used for intended purposes with regards to economy, efficiency and effectiveness
- Assist the parliament to hold to account and call to account, all persons entrusted with management of public funds and resources
- Checks the compliance with laws, regulations governing financial matters, governing financial management and administration
- Checks reliability and credibility of financial information which is essential to the very existence of society
- Checks the fair presentation and absence of significant misstatements in financial statements of public entities, ministries and boards
- Special audits/investigations for financial mal administration, fraud mismanagement of public monies or matters raised based on public or national interests and investigations that are based on allegations
- Checks the deviation from lawful procedures (goods & services received in breach of procedures)
- Restore public trust and confidence
- OAG provides recommendations to:
    - ❖ keep proper financial records daily
    - ❖ hire the right people for the job with the right skills
    - ❖ fill key positions with competent people

- remove people who do not perform
- enforce accounting rules
- ensure a robust and functioning committee of public accounts
- control daily performance
- ensure that internal controls are in place and minimise the risk of systems circumvention

QUESTION FIVE

Marking guide

		Marks
(a)	**Distinction between internal and external**	
•	Meaning	2
•	Conducted by	2
•	Reports	2
•	Purpose	2
•	Legally bound	2
•	Qualification	2
•	Usage of reports	2
•	Periodicity	2
•	Scope	2
	Maximum Marks	**8**
b)	**Limitation of external audit**	
i)	Not every item is checked.	1.5
ii)	Auditors depend on representations from management and staff.	1.5
iii)	Evidence gathered is persuasive rather than conclusive.	1.5
iv)	Auditing is not purely an objective exercise	1.5
v)	The timing of an audit	1.5
vi)	An unqualified audit opinion is not a guarantee of a company's future	1.5
vii)	An audit report has inherent limitations	1.5
viii)	Audit report is issued a long time after the balance sheet date	1.5
ix)	Any other valid point	1.5
	Maximum Marks	**6**
c)	**Rights of an auditor**	
•	Access to all relevant documents and books and any information and explanations	1
•	Attendance at any general meeting and to receive all notices and written resolutions	1
•	To be heard at any general meeting on any matters that concern them as auditors	1
•	To give written notice requiring that an Annual Meeting be held	1
•	Any other valid point	1
	Maximum Marks	**6**
Total marks		**20**

Model answers

a. Distinction between internal and external

Basis	Internal audit	External audit
Meaning	It is an ongoing audit function performed within the organisation by an internal auditor	It is an audit function that is performed by an independent firm/auditor
Conducted by	The internal auditor usually from inside the organisation and is an employee of the organisation hired by management	The external auditor is from outside the organization (third party) and is appointed by shareholders
Reports	Management	Shareholders
Purpose	To evaluate the routine activities and provide control for the improvement	To investigate and verify the true and fair view of the financial statements of the organisation
Legally bound	No, an internal auditor is not compulsory	The external audit is compulsory or legally bond
Qualification	Professional qualification is not mandatory	Professional qualification is mandatory
Usage of reports	Internal use	Both internal and external use
Periodicity	Monthly, quarterly, semi annual	External audit is conducted on annual basis
Scope	Management of the organisation decides the range of internal audit and scope	decided by laws, regulations or rules

b. Limitation of external audit

i) **Not every item is checked.** In fact, only test checks are carried out by auditors. It would be impractical to examine all items within a class of transactions or account balance. Hence, it is not really possible to give absolute assurance.

ii) **Auditors depend on representations from management and staff**. Collusion can mitigate some good controls such as division of duties. There is always the possibility of collusion or misrepresentation for fraudulent purposes.

iii) **Evidence gathered is persuasive rather than conclusive.** It often indicates what is probable rather than what is certain. Take for example vouching a bank statement. It only shows you that one account. Are there others?

iv) **Auditing is not purely an objective exercise**: Judgements have to be made in a number of areas. The view in financial statements is itself based on a combination of fact and judgement. For example, valuing stock in a grain silo or valuing jewellery.

v) **The timing of an audit:** Significant credit notes after the year-end can alter a true and fair view. Problems arise whether you audit too early or too late.

vi) **An unqualified audit opinion is not a guarantee of a company's future viability, the effectiveness and efficiency of management, nor that fraud has not occurred in the company.** Profit margins can differ from firm to firm yet both could have a clean audit report.

vii) **An audit report has inherent limitations:** standards format can be limiting and layman may not understand the audit jargon

viii) **Audit report is issued a long time after the balance sheet date:** up-to-date position and historical position may be different

c. Rights of an auditor

Auditors should have the following rights:

i) Access to all relevant documents and books and any information and explanations that they require from the directors of the charity which they deem necessary in the conduct of the audit.

ii) Attendance at any general meeting and to receive all notices and written resolutions which any member of the charity is entitled to receive.

iii) To be heard at any general meeting on any matters that concern them as auditors

iv) To give written notice requiring that an Annual Meeting be held for the reason of laying the accounts and reports before the trustees of the charity.

QUESTION SIX

Marking guide

	Marks
(a) Information source	
• Permanent file	2
• Prior year audit file	2
• Prior year financial statements	2
• Systems notes/internal control questionnaires	2
• Company website	2
• Financial statements or financial information relating to competitors	2
• Company budgets	2
• Prior year report to management	2
• Discussion with management	2
• Any other valid point	2
Maximum Marks	**8**
(b) Procedures to perform on opening balances	
• Opening balances reflect the application of appropriate accounting policies,	1
• Agreed closing balance with opening balances check any difference,	1
• Agreed closing balances with opening balances in the trial balances,	1
• Agreed the closing balances with the opening balances in the general ledger	1
• The opening stock position may require the observing of a current physical count	1
• Non-current assets & liabilities, the auditor obtain external confirmation.	1
• Determine whether the prior year's closing balances have been correctly b/f	1
• Agreed the closing balances with the opening balances	1
• Any other valid point	1
Maximum Marks	**6**
(c) Risk related to online sales system and internal controls	
Risks	
• Customer data is susceptible to interception by unauthorized third parties.	1
• Client data, program, & hardware susceptible to sabotage by external parties	1
• An authorized third party may attempt to transact business with the client company	1
• Greater impact if there is a failure in an entity's computer systems	1
• Risk of loss, corruption and/or theft of data in the transmission process	1
• Any other valid point	1
Maximum Marks	**3**

Controls

- Physical security over equipment and removable and non-removable assets 1
- Program and data security, using hidden files and passwords 1
- Security and data integrity checks 1
- Hardware, software and data back- up, copies of hard disks or tapes kept off site and within fireproof containers 1
- Any other valid point 1

  Maximum Marks 3

Total marks 20

Model answers

a. Information source

Information source	**Expect to obtain**
Permanent file	Information on matters of continuing importance for the company and the audit team, such as governing documents, share certificates and ongoing contractual agreement
Prior year audit file	An awareness of issues arising in the prior year audit and the implications for the current year audit, especially the risk assessment where issues in the prior year suggest a particular area is more susceptible to misstatement.
Prior year financial statements	Information on historic performance of the entity and its accounting policies. Last year's financial statements can help the auditor form expectations for the purposes of performing analytical procedures.
Systems notes/internal control questionnaires	Information on how each of the key accounting systems is designed, how it operates and how robust the internal controls are
Company website	Information on recent development or press activity which could impact on the risk assessment
Financial statements or financial information relating to competitors	Information from which the auditor can develop expectations when undertaking preliminary analytical procedures and understanding risk assessment
Company budgets	A reference point for expected performance which can be compared with actual performance

Information source	Expect to obtain
Prior year report to management	Information on deficiencies identified last year and auditor recommendations. If the deficiencies are unresolved this will impact on the risk assessment
Discussion with management	Information in relation to any important issues arising or changes to the company during the period under review.

b. Procedures to perform on opening balances

1. Determine whether the opening balances reflect the application of appropriate accounting policies,
2. Agreed the closing balance with the opening balances in the financial statements to check any difference,
3. Agreed the closing balances with the opening balances in the trial balances check any difference,
4. Agreed the closing balances with the opening balances in the general ledger check any difference,
5. In respect of current assets and liabilities, some audit procedures can usually be obtained as part of the current periods audit procedures such as the collection of opening debtors during the current period. This will provide some evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.
6. The opening stock position may require the observing of a current physical count and then reconciling it back to the opening position, testing the valuation of the opening stock items and carrying out testing on gross margins and cut off procedures.
7. For non-current assets and liabilities, the auditor may be able to obtain external confirmation of opening balances with third parties e.g., long term debt and investments.
8. Determine whether the prior year's closing balances have been correctly brought forward to the current period or, where applicable, have been restated;
9. Agreed the closing balances with the opening balances in the cashbook check any difference on bank and cash balances,

c. Risk related to online sales system and internal controls

Risks

1. Customer data is susceptible to interception by unauthorized third parties.
2. The client company data, program, and hardware are susceptible to potential interception or sabotage by external parties
3. An authorized third party may attempt to transact business with the client company
4. Greater impact on the normal operations and records if there is a failure in an entity's computer systems
5. Risk of loss, corruption and/or theft of data in the transmission process

Controls

1. Physical security over equipment and removable and non-removable assets

2. Program and data security, using hidden files and passwords

3. Security and data integrity checks

4. Hardware, software and data back- up, copies of hard disks or tapes kept off site and within fireproof containers

END OF MARKING GUIDE AND MODEL ANSWERS