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Институт управления, экономики и финансов

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**АУДИТ И ПОДТВЕРЖДЕНИЕ ФИНАНСОВОЙ ОТЧЕТНОСТИ**

Учебно-методическое пособие  
для проведения практических занятий и самостоятельной работы  
студентов, обучающихся по направлению  
38.04.01 – Экономика  
(магистерская программа «Аудит и финансовый менеджмент»)

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Аудит и подтверждение финансовой отчетности: учебно-методическое пособие для проведения практических занятий и самостоятельной работы студентов, обучающихся по направлению 38.04.01 - Экономика (магистерская программа «Аудит и финансовый менеджмент»)/ П.А.Алеткин. – Казань: Казан. ун-т, 2020. – 71 с.

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## СОДЕРЖАНИЕ

Введение	4
Часть I. Задания для семинарских (практических) занятий и самостоятельной Работы	5
Тема 1. Audit framework and regulation / Концепция аудита и нормативное регулирование аудита	
Тема 2. Planning and risk assessment / Планирование и оценка рисков	5
Тема 3. Internal control/Внутренний контроль	
Тема 4. Audit evidence/Аудиторские доказательства	
Тема 5. Review and reporting/ Аудиторское заключение	
Часть II. Практические задания и теоретические вопросы для контроля знаний обучающихся	90

## **Введение**

Учебно-методическое пособие предназначено для подготовки обучающихся по направлению 38.04.01 «Экономика» (магистерская программа «Аудит и финансовый менеджмент») и способствует системному изучению дисциплины «Аудит и подтверждение финансовой отчетности». Представленное учебно-методическое пособие ставит целью закрепить теоретический материал по курсу в процессе решения заданий по применению международных стандартов аудита при проведении аудита и подтверждении финансовой отчетности.

Методическая разработка состоит из двух частей:

- часть I «Задания для семинарских (практических) занятий и самостоятельной работы»;
- часть II «Практические задания и теоретические вопросы для контроля знаний обучающихся».

Первая часть учебно-методического пособия предназначена для проведения семинарских (практических) занятий, в том числе интерактивных семинаров, а также предусматривает перечень заданий для самостоятельной работы обучающихся. Для каждого занятия предусмотрены вопросы для обсуждения, контрольные вопросы, практические задания, задания для самостоятельной работы и список рекомендуемой литературы.

В процессе проведения занятия обучающиеся отвечают на контрольные вопросы и решают практические задания, которые предназначены для проверки качества усвоения теоретического материала. Задания для самостоятельной работы должны выполняться всеми обучающимися при подготовке к занятию после изучения рекомендуемых источников и освоения теоретического материала. Выполнение заданий для самостоятельной работы контролируется преподавателем на занятии.

Вторая часть учебно-методического пособия предлагает примеры практических заданий и теоретических вопросов для контроля знаний обучающихся.

**ЧАСТЬ 1. ЗАДАНИЯ ДЛЯ СЕМИНАРСКИХ (ПРАКТИЧЕСКИХ)  
ЗАНЯТИЙ И САМОСТОЯТЕЛЬНОЙ РАБОТЫ**

**Тема 1. Audit framework and regulation / Концепция аудита и  
нормативное регулирование аудита**

*Issues for discussion*

1. The concept of audit and other assurance engagements
2. External audits
3. Corporate governance
4. Professional ethics and ACCA's Code of Ethics and Conduct
5. Different types of assurance engagements in accordance with ISAE 3000 "Assurance engagements other than audit or reviews of historical financial information"

*Multiple choice questions*

1. The International Standards on Auditing is the set of standards issued by:
  - A) Ministry of Finance of Russian Federation
  - B) ACCA
  - C) IAASB
2. Economy, effectiveness and efficiency of company's processes and activities relates to
  - A) Financial Audit
  - B) VFM Audit
  - C) IFRS compilation

3. In relation to public interest entity which assurance engagements are not allowed by ACCA's Code of Ethics and Conduct

A) Provision of payroll services

B) valuation services if the valuations would have a material effect on financial statements

C) Tax calculations for the purpose of preparing the accounting entities

4. In relation to public interest entity which assurance engagements are not allowed by ACCA's Code of Ethics and Conduct

A) Provision of bookkeeping services

B) valuation services if the valuations would not have a material effect statements

C) Tax return preparation

5. In relation to public interest entity which assurance engagements are not allowed by ACCA's Code of Ethics and Conduct

A) Assistance in the resolution of tax disputes

B) internal audit services

C) Tax planning

### *Practice case*

You are an audit manager at CleanReport and you are considering a number of ethical issues concerning one of your clients RePro Co.

(1) One of the junior staff Mr. Simonov included into audit team claims that he has no financial interest in RePro Co but you have accidentally discovered that he is an owner of one share of RePro Co. During the investigation it turned out that the parents of Mr. Simonov gifted one share of RePro Co. at his birth 25 years ago.

(2) CleanReport recently established actuarial advisory department which launched a new consultancy service on actuarial valuations of pension schemes and RePro Co expressed interest in this service as RePro Co doesn't have actuarians and using CleanReport staff can improve the quality of financial reporting of RePro Co. RePro Co is a public interest company. The valuation will not have a material effect on financial reporting of RePro Co.

(3) Mr Mutting who was a key audit partner of RePro Co for seven years was rotated off the audit team and replaced by Mr Pedveding but during the first visit of audit for the eighth year Mr Pedveding got severely injured in a car accident when heading to RePro Co office. CleanReport does not have alternative candidates as only a few people in company can act a key audit partner. CleanReport prolonged Mr Mutting's responsibilities as a key audit partner for eighth year audit. At the beginning of nine year Mr Pedveding still cannot perform his functions and Mr Mutting is approved for the ninth year audit.

**Required**

**(a) List fundamental principles of professional ethics**

**(3 marks)**

**(b) Briefly explain what kind of threat to independence exists (if any) in each of the three situations above.**

**(2 marks)**

**(c) Describe the safeguards that CleanReport should take to maintain independence**

**(2 marks)**

**(9 marks)**

### *Self-study case*

You are an audit manager at SmartAudit, responsible for the audit of consolidated statements of Highway Co, public interest entity. SmartAudit considers providing bookkeeping and is already delivering expert services to BroadRoads Co - one the subsidiaries of Highway Co. The financial statements of BroadRoads Co is included into the consolidated statements of Highway Co. Net assets of BroadRoads Co. comprise slightly more than 50% of net assets of the group of companies Highway Co.

Since the establishment of Highway Co the company's CEO Mr Right is its owner who holds 51% of shares. He also was elected as the Chairman of Board of Directors based on the decision of all owners. The composition of members of Board of Directors was established 9 years and was not changed since that time. There are 7 members on Board: the Chairman, 3 investors, Chief Information Officer, Chief Operating Officer and Marketing Director. The policy of remuneration of members of the Board is determined by the Chairman. The external auditor is chosen by the sole decision of Mr Right who also communicates directly with SmartAudit on all the significant issues of audit.

It is also brought to your attention that Ms Konovalova just recently retired from CFO position of BroadRoads Co, was hired by SmartAudit and currently is considered to be loaned back on a same position.

Highway Co pays annually 2 mln.rub for audit for consolidated statements to SmartAudit. The revenues of SmartAudit last year were equaled to 14 mln.rub. but this year the company also charged 1 mln.rub. for providing expert services to BroadRoads Co.

**1. Regarding percentage of fees assess received by SmartAudit from Highway Co. choose the correct statement concerning threats to independence based on provisions ACCA's Code of Ethics and Conduct**

- A. The percentage of fees from the group of the companies is too high, safeguards required
- B. No safeguards required
- C. The threat is too high, no safeguards can be applied
- D. SmartAudit should resign from audit

**(2 marks)**

**2. SmartAudit and Highway Co are currently negotiating the increase of services provided to the client for the next year. What two safeguards from the following will be needed to reduce the self-interest threat (based on criteria of high percentage of fees)?**

- A. Reducing the dependency from the client
- B. External quality control reviews
- C. Reducing the price for audit of consolidated statements
- D. Providing delay of payments for audit services

**(2 marks)**

**3. Regarding to loaned personnel which of the following safeguards should be implemented in order to comply with ACCA's Code of Ethics and Conduct?**

- A. No safeguards can be applied
- B. Conducting an additional audit work performed by Ms Konovalova
- C. Not including Ms Konovalova into audit team
- D. Include into SmartAudit's policies a provision allowing loaning personnel to subsidiaries

**(2 marks)**

**4. Based on UK Corporate Governance Code choose 4 recommendations to bring in line corporate governance of Highway Co with the requirements of the Code**

- A. Mr Right should diminish the share in company in order to stay as a Chairman of Board of Directors
- B. The company needs clear division of the roles of Chief Executive Officer and Chairman of Board of Directors
- C. The remuneration policy of all of members of Board of Directors should be delegated to Chief Operating Officer
- D. No one individual on Board should determine its own remuneration
- E. In the composition of Board of Directors the number of executive directors should be increased
- F. In the composition of Board of Directors the number of independent non-executive directors should be increased
- G. All the directors of the Board of Directors should be re-elected at regular intervals
- H. Only the Chairman of Board of Directors should be re-elected at regular intervals

**(2 marks)**

**5. What of the following recommendations in relation to communication with external auditors is in line in accordance with UK Corporate Governance Code?**

- A. The Board should establish an Audit Committee with as least three executive Directors
- B. The Board should establish an Audit Committee with at least three independent non-executive Directors
- C. The Board should establish an Audit Committee and appoint Mr Right as a chair of the Audit Committee

D. Mr Right should delegate all the communication process with external audit to Chief Financial Officer

(2 marks)

**6. What of the following recommendations in relation to executive directors' remuneration is in line in accordance with UK Corporate Governance Code?**

A. Executive directors' remuneration should be set exclusively by Board Chairman

B. Executive directors' remuneration should be set exclusively by Chief Executive Officer or Chief Financial Officer

C. Executive directors' remuneration should be set as a percentage of current years' profit before tax

D. Executive directors' remuneration should be set is such a way to promote long-term success of Highway Co

(1 mark)

*Рекомендуемая литература*

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## **Тема 2. Planning and risk assessment / Планирование и оценка рисков**

### *Issues for discussion*

1. Obtaining and accepting audit engagements
2. Assessing audit risks
3. Understanding the entity and its environment
4. Audit planning and documentation
5. ISA 330 "Auditor's responses to assessed risks"
- 6 ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment
7. ISA 320 "Materiality in planning and performing an audit"

### *Multiple choice questions*

1. What are the two components of the risk of material misstatement:
  - A) control risk and detection risk
  - B) inherent risk and detection risk
  - C) inherent risk and control risk
  
2. How can the auditor reduce the audit risk
  - A) reduce inherent risk and increase sample size
  - B) reduce control risk and increase sample size
  - C) increase sample size and assign more experienced staff to the team
  
3. In the external audit of pharmaceutical production company performance materiality might apply to:
  - A) research and development expenses
  - B) directors remuneration
  - C) financial statements as a whole to determine the level of misstatements that have to be communicated to management

4. In the external audit of the bank performance materiality might apply to:

A) capital requirements disclosure

B) directors remuneration

C) financial statements as a whole to determine the level of misstatements that have to be communicated to management

5. Sampling and non-sampling risks are the components of

A) inherent risk

B) control risk

C) detection risk

### *Practice case*

1. You are an audit senior of SmartAudit and are planning the audit of PAO Adonis for the year ending 31 December, 2017. The company is a manufacturer of women's and men's which it sell to a large number of customers in the country of residency and abroad.

The company is developing and in order to better run its business process started to implement new enterprise software. The data from old software system was transferred manually. In the process of using new software for accounting purposes it turned out that software is not flexible to permanent changes in accounting and tax legislation. In order to improve management processes in PAO Adonis KPIs for senior managers are established. As a benchmark for annual bonuses of senior managers profit before tax was chosen.

This year a company has substantially renewed its equipment for shoe factories. In order to satisfy the demand for modern shoes the company has bought Italian equipment. The prepayment of 50% of order price was made. All the payments had to be made in euro. Unfortunately to the company between prepayment date and delivery date the national currency was significantly devaluated.

Above mentioned unexpected currency devaluation forced management to reconsider its accounting policy. As all payments by the agreement with a foreign customer should be made in euros and translation differences substantially influence the financial results, the company changed its accounting policy stating that in order to improve the quality of financial statements translation differences will be not shown in financial results. After comparison the budgeting and actual data of depreciation it also turned out that depreciation expenses on imported equipment were two times higher than planned and the management decided to increase useful life time of “foreign assets”.

As the company experienced a lack of foreign currency PAO Adonis obtained a loan from the bank for a 2 year term. The equipment was pledged under the conditions of loan agreement.

PAO Adonis in previous years used to own half of used shoe warehouses and the rest was rented. But this year the company substantially increased the number of operating lease agreements. Management hopes that this measure is temporary and that the company will be able to increase sales of shoes in future periods and thus refuse from some of the rent agreements.

Based on the information from the last year audit it is also known to you that PAO Adonis on 25 October, 2016 decided to sell one of the 2 administrative buildings which are material for company’s financial statements. The criteria for recognition as a non-current asset held for sale were fulfilled. As PAO Adonis was unable to sell building on 25 October, 2017 the company refused to sell it.

**Required:**

**(a) Describe seven audit risks and explain the auditor’s response to each risk in planning the audit of PAO Adonis. Prepare your answer in the table consisting two columns headed Audit risk and Auditor’s response respectively. (14 marks)**

**(b) Explain the responsibilities of auditor relating to fraud in the audit of PAO Adonis Financial Statements.**

**(6 marks)**

**(20 marks)**

*Self-study case*

Minty Cola Co (Minty) manufactures fizzy drinks such as cola and lemonade as well as other soft drinks and its year end is 31 December 2013.

You are the audit manager of Parsley & Co and are currently planning the audit of Minty. You attended the planning meeting with the engagement partner and finance director last week and recorded the minutes from the meeting shown below.

You are reviewing these as part of the process of preparing the audit strategy. Minutes of planning meeting for Minty Minty's trading results have been strong this year and the company is forecasting revenue of \$85 million, which is an increase from the previous year.

The company has invested significantly in the cola and fizzy drinks production process at the factory. This resulted in expenditure of \$5 million on updating, repairing and replacing a significant amount of the machinery used in the production process.

As the level of production has increased, the company has expanded the number of warehouses it uses to store inventory. It now utilises 15 warehouses; some are owned by Minty and some are rented from third parties. There will be inventory counts taking place at all 15 of these sites at the year end.

A new accounting general ledger has been introduced at the beginning of the year, with the old and new systems being run in parallel for a period of two months. As a result of the increase in revenue, Minty has recently recruited a new credit controller to chase outstanding receivables.

The finance director thinks it is not necessary to continue to maintain an allowance for receivables and so has released the opening allowance of \$1.5 million.

In addition, Minty has incurred expenditure of \$4.5 million on developing a new brand of fizzy soft drinks. The company started this process in January 2013 and is close to launching their new product into the market place. The finance director stated that there was a problem in November in the mixing of raw materials within the production process which resulted in a large batch of cola products tasting different.

A number of these products were sold; however, due to complaints by customers about the flavour, no further sales of these goods have been made. No adjustment has been made to the valuation of the damaged inventory, which will still be held at cost of \$1 million at the year end. As in previous years, the management of Minty is due to be paid a significant annual bonus based on the value of year-end total assets.

Required:

- (a) Explain audit risk and the components of audit risk. (5 marks)
- (b) Using the minutes provided, identify and describe SIX audit risks, and explain the auditor's response to each risk, in planning the audit of Minty Cola Co. (12 marks)
- (c) Identify the main areas, other than audit risks, that should be included within the audit strategy document for Minty Cola Co; and for each area provide an example relevant to the audit. (4 marks)

### *Рекомендуемая литература*

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### Тема 3. Internal control/Внутренний контроль

#### *Issues for discussion*

1. Internal control systems
2. The use and evaluation of internal control systems by auditors
3. Tests of control
4. Internal Control Questionnaires (ICQs) and Internal Control Evaluation Questionnaires (ICEQs)
5. ISA 265 Communicating deficiencies in internal control to those charged with governance and management

#### *Multiple choice questions*

1. For documenting client's internal control system can be used :
  - A) Narrative notes only
  - B) ICQ only
  - C) Narrative notes or ICQ
2. In relation to questionnaires which one is more oriented on material misstatements in the financial reporting
  - A) ICQ
  - B) ICEQ
  - C) both are not oriented on material misstatements
3. To application control relates:
  - A) virus check
  - B) batch reconciliations
  - C) document counts

4. In relation to public interest entity which assurance engagements are not allowed by ACCA's Code of Ethics and Conduct

A) records of program changes

B) batch reconciliations

C) document counts

5. To general controls relates:

A) virus checks

B) records of program changes

C) batch reconciliations

*Practice case*

1. You are an audit manager of SmartAudit, the auditor of Clean Co. The company's year end is December 31, 2017. The following information relating to company's payroll system was brought to your attention as a result of interim audit of Clean Co.

Clean Co operates as a large facility management company. The company provides services to biggest supermarkets and malls of the country during all year round including weekends and holidays. The number of employees is equaled to 100 and there are also 20 administrative workers including HR officer and payroll officer. The payroll officer is also a cashier.

For the reason of high employee turnover the management of the company establishes for newly hired employees probation period for 3 months and for this period of time HR officer doesn't provide an employee with employment contract but instead orally informs payroll officer. After the probation period an employment agreement is signed. If the new joiners have children they fill the application request to provide them child tax credit for the purpose of monthly reduction of income tax. In the application form they also confirm that they are obliged to bring certificate of birth to payroll officer until the end of the current year.

During the daily shifts the cleaners are entitled to come to the opening of food court in the morning and they are working under supervision of manager.

The company operates night shifts as it is some of the clients preferences and the company is obliged to pay night rate which is 2 times more than daily rate. According to inner instructions cleaners inform manager about night preferences and manager decides who suits for night shifts best. In case of heavy workloads manager is allowed to take night shifts as well.

The manager fills the time-sheet once a week and provides it to payroll officer. For the new joiners during the probation period of 3 months the manager doesn't enters information about the working hours into the time-sheet but instead provides this information by direct call phone to a payroll officer.

Once the time-sheet received by payroll officer the information is manually loaded to computerized payroll system which automatically calculates the gross and net payments. This information is not checked by anyone. The payments are made by bank transfers twice a month to administrative workers after payroll officer authorizes payments. The cleaners at a certain time receive their payments in cash from managers twice a week. The company employs courier who gets the packets with payments from payroll officer and leaves these packets to managers.

Because the company is under the pressure of cutting costs of the owner of Clean Co the company announced a new policy of remuneration of administrative workers. The company cancelled all the monthly bonuses but instead announced benefits for using personnel assets (cars, laptops, smartphones) and this benefits are exempt from social insurance contributions and income taxes. The company's employees apply for benefits to Chief Accountant who determined the size of benefit in each case. The tax payments on wages this year were cut in Clean Co by 30%.

**Required:**

**(a) Identify and explain 5 key controls which the auditor may seek to place reliance on in relation to the payroll system of Clean Co. For each identified key control describe a test of control the auditor should perform to assess the operating effectiveness of control. Present your answer in table consisting of 2 columns headed Key control and Test of control.**

**(10 marks)**

**Required:**

**(b) Identify and explain FIVE DEFICIENCIES in Clean Co's payroll system and provide a recommendation to address each of these deficiencies. Present your answer in table consisting of 2 columns headed Control deficiency and Control recommendation respectively.**

**(10 marks)**

Clean Co recently started to participate in government tenders and under the pressure of cutting costs this year changed the policy of employment. New employees after the 3-month probation period independent contractor agreement instead of employment agreement. Under this type of agreement:

- tax costs on wages will be cut by 10%,
- employees cannot receive holidays of 28 days a year, child tax credits, payment for sick days
- the cleaners are paid for the actual result of work done but not for the time spent on work.

Chief Financial Officer expressing you fears about the possible requalification of independent contractor agreement into employment agreement by tax authorities with subsequent additional tax accrual and significant fines from labour inspection. Chief Financial Officer asked you about the responsibilities of management and auditors of not following labour and tax legislation Under ISA 250 Consideration of laws and regulation in an Audit of financial statements.

**Required:**

**(c) Explain responsibilities of management and auditors of not following labour and tax legislation under ISA 250 Consideration of laws and regulation in an Audit of financial statements.**

**(5 marks)**

**Required:**

**(d) Describe the substantive procedures the auditors should perform to confirm the year-end accrual for payroll liabilities.**

**(5 marks)**

**(30 marks)**

*Self-study case*

You are the audit senior of Blair & Co and your team has just completed the interim audit of Chuck Industries Co, whose year end is 31 January 2012. You are in the process of reviewing the systems testing completed on the payroll cycle, as well as preparing the audit programmes for the final audit.

Chuck Industries Co manufactures lights and the manufacturing process is predominantly automated; however there is a workforce of 85 employees, who monitor the machines, as well as approximately 50 employees who work in sales and administration. The company manufactures 24 hours a day seven days a week.

Below is a description of the payroll system along with deficiencies identified by the audit team:

*Factory workforce*

The company operates three shifts every day with employees working eight hours each. They are required to clock in and out using an employee swipe card, which identifies the employee number and links into the hours worked report produced by the computerised payroll system.

Employees are paid on an hourly basis for each hour worked. There is no monitoring/supervision of the clocking in/out process and an employee was witnessed clocking in several employees using their employee swipe cards.

The payroll department calculates on a weekly basis the cash wages to be paid to the workforce, based on the hours worked report multiplied by the hourly wage rate, with appropriate tax deductions. These calculations are not checked by anyone as they are generated by the payroll system. During the year the hourly wage was increased by the Human Resources (HR) department and this was notified to the payroll department verbally.

Each Friday, the payroll department prepares the pay packets and physically hands these out to the workforce, who operate the morning and late afternoon shifts, upon production of identification. However, for the night shift workers, the pay packets are given to the factory supervisor to distribute. If any night shift employees are absent on pay day then the factory supervisor keeps these wages and returns them to the payroll department on Monday.

#### Sales and administration staff

The sales and administration staff are paid monthly by bank transfer. Employee numbers do fluctuate and during July two administration staff joined; however, due to staff holidays in the HR department, they delayed informing the payroll department, resulting in incorrect salaries being paid out.

Last week the company had a visit from the tax authorities who reviewed the wages calculations and discovered that incorrect levels of tax had been deducted by the payroll system, as the tax rates from the previous year had not been updated. The finance director has queried with the audit team why they did not identify this non-compliance with tax legislation during last year's audit.

#### Required:

- 1) Discuss the deficiencies in the control systems of Furry Lion Stores, and how the weaknesses can be remedied.

2) Explain the responsibilities of management and auditors of Chuck Industries Co in relation to compliance with law and regulations under ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements. (4 marks)

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## **Тема 4. Audit evidence/Аудиторские доказательства**

### *Issues for discussion*

1. Financial statement assertions and audit evidence
2. Audit procedures
3. Audit sampling and other means of testing
4. The audit of specific items
5. Computer-assisted audit techniques
6. Non-currents assets
7. Inventories
8. Receivables
9. Cash and bank
10. Liabilities, capital and directors emoluments

### *Multiple choice questions*

1. Occurrence is an assertion about:
  - A) Account balances at the period end
  - B) classes of transactions
  - C) Account balances at the period end and classes of transactions
2. Existence is an assertion about:
  - A) Account balances at the period end
  - B) classes of transactions
  - C) Account balances at the period end and classes of transactions

3. Cut-off is an assertion about:

- A) Account balances at the period end
- B) classes of transactions
- C) Account balances at the period end and classes of transactions

4. Accuracy is an assertion about:

- A) Account balances at the period end
- B) classes of transactions
- C) Account balances at the period end and classes of transactions

5. Completeness is an assertion about:

- A) Account balances at the period end
- B) classes of transactions
- C) Account balances at the period end and classes of transactions

*Practice case*

The National Haul Company provides transportation services. The company owns a. You are an audit senior of the company SmartAudit and you are currently conducting the audit of National Haul Company for the year ended December 31, 2017.

During the audit the following issues were brought to your attention.

**Property, plant and equipment**

PPE is mostly presented by a large number of different kinds of vehicles owned by the National Haul Company. During the financial period of 2017 National Haul Company made capital expenditures and repairs expenses. This appears to be significant to financial statements of the company.

## **Inventories**

Inventories of National Haul Company are presented by fuel (95% of all inventories) and spare parts (5% of the inventories) and the account balance of inventories is also significant to financial statements of the company. To fuel its vehicles the company buys by wholesale gasoline from Oil Depo Ltd. To minimize storage costs the National Haul Company doesn't have its own facilities to store gasoline but instead company's vehicles drivers load the fuel tanks directly at Oil Depo Ltd facilities. Because of the large bulks of fuel bought a special storage facility for the needs of The National Haul Company is provided on the territory of Oil Depo Ltd.

### **1. Which two of the following are benefits of reviewing capitalization of expenditures by examining for non-current assets additions?**

- A. It provides evidence for all assertions
- B. It insures that capitalization is consistent with the company's policy
- C. It insures that capital versus revenue distinction are correctly drawn
- D. It helps to understand weaknesses of National Haul company's control environment

**(2 marks)**

### **2. The analysis of additions for non-current assets made during National Haul Company in 2017 are shown below.**

PPE	Types of costs	Expenses, rub.
Vehicle 1	Engine undershield installed which along with protection functions allows to substantially lower fuel consumption	33 000
Vehicle 2	Expenses on painting	40 000
Vehicle 3	Protection box against downfalls installed which prolongs useful life of the asset	11 000

**What is the impact on non-current assets in the statement of financial position of National Haul company?**

- A. Assets are overvalued by 84 000 rub.
- B. Assets are overvalued by 40 000 rub.
- C. Assets are undervalued by 40 000 rub.
- D. Assets are undervalued by 84 000 rub.

**(2 marks)**

**3.The auditor has been asked to consider additional audit work for depreciation expenses on examined vehicles. Which two of the following audit procedures are appropriate?**

- A.Ensure that the charge for depreciation is based on revaluated amount by recalculating (in case of correct treatment of capital expenditures)
- B. Compare the expenses on depreciation this year with projected depreciation for the following year
- C. Ensure that the company used in calculations of the charge for depreciation prolonged useful life of vehicle 3
- D. Ensure that the company used in calculations of the charge for depreciation prolonged useful life of all vehicles

**(2 marks)**

**4.In relation to inventories of National Haul Company which of the following audit procedures provides most reliable evidence regarding the completeness of inventories?**

- A. Compare raw material turnover to the previous year and industry averages
- B. Receive direct confirmation from regarding quantities and condition
- C. Vouch the sample of inventories to suppliers invoices
- D. Enquire management about the reasons of storing fuel at Oil Depo Ltd. Facilities

**(2 marks)**

**5. During the process of audit of inventories Oil Depo Ltd's integrity and objectivity turned to be doubtful according to auditor's point of view. What two of the following procedures are appropriate to receive reliable sufficient evidences regarding the existence of inventories?**

A. Inspecting contracts of National Haul company with Oil Depo Ltd for storage of fuel

B. Attending Oil Depo Ltd's inventory count

C. Obtaining auditor's report on the adequacy of Oil Depo Ltd's internal control

D. Attending national Haul company's inventory count for spare parts

**(2 marks)**

*Self-study case*

2. You are an auditor of Governmental Audit and are planning the audit of MedC for the year ending 31 December 2018. As part of your assignment you are obliged to determine audit risk at the planning stage of current year's audit.

MedC is a not-for-profit organization which provides cardiovascular surgeries for its patients. The hospital prepares annual financial reporting. MedC is financed by government but also provides commercial services for foreign patients as the clinic is well known abroad. Under the current law medical supplies for commercial services cannot be bought at the expense of governmental finances. Current year the management of the hospital decided instead of buying some of the medical equipment to rent it. In order to improve the services this year the clinic opened a café and grocery store for patients on the territory of clinic.

Most of the medicaments are bought in advance in bulk.

From the audit of previous years you also know that because of the delayed paperwork some personnel payments to doctors and nurses for the work performed in December 2018 are accounted for only at the end of January 2019.

By the requirement of government in current year the clinic has to switch to a new accounting software.

During the discussion with the management of MedC you also found that in current year chief accountant established a company that rented a coffee machine out to café of the clinic for a period of 4 months. After the facts were discovered the chief accountant was fired and a new chief accountant was hired after 3 months.

**(a) Explain why the audit risks associated with not-for-profit organizations may be different from other organizations.**

**(3 marks)**

**(b) Describe eight audit risks and explain the auditor's response to each risk in planning the audit of MedC.**

**(16 marks)**

Note: Please prepare a table with two columns headed Audit risk and Auditor's response respectively.

**(19 marks)**

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## **Тема 5. Review and reporting/ Аудиторское заключение**

### *Issues for discussion*

1. Subsequent events
2. Going concern
3. Written representations
4. Audit finalisation and the final review
5. Audit reports
6. ISA 700 Forming an opinion and reporting on financial statements
7. ISA 701 Communicating key audit matters in the independent auditor's report
8. ISA 705 Modifications to the opinion in the independent auditor's report
9. ISA 706 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report

### *Multiple choice questions*

1. If the misstatements are material and pervasive the auditor will provide
  - A) qualified opinion
  - B) adverse opinion
  - C) disclaimer of opinion
  
2. If the misstatements are material and not pervasive the auditor will provide
  - A) qualified opinion
  - B) adverse opinion
  - C) disclaimer of opinion

3. Auditor was unable to obtain sufficient appropriate audit evidence and the effect of this on financial statements was pervasive, the auditor will provide:

- A) qualified opinion
- B) adverse opinion
- C) disclaimer of opinion

4. Auditor was unable to obtain sufficient appropriate audit evidence and the effect of this on financial statements was not pervasive, the auditor will provide:

- A) qualified opinion
- B) adverse opinion
- C) disclaimer of opinion

5. The statement of financial position of RT Co includes a material amount of \$100,000 in respect of costs capitalised in the year as plant, property and equipment. The auditor has concluded that these costs are period expenditures.

If the auditor is to issue an unmodified opinion which financial statements will require adjustment?

- A Statement of financial position only
- B Statement of profit or loss only
- C Statement of financial position and statement of profit or loss

*Practice case*

You are an audit senior of Toys4Kids. The company's year end is December 31, 2017.

The following information is known to you about the company. Toys4Kids since the year of establishment produces and sells only one but very popular among country's citizens model of teddy bears for children. Unfortunately for the company the last 3 consecutive years the sales were falling as competitors launched the production and sale of "advanced" teddy bears that can sing, dance and speak several languages.

The company of Toys4Kids expects produced classical teddy bears will still be in demand with senior customers that will continue to buy this kinds of toys for grandkids. The company looks conservative on the issue of changing the technology in order to switch it to the production of «digitalized» teddy bears but in order to boost the sales in January, 2018 reduced the price for toys by 40% which you consider to be an evidence for net realizable value of inventories.

Company's profit before tax is 10,4 mln.rub. The value of inventories in company's balance sheet is 4,2 mln.rub. Teddy bears comprise 60% of inventories. They are valued at cost of production in the statement of financial position. The accounting department considers that in compliance with accrual method of accounting it is not appropriate to show inventories at net realizable value at the year end as the reduction of sales price was announced only after the year end.

**1. In order to better understand the role and the substance of auditor's report the director of Toys4Kids expressed interest in the content of different paragraphs of audit report. Match elements of auditor's report with the correct explanation**

(1)Key audit matters	(a) -Matters disclosed in the financial reporting which is fundamental to users' understanding of financial statements
(2)Emphasis of matter paragraph	(b) - Most significant matters in the audit of financial statements by auditors' professional judgement
(3)Other matter paragraph	(c)- Statement expressing the auditor's view on financial statements
(4)Opinion paragraph	(d)- Matters others than those presented in the financial reporting which is relevant to users' understanding of financial statements

A. 1a, 2b, 3c, 4d

B. 1b, 2a, 3d, 4c

C. 1b, 2d, 3a, 4c

D. 1a, 2b, 3d, 4c

(2 marks)

**2. Identify whether the following statements relating to key audit matters are true or false.**

(1) For the audit of listed companies key audit matters may be excluded from auditor's report based on professional judgement of auditor

(2) Where required by law key audit matters are included in auditor's report

(3) The matter that gives rise to modified opinion is included in key audit matters

(4) Going concern issues are not included in key audit matters

	True	False
A.	1,2	3,4
B.	1,4	2,3
C.	2,3	1,4
D.	2,4	1,3

(2 marks)

**3. Which of the following correctly describes the misstatements of Toys4Kids' financial statements:**

A. The inventories in the statement of financial position are overvalued. Profit before tax is undervalued

B. The inventories in the statement of financial position are undervalued. Profit before tax is undervalued

C. The inventories in the statement of financial position are overvalued. Profit before tax is overvalued

D. The inventories in the statement of financial position are undervalued. Profit before tax is overvalued

E. The financial statements doesn't contain significant misstatements.

(2 marks)

**4. Toys4Kids refuses to correct misstatements in their financial statements. Explain how will this impact on the auditor's report.**

- A. the auditor will express unmodified opinion
- B. the auditor will express qualified opinion
- C. the auditor will disclaim from opinion
- D. the auditor will issue unmodified opinion but will include "other information" section

**(2 marks)**

**5. The financial statements of the Toys4Kids for year ended December 31, 2016 was audited by another auditor. Which of the following elements should be used by a current auditor to draw readers's attention to this fact?**

- A. key audit matters section
- B. basis for opinion
- C. material uncertainty related to going concern
- D. emphasis of matter paragraph
- E. other matter paragraph

**(2 marks)**

*Self-study case*

You are an audit senior of StrongBrandCompany. The company's year end is December 31, 2017.

The following information is known to you about the company. In January 2018 the company's warehouses located in Sochi experiences heavy floods and the management expected the damages to be equaled to 5 mln.rub. The cost of inventories included into the financial statement report on December 31, 2017 is 5,6 mln.rub. The company determined the Realisable Value at 0,7 mln.rub. Sales expenses were estimated as 0,1 mln.rub.

**1. Based on the case scenario explain, whether the financial statements require amendment**

A. There is no need to amend financial statements for the year ended December 31, 2017 but it is obligatory to make amendments in the interim reporting for the first quarter of 2018

B. There is no need to amend annual financial statements for the year ended December 31, 2017 and interim reporting for the first quarter of 2018

C. The inventories should be valued at 0,8 mln.rub in the financial statements for the year ended December 31, 2017

D. The inventories should be valued at 0,6 mln.rub in the financial statements for the year ended December 31, 2017

**(2 marks)**

**2. The management of the company refused to amend financial statements for the year ended December 31, 2017. The profit before tax is equaled to 20 mln.rub. Explain how this will influence auditor's report**

A. The opinion will be unmodified

B. The opinion will be modified

C. The auditor should disclaim of opinion

D. The auditor should express adverse opinion and include section "Other Information"

**(2 marks)**

**3. Suppose that for the reason of damages from heavy floods the management of the company expressed material uncertainty about going concern and disclosed this information in the notes to financial reporting.**

**You have also found that management decided that they are going to close the company but because of lack of time they decided not to prepare financial statements based on break up basis but leave going concern assumption in financial statements. The reason for this decision was also described in detail in the notes. Explain how this situation will influence on auditor's report**

A. The opinion will be unmodified but the auditor will describe the situation in the Section "Emphasis of Matter"

B. The opinion will be unmodified but the auditor will describe the situation in the Section "Material Uncertainty related to going concern"

C. The opinion will be modified

D. The opinion will be adverse

**(3 marks)**

**4. One of the auditors in audit team insists on including the issue on going concern also in key audit matters. Explain the reason for including/no including the issue in KAMs.**

A. The issue should be included into key audit matters as it seems to be reasonable to classify it as a significant risk in accordance with ISA 315

B. ISA don't allow to include going concern issue into key audit matters

C. The issue should be included into key audit matters based on professional judgement of auditor

D. The issue should be included into key audit matters only if StrongBrandCompany is a listed company

**(3 marks)**

**5. You are currently at the final stage of audit of StrongBrandCompany. Choose the correct answer in relation to overall review of financial statements.**

A. The auditor shall use analytical procedures to determine the risks of material misstatements

B. The auditor should communicate with those charged with governance to ask them with key audit matters they consider worth including into auditor's report

C. The misstatements below the threshold for clearly trivial should be included into the summary of misstatements

D. The auditors should request management to correct factual misstatements found

(2 marks)

**6.StrongBrandCompany started to apply early a new accounting standard that has a pervasive effect on financial reporting. The information is disclosed in financial reporting and in auditors opinion it was not of most significance in the current years's financial reporting. This situation should be disclosed by the auditor in**

A. Emphasis of matter paragraph

B. Going concern paragraph

C.Other matter paragraph

D.Key audit matter paragraph

(1 mark)

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## ЧАСТЬ II. ПРАКТИЧЕСКИЕ ЗАДАНИЯ И ТЕОРЕТИЧЕСКИЕ ВОПРОСЫ ДЛЯ КОНТРОЛЯ ЗНАНИЙ ОБУЧАЮЩИХСЯ

Контрольный блок по дисциплине «Аудит и подтверждение финансовой отчетности» включает в себя:

- **письменные домашние задания** по теме 1 «Audit framework and regulation / Концепция аудита и нормативное регулирование аудита» по теме 2 «Planning and risk assessment / Планирование и оценка рисков», по теме 3 «Internal control/Внутренний контроль», по теме 4 «Audit evidence/Аудиторские доказательства», по теме 5 «Review and reporting/ Аудиторское заключение»
- выполнение промежуточной и итоговой **контрольных работ**
- **устный опрос** по теме 1 «Audit framework and regulation / Концепция аудита и нормативное регулирование аудита» по теме 2 «Planning and risk assessment / Планирование и оценка рисков», по теме 3 «Internal control/Внутренний контроль», по теме 4 «Audit evidence/Аудиторские доказательства», по теме 5 «Review and reporting/ Аудиторское заключение»
- **экзамен.**

### **Письменные домашние задания**

Тема 1. Audit framework and regulation / Концепция аудита и нормативное регулирование аудита (*ПК-2: умения, ПК-8: умения*)

Задание 1. You are an audit manager of Satsuma & Co and have been assigned to the audit of Tangerine Tech Co (Tangerine), a company which is planning to list on a stock exchange within six months. The listing rules of the stock exchange require compliance with corporate governance principles, and the directors are unsure whether they are following best practice in relation to this. They have asked the audit engagement partner for their view on this matter.

Tangerine's board is comprised of six executive directors, a non-executive chairman and three other non-executive directors (NEDs). The chairman and one of the NEDs are former executive directors of Tangerine and on reaching retirement age were asked to take on non-executive roles. The company has established an audit committee, and all NEDs are members including the chairman who chairs the committee. All four members of the audit committee were previously involved in sales or production related roles. All of the directors have been members of the board for at least four years. As the chairman does not have an executive role, he has sole responsibility for liaising with the shareholders and answering any of their questions. The company has not established an internal audit function to monitor internal controls.

Required: Using the information above describe FIVE corporate governance weaknesses faced by Tangerine Tech Co and provide a recommendation to address each weakness to ensure compliance with corporate governance principles.

Тема 2. Planning and risk assessment / Планирование и оценка рисков  
(ПК-2: умения, ПК-8: умения)

Задание 2.

You are an audit supervisor of Pluto & Co and are currently planning the audit of your client, Venus Magnets Co (Venus) which manufactures decorative magnets. Its year end is 31 December 2015 and the forecast profit before tax is \$9.6 million. During the year, the directors reviewed the useful lives and depreciation rates of all classes of plant and machinery. This resulted in an overall increase in the asset lives and a reduction in the depreciation charge for the year. Inventory is held in five warehouses and on 28 and 29 December a full inventory count will be held with adjustments for movements to the year end. This is due to a lack of available staff on 31 December.

In October, there was a fire in one of the warehouses; inventory of \$0.9 million was damaged and this has been written down to its scrap value of \$0.2 million. An insurance claim has been submitted for the difference of \$0.7 million. Venus is still waiting to hear from the insurance company with regards to this claim, but has included the insurance proceeds within the statement of profit or loss and the statement of financial position. The finance director has informed the audit manager that the October and November bank reconciliations each contained unreconciled differences; however, he considers the overall differences involved to be immaterial. A directors' bonus scheme was introduced during the year which is based on achieving a target profit before tax. In order to finalise the bonus figures, the finance director of Venus would like the audit to commence earlier so that the final results are available earlier this year.

Required:

Describe FIVE audit risks, and explain the auditor's response to each risk, in planning the audit of Venus Magnets Co.

Тема 3. Internal control/Внутренний контроль (ПК-2: умения, ПК-8: умения)

Задание 3

Bonsai Trading Co (Bonsai) manufactures electrical equipment, and its year end is 30 September 2015. You are the audit supervisor of Poplar & Co and are developing the audit programmes for the forthcoming interim audit. The company's internal audit department has provided you with documentation relating to the non-current assets cycle including the related controls listed below.

- Bonsai has a capital expenditure committee and all purchase orders for capital items are required to be authorised by this committee.
- On receipt, each asset is assigned a unique serial number and this is recorded on the asset and in the non-current assets register.

– When the asset arrives, a goods received note (GRN) is completed which details the nature of the expenditure (i.e. whether it is capital or revenue), and the GRN classification is reviewed and initialled by a responsible official. Copies of the GRNs relating to capital expenditure are then submitted to the finance department for updating of the non-current assets register.

– Periodically, internal audit undertakes a review of assets in the register and compares them to assets on site, using the serial number to confirm existence of the asset.

– Access to the non-current assets register is restricted through passwords to a small number of staff in the finance department.

Required:

Describe a test of control which the auditor of Bonsai Trading Co would perform to assess whether or not each of the non-current asset controls listed above is operating effectively

Тема 4. Audit evidence/Аудиторские доказательства (ПК-2: умения, ПК-8: умения)

Задание 4

Kyanite Pizzas Co (Kyanite) operates a large chain of fast food restaurants. You are an audit supervisor of Jasper & Co and are currently preparing the audit programmes for the audit of Kyanite's financial statements for the year ended 31 March 2016. You are reviewing the notes of last week's meeting between the audit manager and finance director where material issue was discussed.

(i) Property, plant and equipment

In the past Kyanite 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.

Describe substantive procedures you should perform to obtain sufficient and appropriate audit evidence in relation to the above matter.

Тема 5. Review and reporting/ Аудиторское заключение (ПК-2: умения, ПК-8: умения)

#### Задание 5

Grains 4U Co (Grains) manufactures breakfast cereals and has three factories, four warehouses and three distribution depots spread across North America. The audit for the year ended 31 December 2015 is almost complete and the financial statements and audit report are due to be signed shortly. Profit before taxation is \$7.9 million. The following events have occurred subsequent to the year end and no amendments or disclosures have been made in the financial statements.

Fire On 15 February 2016, a fire occurred at the largest of the distribution depots. The fire resulted in extensive damage to 40% of the company's vehicles used for dispatching goods to customers; however, there have been no significant delays to customer deliveries. The company estimates the level of damage to the vehicles to be in excess of \$650,000. Only a minimal level of inventory, approximately \$25,000, was damaged. Grain's insurance company has started to investigate the fire to assess the likelihood and level of payment, however, there are concerns the fire was started deliberately, and if true, would invalidate any insurance cover.

Required:

(i) Based on the information provided, explain whether the financial statements require amendment; and

(ii) Describe audit procedures which should now be performed in order to form a conclusion on any required amendment

### **Контрольные работы по курсу «Аудит и подтверждение финансовой отчетности»**

Каждый студент в ходе контрольной работы должен решить один вариант практических заданий, который включает комплексную задачу. Оценка контрольной работы осуществляется на основании разработанных руководителями курса критериев оценки.

#### **Пример контрольной работы**

##### **Задание**

. You are an audit manager of SmartAudit. You are responsible for audit of Sugar Pill Co for the year ending 31 December, 2017. The company is producing drugs against diabetes, cardiovascular and cancer diseases. According to draft financial statements the company's expecting profit before tax is 4,1 mln.rub., company's total assets 21,2 mln.rub.

The following matters have been brought to your attention before the final audit.

##### **Property, plant and equipment**

In order to improve operating effectiveness Sugar Pill Co significantly increased expenses on robotization of processes.

The company spent 3,6 mln.rub. on buying 3 new production robots. The robots were delivered to Sugar Pill at the beginning of January of the current year but were put on warehouse till the August as the accounting department didn't want to depreciate the assets before its actual use in production processes.

Once production commences the equipment is depreciated on a straight line basis over 15 years. The company has never exploited robots before and management decided to depreciate the assets over the assets' useful lives known for "traditional" production facilities.

### **Intangible assets**

In the current year Sugar Pill Co started to implement supply chain management system. Under the agreement with software contractor supply chain management system is designed for specific needs for Sugar Pill Co and the exclusive rights are transferred to Sugar Pill co. Sugar Pill co spent 1,1 mln.rub. and the company is intended to amortize the intangible asset during 10 year useful life.

### **Provisions**

During the current period class action lawsuit of patients that suffered drugs' side effects. The legal department of Sugar Pill Co assessed that the possibility of satisfying patients' claims is more than 50%. A provision was made on the claimed amount of 1,3 mln.rub. The lawsuit on the moment of final audit was still in process.

### **Required:**

**(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Sugar Pill Co's depreciation of property, plant and equipment. (5 marks)**

**(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the matters identified regarding intangible assets.**

**(5 marks)**

**(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Sugar Pill co's provisions.**

**(5 marks)**

During the audit, you have discovered that In October 2017 one of the foreign companies started patent litigation against Sugar Pill Co. In January 2017 Sugar Pill Co unexpectedly lost a lawsuit. It is also known that under the court decision Sugar Pill Co is not entitled to produce drugs against diabetes which comprised 70% of company's revenues. Sugar Pill Co disclosed in the notes to financial statements that a material uncertainty exists that may cast significant doubt on the Sugar Pill Co's ability to continue as a going concern.

Note: assume that all the significant misstatements detected in the process of audit were corrected by Sugar Pill Co in financial statements.

**Required:**

**(d) Discuss the issue and describe the impact on the auditor's report.**

**(5 marks)**

**(20 marks)**

## Устный опрос

Тема 1. Audit framework and regulation / Концепция аудита и нормативное регулирование аудита

1. Discuss the reasons and mechanisms for the regulation of auditors
2. Discuss the objectives, relevance and importance of corporate governance
3. Discuss the provisions of international codes of corporate governance (such as OECD) that are most relevant to auditors
4. Discuss the need for auditors to communicate with those charged with governance
5. Discuss the factors to be taken into account when assessing the need for internal audit
- 6..What is an internal audit?
7. Name key differences between internal and external audit.
8. Name advantages of the non-statutory audit
9. Explain elements of the assurance engagement
10. What are the forms of the assurance engagement
11. What level of assurance is provided by a review engagement?
12. Which of the following assurance engagements provides the highest level of assurance?
  - External audit
  - Review engagement
13. Auditor rights and duties
14. Rules governing audits
15. Working procedures of development of the IAASB standards
16. Application of ISAs to small and medium-sized entities
17. Principles of the UK Corporate Governance Code

18. Role and function of audit committees
19. Disclosure in the public interest
20. Threats to independence and objectivity
21. Define Public interest entities
22. Define key audit partner
23. Agreeing the terms of the engagement
24. Distinction between internal and external audit
25. Outsourcing the internal audit function
26. Explain the situations where an auditor may disclose confidential information about a client.
27. Explain the advantages and disadvantages of an audit committee in a company
28. Explains how the internal audit department can assist the board of directors in fulfilling their obligations under the principles of good corporate governance.

## Тема 2. Planning and risk assessment / Планирование и оценка рисков

1. Define sufficiency and appropriateness as they relate to audit evidence.
2. State the financial statement assertions.
3. Explain the components of audit risk
4. Explain how auditors obtain an initial understanding of the entity and its environment
5. Identify and explain the need for and importance of planning an audit
6. Identify and describe the contents of the overall audit strategy and audit plan

7. Explain how the internal audit function helps an entity deal with the risk of fraud and error.
8. Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements.
9. Explain the steps the auditor must take when identifying and assessing the risks of material misstatement.
10. Define a 'significant risk' and list six factors which could indicate that a risk might be significant.
11. State what the auditor must document in relation to materiality.
12. Explain what is meant by 'performance materiality' and contrast it with materiality for the financial statements as a whole.
13. Revision of materiality
14. Explain and describe the relationship between the overall audit strategy and the audit plan.
15. Explain the difference between interim and final audit.
16. Describe the purpose of an interim audit, and the procedures likely to be adopted at this stage in the audit.
17. Explain the need for, and the importance of, audit documentation
18. State two advantages of standardised working papers.
19. Discuss the quality and quantity of audit evidence.
20. Discuss the relevance and reliability of audit evidence.
21. Defining substantive procedures and tests of control
22. Explaining financial statement assertions relevant to transactions or account balances at the period End
23. Explaining the factors that would influence the auditor's judgement regarding the sufficiency and reliability of audit evidence
24. Explaining the audit procedures used in collecting audit evidence.
25. State the financial statement assertions.

26. Explain the situations where an auditor may disclose confidential information about a client.

27. Explain the advantages and disadvantages of an audit committee in a company

28. Explains how the internal audit department can assist the board of directors in fulfilling their obligations under the principles of good corporate governance.

### Тема 3. Internal control/Внутренний контроль

1.State five controls relating to the ordering and granting of credit process.

2. State five control objectives relating to inventory.

3. List the five key aims of controls in the cash system.

4.State four examples of purchase documentation on which numerical sequence should be checked.

5. Give an example of a control which helps to ensure the completeness of non-current assets. Suggest how the auditor can test that the control is operating effectively.

6. Explain why an auditor needs to obtain an understanding of internal control relevant to the audit.

7. Describe and explain the five components of an internal control system

8. Discuss the limitations of internal control components.

9. Discuss the requirements and methods of how reporting significant deficiencies in internal control are provided to management and those charged with governance.

11.Discuss the difference between tests of control and substantive procedures.

11. Describe why smaller entities may have different control environments and describe the types of evidence likely to be available in smaller entities
12. Explaining the controls expected to be in place in a wages system
13. Explaining the controls expected to be in place in respect of cash
14. Explaining the controls expected to be in place in respect of purchases
15. Explaining the controls expected to be in place in respect of non-current assets audit.
16. Describing matters to consider in evaluating the control environment in different types of organisations.
17. Evidence available in relation to internal control in small companies
18. Communication of deficiencies in internal control.
19. Describe control objectives, control procedures, activities and tests of control in relation to: the sales system
20. Describe control objectives, control procedures, activities and tests of control in relation to: the purchases system
21. Describe control objectives, control procedures, activities and tests of control in relation to: the payroll system.
22. Describe control objectives, control procedures, activities and tests of control in relation to: the inventory system
23. Describe control objectives, control procedures, activities and tests of control in relation to the cash system
24. Describe control objectives, control procedures, activities and tests of control in relation to non-current assets
25. Describe control objectives, control procedures, activities and tests of control in relation to the revenue and capital.
26. Describe two advantages and two disadvantages of using narrative notes to document accounting and control systems.

27. describe two alternative methods of documenting accounting and control systems

28. Explain the factors the external auditor will consider when: determining whether the work of the internal audit function can be used for the audit

#### Тема 4. Audit evidence/Аудиторские доказательства

1. Define sufficiency and appropriateness as they relate to audit evidence.
2. State the financial statement assertions.
3. State four issues auditors should consider when carrying out analytical procedures on wages and salaries.
4. List three factors that should be considered when undertaking an analytical review on sales.
5. Give two examples of tests to verify prepayments.
6. Discuss the substantive procedures for obtaining audit evidence.
7. provide examples of how analytical procedures are used as substantive procedures.
8. Discuss the problems associated with the audit and review of accounting estimates.
9. Define audit sampling and explain the need for sampling.
10. discuss the differences between statistical and non-statistical sampling.
11. provide relevant examples of the application of the basic principles of statistical sampling and other selective testing procedures.
12. Explain the use of computer-assisted audit techniques in the context of an audit.
13. Discuss why auditors rely on the work of others.
14. Discuss the extent to which external auditors are able to rely on the work of experts, including the work of internal audit.
14. Types of audit tests.

16. Tests designed to discover errors
17. Tests designed to discover omissions
18. Analytical procedures and financial statement assertions
19. Investigating the results of analytical procedures
20. The nature of accounting estimates.
21. Substantive procedures in response to significant risks
22. Evidence in relation to non-current assets, and
  - (ii) Depreciation
  - (iii) Profit/loss on disposal
23. Audit procedures for tangible non-current assets
24. Audit procedures for intangible non-current assets
25. Inventory counting procedures in relation to year end and continuous inventory systems
  
26. Auditor's attendance at inventory counting.
27. Direct confirmation of inventory held by third parties
28. Describe the audit procedures to be applied in respect of specific financial statement assertions related to inventory

#### Тема 5. Review and reporting/ Аудиторское заключение

1. Discuss the use of analytical procedures at the review stage of the audit.
2. Explain the purpose of a subsequent events review.
3. Explain the responsibilities of auditors regarding subsequent events.
4. Discuss the procedures to be undertaken in performing a subsequent events review.
5. discuss the significance of the concept of going concern.
6. Explain the importance of and the need for going concern reviews.

7. Explain the respective responsibilities of auditors and management regarding going concern.
8. explain potential indicators that an entity is not a going concern.
9. Discuss the procedures to be applied in performing going concern reviews.
10. Discuss the disclosure requirements in relation to going concern issues.
11. Discuss the reporting implications of the findings of going concern reviews.
12. Explain the purpose of and procedure for obtaining written representations
13. Discuss the quality and reliability of written representations as audit evidence.
14. Discuss the circumstances where written representations are necessary
15. Discuss the importance of the overall review in ensuring that sufficient, appropriate evidence has been obtained.
16. Describe the procedures an auditor should perform in conducting their overall review of financial statements
17. Explain the significance of uncorrected misstatements
18. Evaluate the effect of dealing with uncorrected misstatements
19. describe the basic elements contained in the independent auditor's report.
20. Explain unmodified audit opinions in the auditor's report.
21. Explain modified audit opinions in the audit report.
22. Describe the format and content of emphasis of matter.
23. Describe the format and content of other matter paragraphs.
24. Discuss the requirements and methods of reporting significant deficiencies in internal control to management and those charged with governance.
25. Key audit matters.

Формой итогового контроля знаний по дисциплине «Бухгалтерский учет в организациях государственного сектора экономики» является экзамен.

Экзамен проводится на заключительном этапе изучения дисциплины.

### **Пример экзаменационного билета**

The National Haul Company provides transportation services. The company owns a. You are an audit senior of the company SmartAudit and you are currently conducting the audit of National Haul Company for the year ended December 31, 2017.

During the audit the following issues were brought to your attention.

#### **Property, plant and equipment**

PPE is mostly presented by a large number of different kinds of vehicles owned by the National Haul Company. During the financial period of 2017 National Haul Company made capital expenditures and repairs expenses. This appears to be significant to financial statements of the company.

#### **Inventories**

Inventories of National Haul Company are presented by fuel (95% of all inventories) and spare parts (5% of the inventories) and the account balance of inventories is also significant to financial statements of the company. To fuel its vehicles the company buys by wholesale gasoline from Oil Depo Ltd. To minimize storage costs the National Haul Company doesn't have its own facilities to store gasoline but instead company's vehicles drivers load the fuel tanks directly at Oil Depo Ltd facilities. Because of the large bulks of fuel bought a special storage facility for the needs of The National Haul Company is provided on the territory of Oil Depo Ltd.

**1. Which two of the following are benefits of reviewing capitalization of expenditures by examining for non-current assets additions?**

- A. It provides evidence for all assertions
- B. It insures that capitalization is consistent with the company's policy
- C. It insures that capital versus revenue distinction are correctly drawn
- D. It helps to understand weaknesses of National Haul company's control environment

**(2 marks)**

**2. The analysis of additions for non-current assets made during National Haul Company in 2017 are shown below.**

PPE	Types of costs	Expenses, rub.
Vehicle 1	Engine undershield installed which along with protection functions allows to substantially lower fuel consumption	33 000
Vehicle 2	Expenses on painting	40 000
Vehicle 3	Protection box against downfalls installed which prolongs useful life of the asset	11 000

**What is the impact on non-current assets in the statement of financial position of National Haul company?**

- E. Assets are overvalued by 84 000 rub.
- F. Assets are overvalued by 40 000 rub.
- G. Assets are undervalued by 40 000 rub.
- H. Assets are undervalued by 84 000 rub.

**(2 marks)**

**3.The auditor has been asked to consider additional audit work for depreciation expenses on examined vehicles. Which two of the following audit procedures are appropriate?**

A.Ensure that the charge for depreciation is based on revaluated amount by recalculating (in case of correct treatment of capital expenditures)

B. Compare the expenses on depreciation this year with projected depreciation for the following year

C. Ensure that the company used in calculations of the charge for depreciation prolonged useful life of vehicle 3

D. Ensure that the company used in calculations of the charge for depreciation prolonged useful life of all vehicles

**(2 marks)**

**4.In relation to inventories of National Haul Company which of the following audit procedures provides most reliable evidence regarding the completeness of inventories?**

E. Compare raw material turnover to the previous year and industry averages

F. Receive direct confirmation from regarding quantities and condition

G. Vouch the sample of inventories to suppliers invoices

H. Enquire management about the reasons of storing fuel at Oil Depo Ltd. Facilities

**(2 marks)**

**5. During the process of audit of inventories Oil Depo Ltd's integrity and objectivity turned to be doubtful according to auditor's point of view. What two of the following procedures are appropriate to receive reliable sufficient evidences regarding the existence of inventories?**

A. Inspecting contracts of National Haul company with Oil Depo Ltd for storage of fuel

- B. Attending Oil Depo Ltd's inventory count
- C. Obtaining auditor's report on the adequacy of Oil Depo Ltd's internal control
- D. Attending national Haul company's inventory count for spare parts

**(2 marks)**

You are an audit manager at SmartAudit, responsible for the audit of consolidated statements of Highway Co, public interest entity. SmartAudit considers providing bookkeeping and is already delivering expert services to BroadRoads Co - one the subsidiaries of Highway Co. The financial statements of BroadRoads Co is included into the consolidated statements of Highway Co. Net assets of BroadRoads Co. comprise slightly more than 50% of net assets of the group of companies Highway Co.

Since the establishment of Highway Co the company's CEO Mr Right is its owner who holds 51% of shares. He also was elected as the Chairman of Board of Directors based on the decision of all owners. The composition of members of Board of Directors was established 9 years and was not changed since that time. There are 7 members on Board: the Chairman, 3 investors, Chief Information Officer, Chief Operating Officer and Marketing Director. The policy of remuneration of members of the Board is determined by the Chairman. The external auditor is chosen by the sole decision of Mr Right who also communicates directly with SmartAudit on all the significant issues of audit.

It is also brought to your attention that Ms Konovalova just recently retired from CFO position of BroadRoads Co, was hired by SmartAudit and currently is considered to be loaned back on a same position.

Highway Co pays annually 2 mln.rub for audit for consolidated statements to SmartAudit. The revenues of SmartAudit last year were equaled to 14 mln.rub. but this year the company also charged 1 mln.rub. for providing expert services to BroadRoads Co.

**6. Regarding percentage of fees assess received by SmartAudit from Highway Co. choose the correct statement concerning threats to independence based on provisions ACCA's Code of Ethics and Conduct**

- E. The percentage of fees from the group of the companies is too high, safeguards required
- F. No safeguards required
- G. The threat is too high, no safeguards can be applied
- H. SmartAudit should resign from audit

**(2 marks)**

**7. SmartAudit and Highway Co are currently negotiating the increase of services provided to the client for the next year. What two safeguards from the following will be needed to reduce the self-interest threat (based on criteria of high percentage of fees)?**

- E. Reducing the dependency from the client
- F. External quality control reviews
- G. Reducing the price for audit of consolidated statements
- H. Providing delay of payments for audit services

**(2 marks)**

**8. Regarding to loaned personnel which of the following safeguards should be implemented in order to comply with ACCA's Code of Ethics and Conduct?**

- E. No safeguards can be applied
- F. Conducting an additional audit work performed by Ms Konovalova

G. Not including Ms Konovalova into audit team

H. Include into SmartAudit's policies a provision allowing loaning personnel to subsidiaries

(2 marks)

**9. Based on UK Corporate Governance Code choose 4 recommendations to bring in line corporate governance of Highway Co with the requirements of the Code**

I. Mr Right should diminish the share in company in order to stay as a Chairman of Board of Directors

J. The company needs clear division of the roles of Chief Executive Officer and Chairman of Board of Directors

K. The remuneration policy of all of members of Board of Directors should be delegated to Chief Operating Officer

L. No one individual on Board should determine its own remuneration

M. In the composition of Board of Directors the number of executive directors should be increased

N. In the composition of Board of Directors the number of independent non-executive directors should be increased

O. All the directors of the Board of Directors should be re-elected at regular intervals

P. Only the Chairman of Board of Directors should be re-elected at regular intervals

(2 marks)

**10. What of the following recommendations in relation to communication with external auditors is in line in accordance with UK Corporate Governance Code?**

E. The Board should establish an Audit Committee with as least three executive Directors

F. The Board should establish an Audit Committee with at least three independent non-executive Directors

G. The Board should establish an Audit Committee and appoint Mr Right as a chair of the Audit Committee

H. Mr Right should delegate all the communication process with external audit to Chief Financial Officer

**(2 marks)**

**11. What of the following recommendations in relation to executive directors' remuneration is in line in accordance with UK Corporate Governance Code?**

E. Executive directors' remuneration should be set exclusively by Board Chairman

F. Executive directors' remuneration should be set exclusively by Chief Executive Officer or Chief Financial Officer

G. Executive directors' remuneration should be set as a percentage of current years' profit before tax

H. Executive directors' remuneration should be set in such a way to promote long-term success of Highway Co

**(1 mark)**

**Section B – 2 questions are compulsory and MUST be attempted**

**Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.**

1. You are an audit manager of SmartAudit, the auditor of Clean Co. The company's year end is December 31, 2017. The following information relating to company's payroll system was brought to your attention as a result of interim audit of Clean Co.

Clean Co operates as a large facility management company. The company provides services to biggest supermarkets and malls of the country during all year round including weekends and holidays. The number of employees is equaled to 100 and there are also 20 administrative workers including HR officer and payroll officer. The payroll officer is also a cashier.

For the reason of high employee turnover the management of the company establishes for newly hired employees probation period for 3 months and for this period of time HR officer doesn't provide an employee with employment contract but instead orally informs payroll officer. After the probation period an employment agreement is signed. If the new joiners have children they fill the application request to provide them child tax credit for the purpose of monthly reduction of income tax. In the application form they also confirm that they are obliged to bring certificate of birth to payroll officer until the end of the current year.

During the daily shifts the cleaners are entitled to come to the opening of food court in the morning and they are working under supervision of manager.

The company operates night shifts as it is some of the clients preferences and the company is obliged to pay night rate which is 2 times more than daily rate. According to inner instructions cleaners inform manager about night preferences and manager decides who suits for night shifts best. In case of heavy workloads manager is allowed to take night shifts as well.

The manager fills the time-sheet once a week and provides it to payroll officer. For the new joiners during the probation period of 3 months the manager doesn't enters information about the working hours into the time-sheet but instead provides this information by direct call phone to a payroll officer.

Once the time-sheet received by payroll officer the information is manually loaded to computerized payroll system which automatically calculates the gross and net payments. This information is not checked by anyone. The payments are made by bank transfers twice a month to administrative workers after payroll officer authorizes payments. The cleaners at a certain time receive their payments in cash from managers twice a week. The company employs courier who gets the packets with payments from payroll officer and leaves these packets to managers.

Because the company is under the pressure of cutting costs of the owner of Clean Co the company announced a new policy of remuneration of administrative workers. The company cancelled all the monthly bonuses but instead announced benefits for using personnel assets (cars, laptops, smartphones) and this benefits are exempt from social insurance contributions and income taxes. The company's employees apply for benefits to Chief Accountant who determined the size of benefit in each case. The tax payments on wages this year were cut in Clean Co by 30%.

**Required:**

**(a) Identify and explain 5 key controls which the auditor may seek to place reliance on in relation to the payroll system of Clean Co. For each identified key control describe a test of control the auditor should perform to assess the operating effectiveness of control. Present your answer in table consisting of 2 columns headed Key control and Test of control.**

**(10 marks)**

**Required:**

**(b) Identify and explain FIVE DEFICIENCIES in Clean Co's payroll system and provide a recommendation to address each of these deficiencies. Present your answer in table consisting of 2 columns headed Control deficiency and Control recommendation respectively.**

**(10 marks)**

Clean Co recently started to participate in government tenders and under the pressure of cutting costs this year changed the policy of employment. New employees after the 3-month probation period independent contractor agreement instead of employment agreement. Under this type of agreement:

- tax costs on wages will be cut by 10%,
- employees cannot receive holidays of 28 days a year, child tax credits, payment for sick days
- the cleaners are paid for the actual result of work done but not for the time spent on work.

Chief Financial Officer expressing you fears about the possible requalification of independent contractor agreement into employment agreement by tax authorities with subsequent additional tax accrual and significant fines from labour inspection. Chief Financial Officer asked you about the responsibilities of management and auditors of not following labour and tax legislation Under ISA 250 Consideration of laws and regulation in an Audit of financial statements.

**Required:**

**(c) Explain responsibilities of management and auditors of not following labour and tax legislation under ISA 250 Consideration of laws and regulation in an Audit of financial statements.**

**(5 marks)**

**Required:**

**(d) Describe the substantive procedures the auditors should perform to confirm the year-end accrual for payroll liabilities.**

**(5 marks)**

**(30 marks)**

2. You are an auditor of Governmental Audit and are planning the audit of MedC for the year ending 31 December 2018. As part of your assignment you are obliged to determine audit risk at the planning stage of current year's audit.

MedC is a not-for-profit organization which provides cardiovascular surgeries for its patients. The hospital prepares annual financial reporting. MedC is financed by government but also provides commercial services for foreign patients as the clinic is well known abroad. Under the current law medical supplies for commercial services cannot be bought at the expense of governmental finances. Current year the management of the hospital decided instead of buying some of the medical equipment to rent it. In order to improve the services this year the clinic opened a café and grocery store for patients on the territory of clinic.

Most of the medicaments are bought in advance in bulk.

From the audit of previous years you also know that because of the delayed paperwork some personnel payments to doctors and nurses for the work performed in December 2018 are accounted for only at the end of January 2019.

By the requirement of government in current year the clinic has to switch to a new accounting software.

During the discussion with the management of MedC you also found that in current year chief accountant established a company that rented a coffee machine out to café of the clinic for a period of 4 months. After the facts were discovered the chief accountant was fired and a new chief accountant was hired after 3 months.

**(c) Explain why the audit risks associated with not-for-profit organizations may be different from other organizations.**

**(3 marks)**

**(d) Describe eight audit risks and explain the auditor's response to each risk in planning the audit of MedC.**

**(16 marks)**

Note: Please prepare a table with two columns headed Audit risk and Auditor's response respectively.

**(19 marks)**