

Resit Partial Exam Auditing & Assurance #3

Date:	14 May 2020
Start time:	15:00
Duration:	120 minutes
Open book:	Allowed are only the International Standards on Auditing and/or Handboek Regelgeving Accountants. Not allowed are textbooks and other study material. Do not copy text from this material. Use your own words!

Instructions:

- Document your response to the questions in a word document. Use the template!!
Name convention for this document:
FA#3-[your last name]- [date]
- Read the questions carefully!!
- When answering questions it is not allowed to copy paragraphs from the standards, the textbook or other study material used.
- Use your own words! If not the exam will not be passed.
- Put your full name in the header of the document!
- Put the following text in the footer of the document:
"Hereby, I declare that I have written the solution by myself, and that I did not use or copy from the textbook and other study material; I only used as a reference the HRA or the Standards."

At the end of this exam, upload the solution to Canvas.
If this does not work, you can e-mail the document to epma@uvt.nl

This document contains 3 pages (including this frontpage)

Partial Exam Financial Auditing #3 – vs. 2021

1 Audit of Internal Control over Financial Reporting (40 points)

- 1.1 Please explain to which type of companies the Sarbanes Oxley Act is applicable.
- 1.2 The Auditing Standards following the Sarbanes Oxley Act require the auditor to execute its procedures in an integrated way. Could you please describe why this is?
- 1.3 The Sarbanes Oxley Act prescribes requirements for management. Please indicate what management needs to perform according to the Act.
- 1.4 The Luxurious Group sells cosmetics, clothing and other luxurious related materials. It has 16 offices across the world and 67 own shops. Please describe the main considerations how management and the auditor decide on which shops and offices are to be tested.
- 1.5 As part of the ICFR assessment Management utilizes a third party consultant to carry out test procedures and evaluate its control framework. How would you evaluate as auditor the (i) competence and objectivity of the third party – list 3 items per item, and (ii) what would be your main area of concern.
- 1.6 Please argue whether you believe that a SOX audit is more or less efficient than an audit that is not subject to SOX requirements.

2 (Substantive) Analytical procedures (30 points)

In executing audit procedures (substantive) analytical procedures will be applied as part of the audit.

- 2.1 During what stage(s) of the audit will you use analytical procedures and what is the purpose of these procedures?
- 2.2 What information can be used to develop an expectation when performing an analytical procedure.
- 2.3 You are the auditor of the Luxurious Group with 67 shops across the world. You are utilizing a substantive analytical for the revenues and gross margin recorded per shop. Please provide 2 advantages and 2 disadvantages of substantive analytical procedures in this case.
- 2.4 You are the auditor of the Luxurious Group as mentioned before, which owns substantial amount of real estate. When auditing the tangible fixed assets and depreciation expenses you would like to apply management last year's numbers as benchmark for carrying out a substantive analytical. Please evaluate the use of last years information and apply the 4 different criteria for reliable information in your evaluation.
- 2.5 To what sources can client data be compared in an analytical procedure?

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3 Audit Sampling (30 points)

In executing audit procedures audit sampling will be applied in many cases.

- 3.1 Luxurious Group is a retail company with many different categories of inventory, each with its own characteristics and value. The Group has substantial inventory at year-end. The inventory can be divided into products that have a high cost price, making up approx. 80% of the population, and products that have a relatively low value.

You have been requested to test the net realizable value of the inventory at year-end by evaluating the inventory cost price to the sales price that was invoiced in the new year making use of sampling methods.

Please describe in this case the steps in the sampling application process that you would carry out in this case.

- 3.2 What is the difference between statistical and non-statistical sampling? In what situations would you use which method?
- 3.3 As auditor of Luxurious Group you have considered audit sampling to test the 'Marketing expenses'. This resulted in a sample size of 4,382 invoices. Considering that this most likely will result in more than 3 weeks work, you have been instructed by your manager to reduce the audit efforts and reconsider the sample size. Please indicate how you could reduce the sample size (considering the population).
- 3.4 The use of different sampling methods is also mentioned in ISA 240. Please explain how sampling can add audit evidence with regards to (i) misappropriation of assets, and (ii) financial reporting fraud and provide for each 2 examples.