

Data Analytics Software



Audit and Assurance Progress Test Question (applicable for exams in 2021)

Assume it is 12 January 2019. Your firm is the external auditor of Elephant Company Ltd (Elephant). You are assigned as audit senior to the audit of Elephant for the year ended 31 December 2018. Audit materiality for audit of Elephant has been assessed at £30,000.

Elephant is a digital marketing company operating in the UK. Elephant agrees fixed price contracts with its customers for the delivery of integrated traditional media and digital marketing services related to specific marketing projects. Each contract Elephant undertakes is typically short term up to three months. Contracts are only invoiced to customers once complete.

You have recently had a meeting with Bharat Hinduja, your audit manager, to plan the final audit visit. Bharat informs you of the following:

- Testing of controls carried out at the interim audit identified deficiencies in the effectiveness of authorisation controls in the accounts department. Tanita Potts an accounts clerk, is only authorised to post Sales Credits with a value not exceeding £5,000.
- The final audit should examine any low frequency transactions in excess of materiality recorded in sales during the year. Elephant records invoiced sales in two accounts, 51010 - Domestic Sales and 51020 Overseas Sales.
- A sales accrual of £300,000 was posted in December 2018 by Andrew Bloggs, deputy financial controller. Accrued income will be a key area of audit risk.

Requirements

1.1 Use the Explore module of the audit software to:

- (a) Identify whether Tanita Potts has posted any Sales Credits that exceed her authorisation limit. Provide the Transaction Id and underlying double entry for any unauthorised transactions. **(3 marks)**
- (b) Identify any low frequency transactions in excess of materiality in Elephant's Domestic Sales and Overseas Sales accounts. Provide the Transaction Id, amount and narrative description for each material transaction identified. **(3 marks)**

1.2 In relation to accrued income:

- (a) Use the Explore Module to identify the accounting entries for the 2018 sales accrual described by Bharat. Provide the Transaction Id, amount, account number and name. **(2 marks)**

- (b) Justify why Bharat has identified accrued income as a key area of audit risk for the audit of Elephant. Use the Explore module of the audit software to support your answer. **(4 marks)**

Total: 12 Marks

Progress test - Answers

1.1

(a)

Using the Tree Map for Income we can identify that TPotts posted 12 (or 14 depending on exact methodology - see explanation in Appendix below) sales credit transaction during the year. Only one of these, with the Transaction Id SCR001198, exceeded her authorisation limit. The double entry for this transaction was:

DR 51010 Domestic Sales	£21,920
DR 33010 Sales Tax Output Control Account	£4,384
CR 21010 Receivables Control Account	£(26,304)

(b)

Using the Heat Map, two infrequent transactions in excess of materiality can be identified in Domestic Sales and Overseas Sales as follows:

Transaction Id	Amount £	Narrative description
NOM062456	33,333	Adjust Q3 Sales
SRC006973	100,000	Overseas Receivable

1.2

(a)

Using the Stacked Bar Charts, the following details can be identified.

Transaction Id	Amount £	Account
SRC006975	300,000	23040 – Pre-Payments Control A/C
SRC006975	(300,000)	54800 – Other Income

(b)

The nature of Elephant's business model means that at the year-end there will be a significant amount of work performed under contracts that has not been invoiced.

The amount that should be accrued for each contract is related to the proportion of the marketing services provided under the contract at the year end.

Therefore, it is likely that management judgement will be necessary to estimate the amount that should be accrued.

The value of accrued income is ten times materiality.

Using the audit software to examine 54800 - Other Income, we can identify that the 2017 accrual reversed in 2018 was £170,294.

The 2018 sales accrual figure of £300,000 represents an increase of 76% over the prior year. This increase is considerably in excess of the increase in Elephant's income of 13.6%.

In addition, £300,000 is a very round sum which suggests that it is a broad estimate rather than the result of detailed calculations for a number of part complete contracts.

These factors create an increased risk that the value of accrued income may be material misstatement.

APPENDIX TO THE ANSWER: ELEPHANT

The following section explains the audit software screens used and the navigation methods **but is not itself part of the answer**. (Note: In the A&A exam, the audit software screens cannot be cut and pasted from the software into your answer).

1.1

(a)

Select Income from the Financial Statement view of the Explore module.

Statement of Profit or Loss	Opening	Closing	Difference	
Income	2,706,639	3,075,999	369,360 (↑ 14%)	<input checked="" type="checkbox"/>
Expense	2,326,438	2,471,987	145,549 (↑ 6%)	<input type="checkbox"/>
Other P&L	0	0	0 (0%)	<input type="checkbox"/>
Profit (Selected Accounts)	2,706,639	3,075,999	369,360 (↑ 12%)	

In the Tree Map, hover over each red bordered area to find TPOTTS and then, hover over each orange bordered area therein to identify the area relating to Sales Credits.



Click on the green area representing TPOTTS' Sales Credits area to show the transactions.

Profit and Loss Transactions

Transaction Id	Description	Debit	Credit	Account Codes	Effective Dates	User Ids	Document Types	Created Dates
SCR001150	55703 - To supply 6 x roller banners including artwork.	508	0	51010	18/01/2018	TPOTTS	SCR - Sales Credit	24/01/2018 11:28:03
SCR001156	54575 - Imedia banner re-size big hospitality creative	750	0	51010	13/02/2018	TPOTTS	SCR - Sales Credit	19/02/2018 11:50:17
SCR001157	55877 - To amend for currency conversion.	145	0	51020	15/02/2018	TPOTTS	SCR - Sales Credit	21/02/2018 19:58:32
SCR001158	55855 - To produce packshots as requested	109	0	51020	20/02/2018	TPOTTS	SCR - Sales Credit	26/02/2018 08:43:44
SCR001162	51247 - To amend for discount taken	347	0	51020	28/02/2018	TPOTTS	SCR - Sales Credit	06/03/2018 10:18:15
SCR001176	56804 - To add reflections to 10 x CB9 master images.	350	0	51010	30/06/2018	TPOTTS	SCR - Sales Credit	06/07/2018 08:44:08
SCR001183	56939 - VL3 DEMI Mockup CIC's	652	0	51020	31/07/2018	TPOTTS	SCR - Sales Credit	06/08/2018 11:39:58
SCR001189	56974 - Packshots Madonna	782	0	51020	30/08/2018	TPOTTS	SCR - Sales Credit	05/09/2018 19:35:53
SCR001198	57206 - To produce 2000 boxed kits consisting of	21,920	0	51010	29/09/2018	TPOTTS	SCR - Sales Credit	05/10/2018 13:24:47
SCR001213	57238 - PGP Product page evolution	2,950	0	51020	30/11/2018	TPOTTS	SCR - Sales Credit	06/12/2018 12:39:25
SCR001226	57321 - To provide store opening support including	1,660	0	51010	30/11/2018	TPOTTS	SCR - Sales Credit	06/12/2018 12:37:35
SCR001227	57389 - To supply 2 x window posters and deliver to store	120	0	51010	30/11/2018	TPOTTS	SCR - Sales Credit	06/12/2018 17:01:44

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Click on the Transaction Id of the only transaction exceeding the authorisation limit of £5,000 to show details of underlying entries.

Note: The nature of the audit software is such that there is often more than one way in which information can be identified. If you go straight to the Tree Map from Financial Statement view without selecting Income you can identify 14 Sales Credit transactions posted by TPOTTS. Nonetheless there is still only one transaction exceeding £5,000.

Transaction 'SCR001198'

Transaction Id	Account Code	Amount	Effective Date	Document Type	Journal Description	User Id	Line Description	Entered Date
SCR001198	51010	21,920	29/09/2018	SCR - Sales Credit	57206 - To produce 2000 boxed kits consisting of	TPOTTS		05/10/2018
SCR001198	33010	4,384	29/09/2018	SCR - Sales Credit	- SCR001198 - Posting Run Control	TPOTTS		05/10/2018
SCR001198	21010	-26,304	29/09/2018	SCR - Sales Credit	- SCR001198 - Posting Run Control	TPOTTS		05/10/2018

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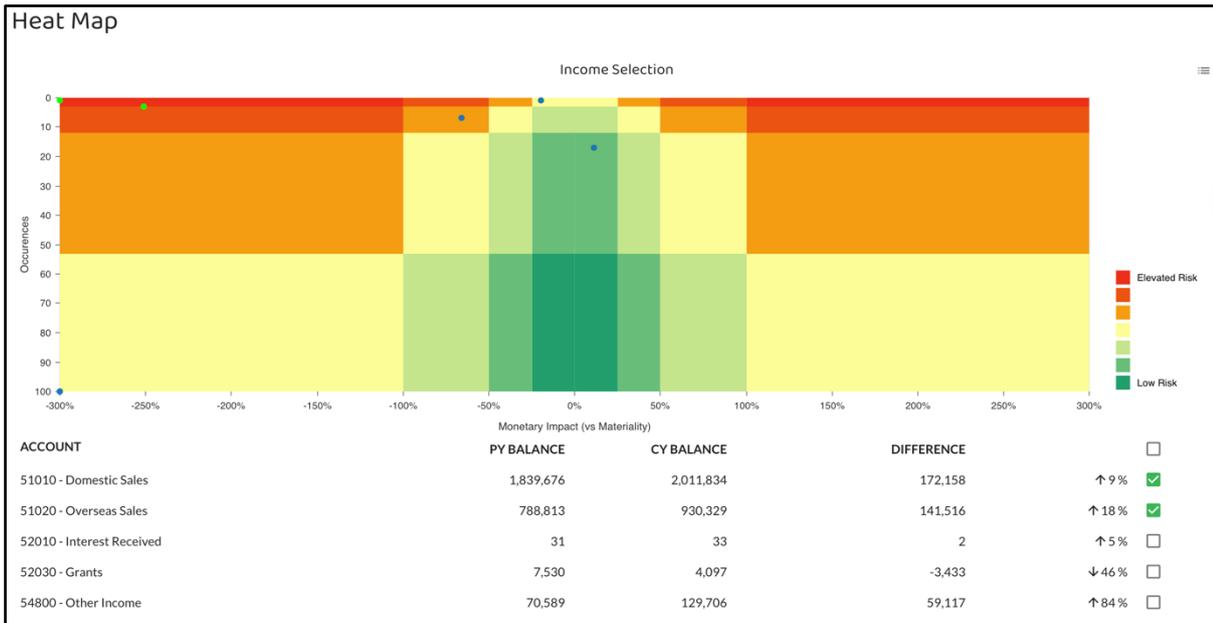
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(b)

In the Account View of the Explore module, select the two accounts specified in the question.

Asset	1.84M	Liability	876K	Equity	360K	
	(↑ 47.9%)		(↓ 0.9%)		(↓ 1903.3%)	
Income						
	ACCOUNT	PY BALANCE	CY BALANCE	DIFFERENCE		
⊕	51010 - Domestic Sales	1,839,676	2,011,834	172,158	↑ 9% ✓	
⊕	51020 - Overseas Sales	788,813	930,329	141,516	↑ 18% ✓	
⊕	52010 - Interest Received		31	33	2	↑ 5% □
⊕	52030 - Grants	7,530	4,097	-3,433	↓ 46% □	
⊕	54800 - Other Income	70,589	129,706	59,117	↑ 84% □	

In the Heat Map, select the highest tier of elevated risk to highlight infrequent transactions that exceed materiality.



To view these transactions click on

Transaction Id	Description	Debit	Credit	Account Codes	Effective Dates	User Ids	Document Types	Created Dates
NOM061348	Correct Q1 sales	15,000	15,000	990, 51010	31/03/2018	FWRIGHT	NOM - Nominal Journal	11/05/2018 11:32:48
NOM062034	Correct Q2 sales	27,000	27,000	990, 51010	30/06/2018	FWRIGHT	NOM - Nominal Journal	10/08/2018 14:38:12
NOM062456	Adjust Q3 sales	33,333	33,333	990, 51010	30/09/2018	FWRIGHT	NOM - Nominal Journal	16/11/2018 16:00:04
SRC006973	Overseas receivable	100,000	100,000	21020, 51020	01/12/2018	FWRIGHT	SRC - Sales Receipt	07/12/2018 15:18:32

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1.2

(a)

Select income in Explore module. Financial Statement view shown below, but Account View just as good.

Statement of Profit or Loss

Statement of Profit or Loss	Opening	Closing	Difference	
Income	2,706,639	3,075,999	369,360 (↑ 14%)	<input checked="" type="checkbox"/>
Expense	2,326,438	2,471,987	145,549 (↑ 6%)	<input type="checkbox"/>
Other P&L	0	0	0 (0%)	<input type="checkbox"/>
Profit (Selected Accounts)	2,706,639	3,075,999	369,360 (↑ 12%)	

Using the Stacked Bar Charts set the Primary Variable to 'Effective Period' and Secondary Variable to 'Users'.



Click on green segment in December related to ABLOGGS to show transactions. Sales accrual is last transaction on second page.

Profit and Loss Transactions

Transaction Id	Description	Debit	Credit	Account Codes	Effective Dates	User Ids	Document Types	Created Dates
SIN018312	56156 - To upload digital files to e-packshop as	0	360	51020	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 17:55:11
SIN018313	55864 - Updating and enabling Gate One aInsights/E area	0	875	51010	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 07:43:07
SIN018314	56026 - Always video and various materials (POS) for 'I	0	7,800	51010	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 16:36:01
SIN018315	55361 - Update Bosch brochure as briefed. Includes	0	1,600	51020	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 19:16:33
SIN018317	55953 - Update to allergy advice subsequent addition of	0	160	51010	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 19:13:58
SIN018345	56135 - Retrieve artwork print 500 and deliver to Kerrie	0	950	51010	31/12/2018	ABLOGGS	SIN - Sales Invoice	06/01/2019 18:38:24
SRC006975	Sales accrued reverse in January 2019	0	300,000	54800	18/12/2018	ABLOGGS	SIN - Sales Invoice	24/12/2018 12:55:08

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Click on the Transaction Id of transaction SCR006975 show details of underlying entries.

Transaction 'SRC006975'

Transaction Id	Account Code	Amount	Effective Date	Document Type	Journal Description	User Id	Line Description	Entered Date
SRC006975	23040	300,000	18/12/2018	SIN - Sales Invoice	Sales invoice	ABLOGGS		24/12/2018
SRC006975	54800	-300,000	18/12/2018	SIN - Sales Invoice	Sales accrued reverse in January 2019	ABLOGGS		24/12/2018

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CANCEL

Note: In this instance, due to the size of the transaction and limited number of transactions related to income in excess of materiality, it would probably have been equally quick to have used the Heat Map for Income to find this item. However, this may not be the case for other questions. The question stated that the sales accrual was posted in **December 2018** by **ABloggs**. Therefore, the Stacked Bar Charts was the best way to use these two pieces of information to locate this transaction.

(b)

Select 54800 – Other Income in Account View in the Explore Module.

Income							
	ACCOUNT	PY BALANCE	CY BALANCE	DIFFERENCE			
	51010 - Domestic Sales	1,839,676	2,011,834	172,158	↑ 9 %		
	51020 - Overseas Sales	788,813	930,329	141,516	↑ 18 %		
	52010 - Interest Received	31	33	2	↑ 5 %		
	52030 - Grants	7,530	4,097	-3,433	↓ 46 %		
	54800 - Other Income	70,589	129,706	59,117	↑ 84 %		
TOTAL SELECTED		70,589	129,706	59,117	↑ 84 %		

To view the transactions in the account click on

Income Transactions								
Transaction Id	Description	Debit	Credit	Account Codes	Effective Dates	User Ids	Document Types	Created Dates
SRC006974	Sales invoice	170,294	0	54800	17/12/2018	TPOTTS	SIN - Sales Invoice	23/09/2018 10:10:10
SRC006975	Sales accrued reverse in January 2019	0	300,000	54800	18/12/2018	ABLOGGS	SIN - Sales Invoice	24/12/2018 12:55:08

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Clicking on unknown transaction Id SRC006974 shows the underlying entries and reveals it as the sales accrual for 2017.

The percentage increase in Income (for comparison to the change in the sales accrual) is shown in the Audit Software in a number of places such as the headings in Account View shown below.

	Asset	1.84M (↑ 47.9%)	Liability	876K (↓ 0.9%)	Equity	360K (↓ 1903.3%)	Income	3.08M (↑ 13.6%)
Income								