

Pear International Co (Pear) is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website.

The company's year end is 30 September 2012. You are an audit supervisor of Apple & Co and are currently reviewing documentation of Pear's internal control in preparation for the interim audit.

Pear's website allows individuals to order goods directly, and full payment is taken in advance. Currently the website is not integrated into the inventory system and inventory levels are not checked at the time when orders are placed.

Goods are despatched via local couriers; however, they do not always record customer signatures as proof that the customer has received the goods. Over the past 12 months there have been customer complaints about the delay between sales orders and receipt of goods.

Pear has investigated these and found that, in each case, the sales order had been entered into the sales system correctly but was not forwarded to the despatch department for fulfilling.

Pear's retail customers undergo credit checks prior to being accepted and credit limits are set accordingly by sales ledger clerks. These customers place their orders through one of the sales team, who decides on sales discount levels.

Raw materials used in the manufacturing process are purchased from a wide range of suppliers. As a result of staff changes in the purchase ledger department, supplier statement reconciliations are no longer performed. Additionally, changes to supplier details in the purchase ledger master file can be undertaken by purchase ledger clerks as well as supervisors.

In the past six months Pear has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement.

Purchase requisitions for all new equipment have been authorised by production supervisors and little has been done to reduce the surplus of old equipment.

Pear's finance director has expressed an interest in Apple & Co performing other review engagements in addition to the external audit; however, he is unsure how much assurance would be gained via these engagements and how this differs to the assurance provided by an external audit.

Required:

Identify and explain the level of assurance provided by an external audit and other review engagements. (3 marks)

Examiners Report

Part (c) for 3 marks required an identification and explanation of the levels of assurance provided by external audit and other review engagements. This question was on the whole answered well.

Many candidates produced clear and concise answers which addressed the levels of assurance for each of the types of engagements. A minority of candidates just referred to positive and negative assurance without linking them back to the two types of engagements.