

4. Accounts Payable Accrual—Montgomery & Ross assigned a senior with experience in the retail area to audit accounts payable. Although Grande had poor internal control, Montgomery & Ross selected a sample of 50 for confirmation of the several thousand vendors who did business with Grande. Twenty-seven responses were received, and 21 were reconciled to Grande's records. These tests indicated an unrecorded liability of approximately \$290,000 when projected to the population of accounts payable. However, the investigation disclosed that Grande's president made telephone calls to some suppliers who had received confirmation requests from Montgomery & Ross and told them how to respond to the request.

Montgomery & Ross also performed a purchases cutoff test by vouching accounts payable invoices received for nine weeks after year-end. The purpose of this test was to identify invoices received after year-end that should have been recorded in accounts payable. Thirty percent of the sample (\$160,000) was found to relate to the prior year, indicating a potential unrecorded liability of approximately \$500,000. The audit firm and Grande eventually agreed on an adjustment to increase accounts payable by \$260,000.

Required Identify deficiencies in the sufficiency and appropriateness of the evidence gathered in the audit of accounts payable of Grande Stores.

ACL PROBLEM



7-39 (Objective 7-4) This problem requires the use of ACL software, which is included in the CD attached to the text. Information about installing and using ACL and solving this problem can be found in Appendix, pages 830–834. You should read all of the reference material preceding instructions about “Quick Sort” before locating the appropriate command to answer questions a. through f. For this problem, use the file labeled “Payroll” in the “Payroll_Analysis” subfolder under tables in Sample_Project. The suggested command or other source of information needed to solve the problem requirement is included at the end of each question.

Required

- Determine the number of payroll transactions in the file. (Read the bottom of the Payroll file screen.)
- Determine the largest and smallest payroll transaction (gross pay) for the month of September. (Quick Sort)
- Determine gross pay for September. (Total)
- Determine and print gross pay by department. (Summarize)
- Recalculate net pay for each payroll transaction for September and compare it to the amount included in the file. (Filter)
- Determine if there are any gaps or duplicates in the check (cheque) numbers. If there are gaps or duplicates, what is your concern? (Gaps and Duplicates)

RESEARCH PROBLEM 7-1: USE OF AUDIT SOFTWARE FOR FRAUD DETECTION AND CONTINUOUS AUDITING

The use of audit software has increased dramatically in recent years. Software is now used to fulfill administrative functions in the audit environment, document audit work, and conduct data analysis. This problem requires students to visit the ACL Web site (www.acl.com) to learn how auditors use ACL to address issues of fraud detection and continuous auditing.

Required

- Read about ACL's solution for fraud detection. What are some of the benefits of ACL for fraud detection?
- What is continuous monitoring? How might a company use ACL to comply with requirements related to internal control over financial reporting?