



Audit Practice Module 12 June 2009

There are Six questions and six pages in this examination paper.

Instructions to Candidates:

1. Answer five questions in total
2. All three questions in Section A and only two questions from Section B.
3. All questions carry equal marks.
4. Include all workings with your answer.

Candidates are reminded of the importance of the overall presentation of their answers.

Time Allowed: Three Hours.

Section A - Question 1.

Provide brief answers (not more than 100 words) to each of the following short form questions. Your answers should refer to relevant International Standards on Auditing (UK and Ireland) and company legislation where applicable.

Part A.

International Standard on Auditing (UK and Ireland) 250 deals with the Auditor's consideration of laws and regulations in an audit of financial statements. Set out the audit procedures that this standard requires where non-compliance is discovered during the course of an audit assignment.

[5 Marks]

Part B.

Set out how you as an auditor of a limited company incorporated in the Republic of Ireland would deal with a situation where a company to which you were auditor failed to maintain proper books of account

[5 Marks]

Part C

You are auditor to Spark Limited. During the course of the audit of the financial statements for the year ended 31 December 2008 you ascertain that there is an addition to buildings of €250,000. The building is classified as leasehold improvements in fixed assets as the company does not own the site on which the building is built. The site is owned by a director of the company and no written lease agreement is in existence in respect of the lease of the site to Spark Limited by the director.

Requirement:

Prepare a file note setting out the audit and company law issues arising and how you would propose to deal with same.

[5 Marks]

Part D.

International Standard on Auditing (UK and Ireland) 550 – Related Parties, establishes standards and provides guidance on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties.

Requirement:

Set out the audit procedures that the above standard requires an auditor to undertake to determine the completeness of the information disclosed in the financial statements in respect of transactions with related parties.

[5 Marks]

Total Marks 20

Question 2

Twigs Limited operates a property development and construction business in Navan, Co. Meath. You are the audit senior for the audit of the financial statements of Twigs Limited for the year ended 30 September 2009. At a recent planning meeting with the management of the company, you established the following information about the company:

1. Management expect that the company will show a loss of €250,000 in the year ending on 30 September 2009;
2. The company has ceased building any further residential units;
3. The company built forty apartments in Ballsbridge, Dublin 4 in 2008 at a cost of €18 million. This apartment complex was completed in June 2008 and twenty apartments were sold for € 600,000 each but the remaining twenty completed apartments remain unsold due to the recession in the economy;
4. The company owns a substantial land bank consisting of twenty acres on the outskirts of Navan. This land was purchased in 2006 at a cost (inclusive of stamp duty) of €14,564,123. The land is zoned residential in the Meath County development plan. This land is carried at cost in stocks on the company's balance sheet.
5. The company invested €500,000 in Irish bank shares in 2006. These shares are carried in the company's financial statements at cost.
6. The company has no bank borrowings and has cash reserves of €1,000,000. The management believe that these funds combined with a cost reduction scheme they have implemented will allow the company to continue to trade and meet its obligations over the next two years.

Required:

1. In relation to Twigs Limited, set out an extract from the audit plan of the company showing the significant audit risk areas that you have identified based only on the information provided.
[12 Marks]
2. Prepare an extract from the audit plan showing the proposed audit response to the risks identified in (1) above.
[8 Marks]

Total Marks 20

Question 3

You are currently undertaking the audit of High Class Clothing Limited for the year ended 31 December 2008. The company is a fashion retailer that sells high quality men's clothing. Current trading conditions are difficult. The company has one retail shop in Dublin. You have ascertained the following information about the company:

	Sales for 2008	Gross margin range	Stocks as at 31 December 2008
Men's Suits	€1,234,567	10% to 25%	€125,213
Men's Shirts	€ 201,546	0% to 30%	€116,213
Designer Jeans	€ 97,452	-20% to +50%	€ 98,564
Men's shoes	€ 75,654	20%	€ 25,006
Other clothing	€ 127,231	-5% to 15%	€ 89,546

All figures stated are net of value added tax.

Your colleague, John attended the company's stock count on the 31 December 2008 and he has provided you with the work papers where he has documented the audit work he did during the attendance at the annual stock count.

Required:

1. Set out the audit work you would have expected John to undertake during his attendance at the year-end stock count.
[6 Marks]
2. Describe how you would use the work done by your colleague in designing year-end substantive audit procedures to verify the year-end stock figures.
[6 Marks]
3. Based only on the information provided and using analytical procedures, write a short assessment on your perception of the audit risk arising in the audit of stocks as at the 31 December 2008 and cost of sales for the year then ended.
[4 Marks]
4. Set out a programme of substantive audit tests that you would undertake as part of the audit of the valuation of the above stock figures.
[4 Marks]

Total Marks 20

Question 4

You are an auditor with four unrelated audit clients A Ltd, B Ltd, C Ltd and D Ltd. The audit work revealed the following situations:

Company A Ltd.

At 31 December 2008, A Ltd, a property development company, owned a land bank which was included on the company's balance sheet at a cost of €5 million. A recent professional valuation of the land valued the land bank at €1.5million on 31 December 2008. The directors of the company have decided not to recognise the impairment of the land bank in the financial statements for the year ended 31 December 2008 on the basis that when the economy recovers, the value of the land bank will also recover. You are satisfied the land bank is impaired in line with the professional valuation obtained.

Company B Ltd

C Ltd is indebted to B Ltd for €160,000 at 31 December 2008. C Ltd is controlled by Joe Duffy who is also a director of B Ltd. The relevant assets of B Ltd as defined by the Companies Act 1990 at 31 December 2008 were stated at €500,899. The financial statements for the year ended 31 December 2008 disclose the loan receivable from C Ltd in "other debtors". The directors have refused to disclose any other information in relation to the loan in the company's financial statements.

Company C Ltd

C Ltd appointed your firm as auditor on the 15 January 2009. The company's financial year-end is 31 December 2008 and consequently you were unable to attend the year-end stock count. There are no other satisfactory audit procedures you can undertake to establish the existence and accuracy of stocks as at 31 December 2008. The company's stocks are material and detailed stock records are not maintained.

Company D Ltd.

D Ltd is financed by the provision of a finance facility of €500,000 by the principal shareholder. Should the finance facility be withdrawn by the shareholder, it is likely that the company would not be able to continue to trade. The financial statements have disclosed the following matters in a note to the financial statements:

1. That the company is dependent on the provision of a finance facility of €500,000 from a shareholder of the company;
2. That the shareholder has confirmed that it is his intention to continue to provide this facility in the future and that based on this assurance the directors have prepared the financial statements on a going concern basis;
3. The note indicates that if this facility was withdrawn, the application of the going concern basis may not be appropriate.

You are satisfied that the disclosure provided in relation to this matter is adequate and gives a true and fair view.

Required:

Draft the appropriate qualification paragraphs (if any) / emphasis of matter paragraph (if any) that you feel would be appropriate to be included in the audit reports of each of the above companies for the year ended 31 December 2008.

[20 Marks]

Question 5

1. Explain the purpose of a letter of representation. **[2 Marks]**
2. Explain the impact on your audit work if management of the audit client refuse to provide a written representation in respect of an audit matter that you consider necessary for the purpose of your audit. **[4 Marks]**
3. In respect of a statutory audit of a company, outline the responsibility of the auditor in respect of events occurring between the financial period end and the date of the audit report and facts discovered after the date of the auditor's report. **[8 Marks]**
4. Outline four audit procedures that the auditor would undertake to fulfil his responsibility as outlined in your answer to (3) above. **[6 Marks]**

Total Marks 20

Question 6

In respect of International Standards on Auditing (UK and Ireland) 500 - Audit Evidence, you are required to:

1. Set out the procedures that International Standards on Auditing (UK and Ireland) 500 identifies for gathering audit evidence and illustrate the application of these procedures by way of examples. **[8 Marks]**
2. Management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of financial statements and related disclosures. Outline how the International Standards on Auditing (UK and Ireland) 500 envisages that these assertions can be used in obtaining audit evidence **[4 Marks]**
3. Indicate what factors you would take into account in reaching a conclusion on the reliability of audit evidence gathered during the course of an audit assignment. **[4 Marks]**
4. Discuss the matters to be taken into account in considering the sufficiency of audit evidence that might be collected in relation to the trade debtors of a company. **[4 Marks]**