



Institute of Incorporated Public Accountants

Audit Practice

26th. May 2015

2pm – 5pm

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

Instructions to Candidates:

- **Answer five questions in total**
- **All three questions in Section A and only two questions from Section B should be attempted.**
- **All questions carry equal marks.**
- **Include all workings with your answer.**

Candidates are reminded of the importance of the overall presentation of their answers. Where appropriate, reference to the audit standards, ethics and company law should be clearly made.

Time allowed 3 hours

Section A (All three questions in this section to be attempted)

Question 1

Part A

Explain the context in which an auditor would add an emphasis of matter paragraph in his auditor's report to the members of a company.

(4 marks)

Part B

You are auditor of Gems Limited, a company engaged in the manufacture of jewellery. You intend to retain the expert services of an independent firm of professional valuers of precious metals to assist you with the audit of the closing stocks of the company. Set out the general principles you would follow in using the work of an expert on this audit assignment

(4 marks)

Part C

Where an auditor of a company discovers non-compliance with laws and regulations during his audit review of the company's activities, set out the audit and reporting procedures that should be undertaken in response to these findings.

(4 marks)

Part D

Outline and discuss the difference between an overall audit strategy and an audit plan.

(4 marks)

Part E

Cutting Time (a chain of hairdressers) operates solely on cash transactions. They do not take payment by credit or debit cards. Every second day one of the staff goes to the bank and lodges the cash. Recommend four elements of an anti-money laundering programme that Cutting Time should have in place.

(4 marks)

Total Marks 20

Question 2

You are an audit manager in Brown and Co and have been asked to advise the audit partner on issues that have arisen in three different audits that are in progress.

a) Chocohols Limited.

During the year the internal auditor at Chocohols Ltd discovered several errors in the inventory records. He has been quoted as saying: "I think that someone is taking chocolate from the warehouse. A stocktake is performed every four months and about 150 boxes of various types of chocolate are disappearing from the warehouse every month. It is never the same type of chocolate always different bars. I think we need to investigate this and quantify the loss."

Explain the relevance of forensic accounting to the statement made by the internal auditor. **(5 marks)**

b) Blue Bikes Limited

You are an audit manager at Browne & Co, a firm of registered auditors. One of your clients is Blue Bikes Ltd, a bicycle manufacturing company with a year end at 30 November 2015. In the past year, Browne & Co has had staff surpluses. Blue Bikes has approached the firm to request a temporary secondment of one or two qualified accountants (one audit senior or audit manager) for up to four months to help out with clearing a backlog of work in their accounts department. After the secondment, the staff would return to the firm.

Identify and explain any practical and ethical implications for Browne and Co of agreeing to this. **(5 marks)**

c) High Energy Ltd

High Energy Ltd is a company involved in electric power generation by using the tides in the sea. It owns several coastal generating stations offshore which have an estimated useful life of 15 years. High Energy intends to close down and remove the stations at the end of their useful life. The decommitment and removal costs will be huge as there is a commitment to the Government to minimise the damage to the environment and address any sea pollution (including threats to marine life). The estimated costs are €58 million per station and they maintain a provision for this in their financial statements.

Discuss what you need to consider as an auditor and the audit evidence you would require in respect of the shut down and removal of the stations.

(10 marks)
Total Marks 20

Question 3

You are a manager in Burke and Co, a firm of accountants, with specific responsibility for training and guiding new audit recruits in the firm. Tom Jones one of the new audit juniors who joined in September 2014 would like your help on some specific audit matters:

Part A

One of his clients Rusty Co, a manufacturing company that makes furniture, outsources their payroll function. This is material to the accounts and Tom is wondering how this impacts on the audit plan?

(5 marks)

Part B

Rusty Co are tendering for an important contract to supply Brown Thomas. You are aware that Brown Thomas is also an audit client of our firm and that the finance director of Rusty Co has asked for our help with the tender. Are there any matters we need to consider in order to decide if we are in a position to help?

(5 marks)

Part C

Rusty Co is facing a legal claim from a former employee for €75,000. Tom feels this should be a provision in the accounts but the Finance Director of Rusty Co says there is no need as the ex employee is only doing it to annoy him. He is wondering if this will impact on the audit report?

(5 marks)

Part D

During the year Rusty Co bought several parcels of land (a total of 20 hectares) located in the industrial estate attached to the shipping port where Rusty Co has its factory. They plan to build warehouses on this land in order to aid their distribution in the future and possibly to start exporting to mainland Europe. The land is currently rented out as they need to come up with a long term plan to raise the money for the building. The land is accounted for as an investment property with a market value of €10 million even though they only paid €7 million for it. Can we accept this value?

(5 marks)

Total Marks 20

Section B

Question 4

You are an audit manager in the Dublin Office of GYT, an international firm of Accountants that offer audit and tax services to their clients. One of your responsibilities is reviewing ethical matters that arise with audit clients. You have been invited by a new client, White Seat Co, to submit an audit proposal. White seat Co was formed two years ago and has grown rapidly. This is the first year an audit is required. In previous years a friend of one of the Directors reviewed the accounts and provided assurance he was happy with them. The company specialises in the recruitment of computer programmers and some of its start-up funding came from angel investors. White Seat Co use the SAGE accounting package and Mary Smith (a qualified bookkeeper) maintains this and enters all transactions into the system. She is fairly confident as to how to use the package as she attended training from Pegasus, a local trainer in the use of SAGE. The company's financial year end is 31 January 2015. Sally Guru, the main founder of White Seat, has said the following:

"We are a young dynamic driven company that plan to make Ireland the hot spot for technology graduates. We will compete globally with the likes of Google and Facebook. We need an accounting firm that can work with us, grow with us and be competitive. We are tech savvy and cost conscious and will not be robbed by large audit fees that do not add value as we need to spend every spare cent of cash on hiring the best programmers we can find. I would like to pay a base fee for the audit and then an additional 1% of all sales growth achieved over the next 12 months. To be honest, we are only having an audit because it is required by law so I want minimal disruption, the auditors should be in and out within two weeks and the audit signed off within a month".

Required:

- a) Outline and describe the specific matters to be included in the audit proposal other than the audit fee. **(10 marks)**
- b) Assuming that GYT are appointed as auditors outline and discuss and issues that need to be considered by GYT in determining their fee and any other ethical matters that need to be considered. **(10 marks)**

Total Marks 20

Question 5

You are currently undertaking the audit of Smart Clothing Limited for the year ended 31 December 2014. The company is a fashion retailer that sells high end men’s clothing. It has retail shops in Dublin (two), Cork, Limerick Galway and Belfast. You have ascertained the following information about the company:

Shop.	Sales for 2014	Stocks as at 31/12/14
Dublin Shop 1	€1,089,780	€165.896
Dublin Shop 2	€1,005,989	€103.564
Cork	€685,956	€56,960
Limerick	€456,892	€205,650
Galway	€456,893	€59,896
Belfast	Stg£289,574	Stg£98,632

All figures stated are net of value added tax.

The company earns an average margin of 40% on sales in both the Republic of Ireland and Northern Ireland. To reduce the exposure to the effects of exchange rate fluctuations the company sources stock for the Belfast store from UK based suppliers and pays for this stock in sterling pounds. Stock for the Republic of Ireland shops is sourced in Europe and paid for in Euro (€s).

Required:

1. 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 2014.
(4 marks)
2. Set out a programme of substantive audit tests that you would undertake as part of the audit of the above stock figures and any necessary stock related provisions
(10 marks)
3. Indicate how the inclusion of stock purchased and paid for in two different currencies would impact on your audit work
(3 marks)
4. Indicate how your work to establish the company’s compliance with law and regulation would be affected by having a retail store in Northern Ireland.
(3 marks)

Total Marks 20

Question 6

The audit of a small owner managed company poses unique challenges for the auditor. These challenges are likely to result in the adoption of different approaches by auditors to the audit of a small company from that adopted to the audit of a well-managed large company with a good system of internal control.

Required:

1. Discuss the unique challenges the auditor of a small company is likely to face and suggest appropriate audit procedures to respond to these challenges.
(8 marks)
2. Set out the audit evidence you would seek to ascertain to determine the completeness of the recording of sales in a small owner managed company.
(5 marks)
3. In the context of a small owner managed firm, set out the ethical issues arising where the audit firm assists the company with the preparation of the financial statements and state how the auditor should respond to those issues. Your answer should refer to any special provisions available in the "Ethical Standards for Auditors" for auditors of smaller entities.
(7 Marks)

Total Marks 20

End of paper