



Institute of Incorporated Public Accountants

Final Admitting Exam – Module 12

Audit Practice

27th. August 2013

2pm – 5pm

There are six questions and eleven 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 should be attempted.**
- 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 3 hours

Section A.

All three questions in this section should be attempted.

Question 1

Answer all five short form questions. Answers should be brief and as a general rule should not exceed 100 words in length.

Part A

When preparing the financial statements, management has specific responsibilities regarding the going concern of an organisation. The responsibilities include making a judgment about inherently uncertain future outcomes. Briefly describe four matters that would influence that judgment.

(4 marks)

Part B

What is the function of an Audit Committee? Give two examples of how the work of an Audit Committee can improve the effectiveness of the external auditor's work.

(4 marks)

Part C

Explain the difference between an audit strategy and an audit plan by defining them and describing their role in the audit of company financial statements.

(4 marks)

Part D

Sample selection can take many forms in an audit. Describe two different methods of sample selection that might be used during an audit.

(4 marks)

Part E

Explain what is meant by the term “computer assisted audit techniques” (CAAT). Give two examples of where it would be appropriate to use such techniques in the audit of the financial statements of Save Your Money Limited, a company operating a chain of Euro shops in the Republic of Ireland.

(4 marks)

Total 20 marks

Question 2

Fort Stillorgan is a leisure park that is targeted at families with children. The entrance fee for children is €10 and they can avail of a range of outdoor activities in the park such as trampolines, slides and sandpits, a carousel and a park railway. For a supplement of €5 they get unlimited use of the water attractions. Parents pay €3 and get a complementary voucher for hot or cold refreshments to a same value. The park opens at weekends throughout the year and every day in June, July and August. You can stay for an unlimited time on the day.

The number of customers depends on the weather as everything is outdoors but customer numbers are growing at 10% per year. Tickets are bought outside the park at the cash desk and are only valid for the day of issue. Cash is used for payment. Credit cards are not accepted. Inside the park chips, pizzas, drinks and ice cream can all be purchased. Between the ticket office and the sales outlets in the park there are 20 cash registers in use. The park employs a team of 40 cashiers.

Each entry ticket has a unique bar code and number. A computer system generates the tickets and keeps a record of ticket numbers used per day. At 1pm and 6pm a cash security firm transfers the cash to the accounts office and two accounts clerks count it and lodge it to the banks night safe. The cash is matched to the sales information recorded and then entered manually into the cash book and general ledger.

You are the audit manager on the audit for the year ended 31 December 2012.

Requirements are set out on next page

Required:

1. Based only on the above information, outline four audit risks that you expect to see in the draft audit strategy memorandum for cash driven business like Fort Stillorgan.

(8 marks)

2. Draft a memo to Paddy Wilson, the audit senior, instructing him about three substantive procedures to be undertaken (including levels of test) to provide assurance on cash sales for any one day.

(6 marks)

3. The Directors are thinking of using the internet to sell park admission tickets in advance. This will involve accepting credit cards. They have asked for a meeting to get your advice about the implications (advantages and disadvantages) of this move. Draft a note of the key points you would raise at the meeting.

(6 marks)

Total 20 Marks

Question 3

You are an audit supervisor with four unrelated audit clients *Mouse Ltd*, *Dog Ltd*, *Cat Ltd* and *Hamster Ltd*. The audit working papers reveal the following findings.

Company Mouse Ltd.

Mouse Limited is a construction company. At 31 December 2012 the company is engaged in a number of long term construction projects. One of these projects is expected to result in a loss to the company of €300,000. No provision is made in the accounts of the company for this foreseeable loss as in the opinion of the Directors the loss will be offset by profits from other long term contracts. The net assets of the company as 31 December 2012 are €1,250,700.

Company Dog Ltd

A director of Dog Limited is indebted to the company for €20,000 at the 31 December 2012. This transaction is in breach of the Companies Act 1990. The financial statements for the year ended 31 December 2012 disclose the loan receivable from the director in other debtors. The directors have refused to disclose any other information in relation to the loan in the company's financial statements.

Company Cat Ltd

Cat Limited appointed your firm as auditor on the 15 January 2013. The company's financial year-end is the 31st December 2012 and consequently you were unable to attend the company's 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 2012. The company's stocks are material to the result and net assets of the company.

Company Hamster Ltd

Included in the balance sheet of Hamster Limited at the 31 December 2011 and 2012 is a debtor of €35,780 which is subject to litigation. In your opinion it is very unlikely that the debtor amount will be recovered. The net assets of the company as at 31 December 2011 were €204,005 and at 31 December 2012 were €425,620. The profit for the financial year as per the financial statements was €300,450 in 2011 and €389,540 in 2012.

Required:

Draft separate audit clearance notes for the audit partner with precise information and arguments to support the type and extent of any modifications needed to the financial statements for Mouse Ltd, Dog Ltd, Cat Ltd and Hamster Ltd. The clearance note should include the draft modification (if any) to the audit reports where the required action is not taken. Reference to the relevant audit and financial reporting standards should be made.

Each scenario carries equal marks.

(20 marks)

Total 20 marks

Section B (Only two questions from this section should be attempted)

Question 4

You have taken over as the lead auditor for Fashion for Life Limited for the year ended 31 December 2012. The company is a fashion retailer that sells youth clothing through retail shops in Dublin (two), Sligo, Wexford, Wicklow and Belfast. You have ascertained the following information about the company:

Shop	Net Sales for 2012	Stocks as at 31 December 2012 (net of VAT)	Trading margins
Dublin Shop 1	€1,120,345	€120,546	60%
Dublin Shop 2	€1,105,456	€102,564	40%
Sligo (outlet store)	€780,654	€80,543	20%
Wexford	€702,546	€154,463	30%
Wicklow	€564,235	€54,645	30%
Belfast	Stg£589,654	Stg£156,453	60%

Stock for the Belfast shop is bought directly from a wholesaler in London and paid for in Pounds Sterling. Stock for the remaining shops comes from a French designer in Paris and is paid for in Euros. In order to make space for the new spring fashions, all the shops have a January sale where the stock in all shops (except Sligo) is offered at a flat mark up of 25%. Unsold stock at the end of January is sent to Sligo and discounted to a margin of 5%. After three months, the remaining unsold items are donated to charity shops.

Required:

1. You need to confirm your “knowledge of the business”. Make a list of the information you would collect in respect of:
 - the key industry and business information
 - the main financial indicators
 - the specific operational and financial controls over inventory that you need to make a decision on the audit approach for purchases and year end inventories and provisions.

(6 marks)

2. Set out a programme of substantive audit tests to audit the stock values and provisions included in the draft financial statements.

(6 marks)

3. Indicate how the inclusion of stock purchased and paid for in two different currencies would impact on your audit work

(4 marks)

4. Indicate how your work to establish the company’s compliance with law and regulation would be affected by the company having a retail store in Northern Ireland.

(4 marks)

Total 20 marks

Question 5

You are auditing the financial statements of Tiny Homes Limited for the year ended 30 November 2012. The board of directors approved the 2012 financial statements on 25 February 2013. The guide to materiality for the audit was set at €40,000. You complete your audit work on 25 June 2013 and sign an unqualified audit report on that date. The financial statements and audit report are to be issued to the members of the company on 5 August 2013.

On 27 June 2013 you become aware that Soft Co Limited, a major customer of Tiny Homes Limited has ceased to trade and that the High Court has appointed a liquidator to the company at the request of the Collector General. Tiny Homes Limited is owed €180,000 by the customer and €102,560 of this amount was due as at 30 November 2012. It is not expected that the unsecured creditors will receive any payment on completion of the liquidation.

Required:

1. Set out the responsibility of the auditor in relation to obtaining sufficient and appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified. Include in your answer the potential effects on your auditor's report.
(6 marks)
2. What audit procedures would be appropriate to discharge the responsibility of the auditor as outlined at (1) above. **(8 marks)**
3. Comment on the responsibility of the Auditor when informed of the liquidation of the Soft Co Limited and what action the auditor should take.
(4 marks)
4. How would your answer to (3) above differ if the auditor became aware of the liquidation of Soft Co Limited on the 10th August 2013.
(2 marks)

Total 20 marks

Question 6

You have been a member of the IIPA for 3 years and have been invited by the partners of Jones and Smith, Authorised Auditors to have a preliminary discussion as the first step towards admission as a Partner of the firm.

Required:

In preparation for your interview, you revise your understanding of the ethics and audit standards of the Institute.

1) Outline the key professional and ethical responsibilities you face in the transition from audit manager to audit partner.

(7 marks)

2) Discuss your perception of the business development opportunities and industry threats that auditing firms are facing and your proposals to contribute to the future success of the firm.

(6 marks)

3) As the new audit partner, you would automatically have responsibility for staff matters, including trainee auditors. Outline the key policies you would apply to address the practical experience needs of your future audit trainees.

(7 marks)

Total 20 marks

End of Paper