



Auditing Module 7

Monday 29th. August 2011
10am – 1pm

Instructions to Candidates:

1. Answer Question 1, and any other 4 questions.
2. All questions carry equal marks.
3. Include all workings with your answer.

Time Allowed: 3 Hours.

Question 1 (This question must be attempted).

(a) "International Standard on Auditing (UK and Ireland) 500 – Audit Evidence" (ISA 500) describes a number of procedures that can be used to obtain audit evidence. For each of the procedures described in "ISA 500" describe a common audit test that illustrates the use of the procedure?

(4 Marks)

(b) Give examples of two possible tests of control procedures that an auditor might perform to gather evidence about the effective operation of internal controls over credit purchases of goods for resale.

(4 Marks)

(c) Referring to the International Standards on Auditing (UK and Ireland), what is meant by the term "analytical procedures" and give an example of how such procedures would be applied in planning an audit engagement.

(4 Marks)

(d) What is meant by the term "corporate governance".

(4 Marks)

(e) Explain what is meant by the term "substantive test" and illustrate your answer with an example of such a test.

(4 Marks)

Total marks (20 Marks)

Question 2.

1. Outline the duties of an auditor as set out in the Companies Acts 1963-2009

(12 Marks)

2. Outline the conditions that must be met for a company governed by the Companies Acts 1963 to 2009 to avail of an exemption from having their annual financial statements audited.

(8 Marks)

Total Marks (20 Marks)

Question 3.

You are the Auditor in charge of the audit of the financial statements of Whitehouse Limited for the year ended 31 December 2010. Whitehouse Limited operates two ethnic food retail outlets in Cork and Dublin. The company purchases its stock from five principal suppliers in the UK and India. The UK based suppliers invoice supplies in Sterling pounds (£) and the Indian companies submit invoices denominated in US Dollars (\$). At 31 December 2010, the company owed trade creditors €364,231. Ninety percent of the balance owing was to the five principal suppliers to the company. The company's accounting department employs one person and all major accounting functions are carried out by this person. Due to low staffing levels within the company there is an absence of strict segregation of duties within the company's accounts department. The audit plan has set out an audit strategy that does not place any reliance on the company's accounting and internal control systems.

You are required to:

1. Design a programme of audit tests that you will conduct as part of the final audit (balance sheet audit) of the trade creditors balance included in the balance sheet as at 31 December 2010

(15 Marks)

2. Discuss the impact the significant amount of purchases denominated in foreign currencies will have on your audit risk assessment and your proposed audit response to the specific risk factors identified.

(5 Marks)

Total Marks (20 Marks)

Question 4.

1. Explain each of the following terms using the sales to receipts cycle to illustrate your answer:
 - a. Audit risk.
 - b. Control risk.
 - c. Inherent risk.
 - d. Detection risk.

(10 Marks)

2. Illustrate using an example from the wages cycle the relationship that exists between audit risk, control risk, detection risk and inherent risk.

(5 Marks)

3. Explain what is meant by the term computer assisted audit techniques (CAAT) and give two examples of where it would be appropriate to use such techniques in the audit of a chain of fast food restaurants.

(5 Marks)

Total marks (20 Marks)

Question 5.

Under the going concern concept, it is assumed that a company will continue in business for the foreseeable future. Annual financial statements are prepared on a going concern basis, unless management intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.

Required:

1. Set out possible indicators of going concern problems for which you would be alert during the course of an audit assignment

(10 Marks)

2. Indicate six audit procedures that provide the auditor with evidence in relation to the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern

(10 marks)

Total marks (20 Marks)

Question 6.

During the course of an audit, an auditor examines the following documents:

1. Title deeds to a shop premises that is included in the financial statements of the audit client.
2. Supplier statements from a wide range of suppliers to the audit client.
3. Confirmation from customers of the trade debtor balance due to the client company at the balance sheet date.
4. Lease agreements in respect of a finance lease entered into by the audit client.
5. Purchase invoices in respect of a new truck purchased during the accounting year.

Required:

In respect of each document state:

1. The purpose of the auditor examining the document
(5 Marks)
2. The information that the auditor would specifically look for in examining the document.
(5 Marks)
3. In respect of two of the documents and following best practice, prepare working papers to document the audit test performed on the document. Assumed data should be used to illustrate knowledge of audit documentation procedures.
(10 marks)

Total 20 Marks

Question 7.

Your local county enterprise board has organised an information day for people who have recently established new manufacturing businesses in your locality. They have requested you to make a presentation to the group on a suitable accounting and control system that a new company should establish.

Required;

Prepare your speech setting out the approach that the entrepreneurs should adopt to the design of such a system. Your speech should address the following matters:

- The common transaction accounting cycles that must be addressed by the proposed system.
- The required procedures and controls to be adopted.
- The purpose of the controls suggested.
- The role of segregation of duties in the design of the system.

Total 20 Marks