



Auditing Module 7 June 2010

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

Instructions to Candidates:

Answer Question 1, and any other 4 questions.

All questions carry equal marks.
Include all workings with your answers.

Time Allowed: 3 Hours

Question 1 (This question must be attempted)

Provide brief answers to each of the following short form questions:

1. 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. Your answer should identify the control to be tested and draft the appropriate test of control.
[4 Marks]
2. Using assumed data, prepare a working paper that illustrates the practical application of the guidance on the form and content of work papers given in International Standards on Auditing (UK and Ireland).
[4 Marks]
3. What is meant by the term “corporate governance”.
[4 Marks]
4. 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]
5. Outline four methods of gathering audit evidence that are available to the auditor and give an example of an audit procedure that illustrates the use of each method.
[4 Marks]

Total Marks 20

Question 2

1. Set out the duties of an auditor under Irish company law.
[10 Marks]
2. A private limited company may in certain circumstances avail of an exemption from a requirement to have its financial statements audited. Set out the qualifying conditions that must be satisfied by the company to avail of this exemption.
[6 Marks]
3. An auditor’s objectivity must be beyond question. Describe four matters that may threaten or appear to threaten the independence of the auditor
[4 Marks]

Total Marks 20

Question 3

You are a partner in Apple, Pear Incorporated Public Accountants. Your firm was recently appointed auditor to Tumbleweed Yellow Limited a large company involved in the manufacturing of widgets for the home and export market. You are currently planning the audit of Tumbleweed Yellow Limited. In respect of the wages management information cycle, you intend to adopt an audit strategy that will involve placing reliance on internal controls. The company has 3,000 employees in Ireland, the United Kingdom and Germany.

Required:

1. List and describe the internal control objectives you would expect to find in the system of internal controls over wages.
[8 Marks]
2. Draft in detail four tests of controls you would undertake as part of the audit of the wages system, including the proposed sample size.
[8 Marks]
3. Outline the impact that the results of the above tests, both positive or negative, would have on the audit strategy you would adopt in the audit of wages.
[4 Marks]

Total Marks 20

Question 4

Please answer all of the following four parts. Each part carries equal marks.

Explain what is meant by the term “audit risk”?

[4 Marks]

Explain what is meant by the terms “inherent risk” and “control risk”?

[6 Marks]

Outline four factors that would influence the auditor’s assessment of inherent risk?

[6 Marks]

Explain what is meant by the term “detection risk” and its interrelationship with inherent and control risk?

[4 Marks]

Total Marks 20

Question 5

You are the Audit Senior assigned to the audit of the financial statements of Purple Limited for the year ended 31 December 2009. Purple Limited operates two restaurants in Dublin city centre. The company purchases its foodstuffs from four principal suppliers in County Dublin. At the 31 December 2009, the company owed food suppliers €168,256. Eighty percent of the balance owing was to three of the principal suppliers to the company. The company purchases its wines from a number of small European wine producers. These wine producers are located in non-Euro zone countries and consequently these suppliers have to be paid in their local currencies. At the 31 December 2009, the company owed wine suppliers €72,256. 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. 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 have calculated a guide to materiality for the audit assignment of €3,000.

You are required to:

- a. 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 2009. Your answer should draw on the information supplied in the question in relation to Purple Limited.

[16 Marks]

- b. Outline the impact that the purchasing of wine in non-Euro currencies will have on audit risk and how you would plan to respond to this risk?

[4 Marks]

Total Marks 20

Question 6

Recent years have seen the auditing profession putting increased emphasis on the need for an audit to be adequately planned in order to undertake an effective and efficient audit. Based on the guidance provided in the International Standards on Auditing (UK and Ireland) in relation to audit planning:

1. Explain why the auditor should plan the audit and the likely benefits to be gained from the effective planning of the audit work.

[8 Marks]

2. Describe the matters you would expect to be addressed in a typical audit plan or audit strategy document and list the main client documents that would be reviewed during the planning stage.

[6 Marks]

3. Using assumed data in relation to a fictitious company, draft the section of an audit plan dealing with the risk of material misstatement arising from fraud.

[6 Marks]

Total Marks 20

Question 7

You are the Accountant in charge of the audit of the financial statements of Reds Limited for the year ended 30 June 2010. Reds Limited is a wholesaler of furniture to retailers of furniture in the Republic of Ireland. You were assigned by the Partner in charge to attend the annual stock count of the company at their warehouse in Co. Dublin on the 30th June 2010.

1. Explain the purpose of the auditor attending the company's annual stock count.

[5 Marks]
2. State the audit procedures you would undertake in advance of the commencement of the stock count.

[5 Marks]
3. State the audit procedures you would undertake during the course of the stock count.

[5 Marks]
4. State the audit procedures you would undertake on the day of the stock count once the company's staff had completed the count.

[5 Marks]

Total Marks 20