



**Institute of Incorporated Public Accountants**

**Professional 2 – Module 7**

**Auditing Exam**

**Monday 28<sup>th</sup>. May 2012**

**10am – 1pm**

**Instructions to Candidates:**

- 1. There are 7 questions on this examination paper.**
- 2. Answer Question 1 and any 4 other questions.**
- 3. All questions carry equal marks**
- 4. Include all workings with your answer**

**Time Allowed: 3 Hours**

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### **Question 1**

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

- 1 Outline three justifications for an external audit and explain what is meant by them  
**4 marks**
  
- 2 IAS 500 describes different audit procedures for obtaining audit evidence. In auditing a limited company outline how you would use three of these procedures. **4 marks**
  
- 3 IAS 210 establishes standards and guidance in relation to agreeing the terms of an audit engagement. Why is it important for an engagement letter to be issued?  
**4 marks**
  
- 4 State three audit objectives for non current assets in relation to the relevant key financial statement assertions.  
**4 marks**
  
- 5 Fraud and error are two areas that are important in an audit. Discuss what is meant by both of these terms and state the external auditor's responsibility in respect of each of them.  
**4 marks**

**Total 20 marks**

### **Question 2**

Internal audits play a useful role in organisations. Discuss the purpose of internal audits and what influences whether the work of internal auditors can be relied upon. Make reference to the relevant audit standards in your answer.

**Total 20 marks**

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### **Question 3**

- a) In the audit risk model, outline and explain, with examples, what is meant by (1) inherent risk and (2) detection risk.

**6 marks**

- b) Describe, with an assumed data example, how the audit risk model might be used in the audit of the sales / accounts receivable transaction cycle.

**7 Marks**

- c) It may be deemed necessary to use the work of an expert in conducting an audit. What preparations should be made by the auditor for this eventuality and how will using an expert impact on the audit.

**7 marks**

**Total 20 marks**

### **Question 4**

Explain and discuss in detail six points to be considered before an auditor accepts an audit client.

**18 marks**

**Presentation 2 marks**

**Total 20 marks**

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### **Question 5**

You have recently been employed with Frank Smith & Co Accountants and have been given your first audit assignment. You are to be the Audit Senior for Bird House Limited for the year ended 31 December 2011.

Birdhouse Limited operates two Bird supply shops in Dublin and Cork. At 31 December 2011, Bird house Limited owed €546,989 to its trade creditors. Eighty per cent of the amount owed was to two main suppliers to the company.

The company only has Tom Jones working in the accounts department and he is a loyal employee, having been with the company for the last twenty years. The company is small, seven staff in total which can lead to problems with segregation of duties.

The audit plan has to set out an audit strategy that does not place reliance on the company's internal control systems.

#### **Requirement:**

- (a) Design a programme of audit tests to audit trade creditor balances included in the financial statements on 31 December 2011. **12 marks**
- (b) Suggest five controls you feel are necessary in a trade creditors system to ensure the complete and accurate recording of all transactions. **5 marks**
- (c) What advice would you give to the Directors of Bird House Ltd to compensate for the lack of segregation of duties in the accounts department? **3 marks**

**Total 20 marks**

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### **Question 6**

You are the Audit Manager on the audit of the financial statements for the year ended 31 December 2011 of Paint Limited and you are planning the audit process. You have assigned Mary Murphy a junior to attend the stock count on 31 December 2011 in the company's only warehouse in Malahide. Mary only joined your firm four months ago and this will be her first stock take so it is vital you prepare a detailed briefing memorandum for her outlining the work you expect her to undertake during her attendance at the stock count. You should address the following in your memorandum:

- 1 Why should Mary attend the stock count? **5 marks**
2. What should Mary do during her attendance.

You should address any work Mary needs to complete before, during and after the count.

**10 marks**

3. What documentation should Mary prepare for inclusion on the audit file.

**5 marks**

**Total 20 marks**

### **Question 7**

- a) Define the going concern assumption. **(4 marks)**

b) ABC Ltd has been unable to secure short term loans to fund its expansion and instead relied on increasing its bank overdraft. The auditors have been informed that ABC Ltd's bankers will not make a decision on the overdraft facility until the audit report has been finalised. The Directors have agreed they will include disclosures on going concern. If the auditor agrees that ABC Ltd is a going concern but a material uncertainty exists, describe the impact on the audit report.

**(6 marks)**

- c) Explain what the term modified means regarding audit reports. **(4 marks)**

d) IAS 530 outlines audit sampling and other means of testing. Using IAS 530 explain three methods of selecting items to test from a population.

**(6 marks)**

**Total 20 marks**

**End of paper**