



# Auditing Module 7

Monday  
22<sup>nd</sup> November 2010  
10am – 1pm

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, including references to the International Standards on Auditing (UK and Ireland) where appropriate:

1. Give examples of possible audit procedures that an auditor might perform to gather evidence about the completeness and accuracy of accounting for post balance sheet events. Your answer should clearly describe the audit procedure planned to be undertaken.

[4 Marks]

2. Give four examples of analytical procedures commonly used by an Auditor.

[4 Marks]

3. Explain what is meant by the term "inherent risk".

[4 Marks]

4. Outline the purpose of the auditor issuing an engagement letter at the commencement of an audit and set out the principal matters that the letter would address.

[4 Marks]

5. Explain the key differences between a statutory audit assignment and an accounts compilation assignment.

[4 Marks]

**Total Marks 20**

### Question 2

In the famous law case Re: Kingston Cotton Mills Co. (1896), Lord Justice Lopes defined an auditor's duty of care as follows: *"It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably careful, cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or, as was said to approach his work with suspicion, or with a forgone conclusion that there is something wrong. He is a watchdog, not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest and rely upon their representations, provided he takes reasonable care."*

#### Required:

1. Apart from the duty to issue an opinion on the true and fair view of company financial statements, set out the auditor's reporting duties in respect of fraud, financial information contained in the directors' report and breaches of the companies' acts.

[10 Marks]

2. In the context of the legal duties imposed on an auditor under Irish company law, discuss Lord Justice Lopes contention that an auditor is "a watchdog, not a bloodhound".

[6 Marks]

3. Identify one other legal case that has addressed the role of the auditor in a company and briefly outline the contribution of that judgement in clarifying the role of the auditor.

[4 Marks]

**Total Marks 20**

### Question 3

You are the engagement partner in Eagle, Tarrott & Co., Incorporated Public Accountants for the audit client Blackriver Limited. Your firm is currently auditing the financial statements of Blackriver Limited for the year ended 30 June 2010. A new employee of the firm John Bloggs has been assigned as an audit assistant to this assignment. In his previous employments John has gained extensive accounting experience but he has never worked on an audit assignment. You are aware that he is very apprehensive about his new role and to assist him you have undertaken to prepare a memorandum setting out the approach he should adopt to the various sections of the audit file.

#### Required:

1. Prepare the section of the memorandum to John dealing with the audit of (a) investments held by the company in listed companies and (b) trade debtors.  
[12 Marks]
2. Explain in simple language to John what is meant by the term "cut off" in audit testing and suggest a test that would establish the accuracy of the accounting cut off in the sales / debtors / receipts cycle.  
[8 Marks]

**Total Marks 20**

### Question 4

Whitewater Limited is a wholesaler of clothes. The company imports clothes from the Far East and sells them to retailers in Ireland and the UK through a distribution centre in Dublin. As a member of the audit team assigned to the audit of Whitewater Limited for the year-ended 30<sup>th</sup> September 2010 you have been assigned to attend the stock count of the company on the 30 September 2010.

#### Required:

1. Set out the purpose of your attendance at the company's stock count.  
[3 Marks]
2. Describe any audit procedures / enquiries you would undertake in advance of your attendance at the company's premises on the 30<sup>th</sup> September 2010.  
[4 Marks]
3. What accounting records / information about stocks would you expect to be available to you at the time of your attendance of the stock count?  
[3 Marks]
4. Design a detailed work programme setting out the audit procedures you would undertake during your attendance at the company's end of year stock count.  
[10 Marks]

**Total Marks 20**

## Question 5

You are the auditor to White Knight Limited. You obtain the following schedule in support of the fixed assets figure in the financial statements for the year ended 30 June 2010.

	<b>Factory Buildings (Freehold)</b>	<b>Plant</b>
<b>COST</b>		
As at 1 July 2009	€11,200,987	€1,765,789
Additions	0	€333,900
As at 30 June 2010	€11,200,987	€2,099,689
<b>ACCUMULATED DEPRECIATION</b>		
As at 1 July 2009	€1,112,000	€412,987
Charge for period	€220,000	€201,987
As at 30 June 2010	€1,332,000	€614,974

### Additions

<u>Supplier</u>	<u>Description</u>	<u>Cost</u>
Tommy Ltd	Automatic insertion machine.	€200,000
Pear Ltd	Stamping machine	€133,900

Audit efficiency reasons have determined that a purely substantive approach should be followed in the audit of fixed assets.

### Required:

1. Identify the audit objectives you as auditor would establish in undertaking the audit of fixed assets.

[4 Marks]

2. Set out in detail the audit tests you would undertake in respect of the year-end verification of fixed assets

[9 Marks]

3. Draft an audit working paper for your analytical review of the charge for depreciation, including you conclusion from the review.

[3 Marks]

4. Prepare a working paper to demonstrate how you would document both the audit procedures undertaken and audit evidence collected in relation to the existence of plant (*Candidates should assume any necessary information required to complete work paper*).

[4 Marks]

**Total Marks 20**

## Question 6

You are the accountant in charge of the audit team assigned to the audit of the financial statements of Yellowbrick Road Limited for the year ended 30 June 2010. The company is a small company that operates as a wholesaler of car tyres. The tyres are imported from Germany and sold to garages throughout Ireland. The tyres are delivered to the company's central warehouse in Dublin directly from the tyre manufacturer in Germany. As a key member of the team you are responsible for the audit of the year-end trade creditors figures.

### Required :

1. Set out the main elements of a system of control that you would expect to find in the purchases, trade creditors and payments accounting cycle of the above company.

**[8 Marks]**

2. Set out in detail the audit tests you would undertake in respect of the year-end verification of trade creditors

**[12 Marks]**

**Total Marks 20**

## Question 7

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

1. Title deeds to a factory premises that is included in the financial statements of the audit client.
2. Replies received from trade debtors of the company in response to an audit debtors' circularisation request undertaken as part of the audit process.
3. Confirmation from the audit client's solicitor in relation to the status of litigation in which a customer has commenced court action against the audit client for damages arising from supply of bad quality product.
4. Purchase invoices in respect of stock purchases.
5. Lease agreements in respect of a finance lease entered into by the audit client during the financial year.
6. Minutes of directors' meetings.
7. Supplier statements from a wide range of suppliers to the audit client.
8. Confirmation from the audit client's bankers of the accounting period end balances.

### Required:

In respect of each document state the purpose of the auditor examining the document and the information that the auditor would specifically look for in examining the document.

**Total 20 Marks**