



---

**QQI**

**BA (Hons) Accounting & Finance**

---

**SUMMER 2024 EXAMINATIONS**

Module Code: **B8AF108**  
Module Description: **Audit and Assurance**  
Examiner: **Ms. Georgina Skehan**  
Internal Moderator: **Mohamad Naim Shaffie**  
External Examiner: **Shane Moran**

---

## **INSTRUCTIONS TO CANDIDATES**

Time allowed is **THREE (3) hours**  
Questions 1, 2 & 3 in Section A are compulsory  
Answer **ONE** question only from Section B.  
All questions carry equal marks

## **Section A**

### **Question 1 - Compulsory**

You are an audit senior in XDR Co and you are planning the audit of a new client, Robert Co, for the year ended 31/12/2023. The audit partner has already held a planning meeting with the finance director. He has provided you with the following notes of his meeting and the Statement of Profit or Loss.

Robert Co Statement of Profit or Loss are as follows:

	<b>31/12/2023</b>	<b>31/12/2022</b>
	<b>€'000</b>	<b>€'000</b>
Revenue	35,965	21,092
Cost of sales	(10,960)	(14,760)
	25,005	6,332
Expenses		
Administration	(3,650)	(3,960)
Selling and distribution	(4,550)	(1,068)
Interest payable	(920)	(316)
	15,885	988

Robert Co is also seeking a listing on the Irish Stock Exchange in January 2025. Robert Co repaid a number of loans in January 2023 and has not taken out any additional loans in 2023.

Robert Co is a construction company specialising in the commercial sector of building offices, factories, shopping centres, hospitals and apartments. Due to the nature of the industry customers pay in instalments with a 30% deposit payable when the contract is signed, 30% payable after six months and 40% payable on completion. Robert Co recognises 100% of revenue when the customer signs the contract and pays the 30% deposit.

Their key client, who represents 85% of their revenue is a pharmaceutical company that has expanded rapidly in the last ten years. However, this pharmaceutical company is now more focused on expanding by buying subsidiaries abroad.

After speaking with the Directors of Robert Co you learn that they are more concerned about the intense competition in the industry and that the costs of raw materials has increased significantly with inflation and increased shipping costs.

The building industry that Robert Co-operates in is highly regulated by health and safety legislation. Last year Robert Co was in serious breach of the legislation and received a fine of €3m from the Health and Safety Regulator. The Directors of Robert Co are trying to negotiate a lower fine before paying. The Directors of Robert Co have

not accounted for this payment or disclosed it in the notes as they are hoping to prevent the public being made aware of it.

During the year Robert Co started developing an advanced robot for building walls as this would reduce labour costs and allow for quicker build times. They have spent €10 million on the robot prototype. However, it has failed the latest test phase in development and the industry experts believe that it is not a viable prototype as it is not technically possible to develop the prototype any further.

The directors have agreed to pay themselves a profit related bonus for the year.

**Required:**

- a) Identify and evaluate EIGHT audit risks to be considered in planning the audit of Robert Co AND discuss the auditor's response to each audit risk.

**(25 marks)**

**(Total 25 marks)**

**Question 2 - Compulsory**

**Various Companies**

- Mountain Gear Co Directors have refused to adjust the closing inventory figure to the lower of cost or net realisable value. The difference is significant and is material to the financial statements.
- Hill Co has implemented a new accounting system during the year. The new system works very well and the staff find it easy to use. The audit team spent considerable time testing the new accounting system and identified no material misstatements. The results substantial testing carried out by the auditor's have been discussed on several occasions with management and those charged with governance.
- The audit of Star Co is nearing completion. During the audit, it was identified that the notes to the financial statements do not include a disclosure note for the revaluation of property, plant and equipment (which is material), which is required by the IAS 16. The amounts have been correctly accounted for in the financial statements. The audit engagement partner has discussed the issue

with management and those charged with governance but no amendment to the disclosures has been made.

- Space Co is a cash retailer. There is no system to confirm the accuracy of cash sales.

**Required:**

- a) For each of the above situations, discuss the implications for the audit opinion and the audit report.

**(19 marks)**

In recent years regulatory bodies including the International Auditing and Assurance Standards Board (IAASB) and the UK Financial Reporting Council (FRC) have issued documents highlighting the importance of professional scepticism in the audit of financial statements.

- b) Describe, according to ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* what is "professional scepticism" AND give examples of how an auditor can apply professional scepticism.

**(6 marks)**

**(Total 25 marks)**

**Question 3 - Compulsory**

**Speed Co**

Speed Co is a manufacturer of car components used by a number of car brands to manufacture their cars. The company's year-end is 31 December 2023. You are an audit supervisor in XMZ & Co and are currently reviewing documentation of Speed Co's internal control as part of the audit.

Speed Co manufacturers work on a just-in-time basis which is normal industry practice which means that Speed Co has to have sufficient inventory in place to meet customer demand at very short notice. The car components manufacturer's inventory systems are linked to Speed Co and when inventory falls to a minimum level, an order is automatically placed with Speed Co.

Most customer contracts require Speed Co to deliver orders within 12 hours of being placed. Recently, Speed Co has experienced problems with its systems which have led to orders not being processed and penalties have been incurred for breach of

contractual terms. Rather than refund customers for the penalty amount, customers deduct the amount of penalty payment due from the monthly invoice and pay the net amount. No check is performed by Speed Co to confirm that the amount paid by customers is equivalent to the invoiced amount less penalty payment.

In order to meet its contractual terms, Speed Co's production line operates 20 hours a day. A limited number of production staff are employed to oversee the machinery as well as perform some tasks which need to be done manually. Supervisors oversee the production staff.

Maintenance contracts are taken out for machinery with regular maintenance checks taking place once every year. Until the start of the year, maintenance was carried out every day during the 4 hours of downtime but in an effort to reduce costs, maintenance checks are now only performed once a week.

Employees work ten hour shifts with two shifts per day. During holiday periods, employees are offered overtime to cover employees taking leave. As this time of year is very busy, overtime is not authorised.

Employees complete a timesheet each week which is sent directly to payroll and payment is made the following week. Due to maternity leave and holidays, the payroll department is understaffed and the payroll manager is currently processing all payroll payments.

**Required:**

In respect of the internal control systems of Speed Co:

- a) Identify and explain FIVE deficiencies
- b) Recommend a control to address each of these deficiencies, and
- c) Describe a test of control the external auditors should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency.

**(15 marks)**

Note: Prepare your answer using 3 columns headed control deficiency, control recommendation and test of control respectively. The total marks will be split equally between each part.

**Healthy Food Co**

Healthy Food Co has 5,000 credit customers from small to large supermarkets in Ireland.

ISA 505 *External Confirmations* deals with a number of different types of external confirmations. A member of the audit team suggests using an accounts receivables circulation letter to obtain audit evidence for Healthy Food Co. Audit software will be used in the audit of Healthy Food Co.

From a review of last year's audit file you have determined that last year there were 2 specific allowances of €5,000 and €2,000 as well as a 5% general allowance.

Initial conversations with the client indicate that there are no specific allowances that are to be made this year however they intend to reduce the general allowance from 5% to 2%.

You are aware that two of Healthy Food Co major customers went into administration during the year and they are likely to be liquidated in the near future. Both of these customers owed material amounts at the year end.

- b) Discuss the audit procedures you would perform to obtain sufficient and appropriate evidence on the receivables balance using audit software.

**(10 marks)**

**(Total 25 marks)**

## **Section B**

**Answer EITHER Q4 or Q5**

### **Question 4**

Ace Co is an on-line seller of fashion shoes, handbags and clothing. The company purchases shoes and handbags from a number of suppliers and then resells them using the internet as the only selling media. The company has over 6,000 items in inventory, each of which has its own unique product code.

Customers place their orders directly on line and most orders are for one or two items only. The sales ordering software automatically verifies the order details, customers address and credit card information prior to orders being verified and goods being despatched.

You are the audit senior working on the external audit of Ace Co. You have decided to use test data to check the input of details into the sales system. This will involve entering dummy orders into the Ace Co website.

Test data involves the auditor submitting dummy data into the client's system to ensure that the system correctly processes it and that it prevents or detects and

corrects misstatements. The objective of this is to test the operation of application controls within the system.

- a) Recommend, with examples a set of test data you will use to confirm the completeness and accuracy of inputs into Ace Co's sales system. Clearly explain the reason for each item of test data.

**(12 marks)**

**Zanny Co is a public listed company.**

You are the audit senior in Woodsage Co. Joan has been the engagement partner in the audit of Zanny Co for the last 21 years and she is also married to the finance director of Zanny Co.

The total fees invoiced to Zanny Co last year equate to 24% of the firm's total fee income. The current year's audit fees have not yet been confirmed but along with the fees for non-audit services are expected to be greater than for last year. A significant proportion of last year's fees are still outstanding.

Several of the audit seniors' own shares in Zanny Co.

Zanny Co is being sued by a former employee and has asked your audit firm to support them in the upcoming court case.

- b) Explain FOUR ethical threats and discuss how the threats can be mitigated in the audit of Zanny Co.

**(13 marks)**

**(Total 25 marks)**

**Question 5 - Answer EITHER Q4 or Q5****BEFORE ACCEPTING A NEW AUDIT CLIENT**

The directors of Artificial Co, owners of an AI app specifically designed for students in second and third level education have approached your audit firm to act as their auditors.

Artificial Co has a very relaxed culture to promote creativity and as a result have little or no internal controls.

Artificial Co prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS) but they are refusing to provide the auditors with all the back-up documentation as they believe that it is confidential.

Auditors should only accept a new audit engagement if the 'preconditions for an audit' required by ISA 210 *Agreeing the term of audit engagements* are present.

- a) Describe the two key questions that the auditor should ask before accepting a new audit engagement and recommend whether or not your audit firm should accept the audit of Connected Ltd.

**(7 marks)**

**COMPLETION AND REVIEW STAGE OF THE AUDIT****ISA 560 Subsequent Events**

- b) Discuss EIGHT audit procedures you would undertake with regard to subsequent events at the completion and review stage of the audit.

**(8 marks)**

**ISA 570 Going Concern**

Manor Castle Co owns a chain of luxury hotels which are all inclusive resorts focusing on the celebrity market and operates to the highest quality standards. It has a strong brand image however sales have fallen sharply since 2020 and have never returned to more than 40% occupancy rate.

The financial statements of Manor Castle Co show an overdraft at 31 December 2023 of €2m (2022: €1.5m). The overdraft limit is €2m. The directors were unsuccessful in negotiating an increase in the overdraft limit with the bank. The cash flow forecast shows negative monthly cash flows for the next year. As a result of cash shortages in April 2023, a number of suppliers were paid late.



Manor Castle Co has still not paid its corporation tax for 2021 and 2022.

Manor Castle Co has a loan repayment of €500,000 due on the 1 August 2024.

**Required:**

ISA 570 Going Concern states that the auditor needs to ensure the financial statements are prepared on the appropriate basis. Manor Castle Co exhibits many typical indicators of going concern problems

- c) Describe the key audit procedures to be undertaken when conducting a going concern review.

**(10 marks)**

**(Total 25 marks)**

**END OF EXAMINATION**