



QQI

BA (HONS) ACCOUNTING & FINANCE Level 3

AUTUMN 2024 EXAMINATIONS

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

INSTRUCTIONS TO CANDIDATES.

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

By submitting your answers as part of this exam you certify that all work provided is wholly your own, done without the intervention, help or guidance of any third party

SECTION A: COMPULSORY**Question 1**

You are an audit senior in YRE Co and you are planning the audit of a new client, Alloy Co, for the year-ended 31 December 2023. Alloy Co, is based in Ireland and manufactures precision engineer products for the pharmaceutical sector using the last technological innovation. Many of the products are generic buy about 30% of the orders are bespoke to individual customer requirements. The audit manager has already held a planning meeting with the finance director. He has provided you with the following notes of his meeting and financial statement extracts.

The company recognises revenue when the customer places an order as 70% of orders for generic products are processed and despatched the day they are received. Orders for bespoke products are paid in instalments and revenue is recognised when the first instalment is received.

Inventory is initially valued at cost, included in closing inventory is €300,000 for a bespoke order that is part complete but the customer has since gone into liquidation. Due to the bespoke nature of the product the directors believe that they will not be able to sell it to another customer. Despite this they have still included it in inventory valued at cost.

The finance director also notified your manager that one of Alloy Co's key customers has been experiencing financial difficulty. No payments have been received from this customer for the last three months, but the finance director says that he expects the customer to pay them soon. The finance director does not believe that any allowance is required against this receivable.

In October 2023 a customer's employee John Ryan was injured when fitting a faulty part purchased from Alloy. A legal claim has been filed by the John Ryan against Alloy Co for damages. Alloy Co's legal team believe that the claim will be successful but no provision or disclosure has been included in the financial statements.

In June 2023 Alloy Co started selling generic products to a company in the USA. The sales invoices are in US dollars.

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

Required:

- a) As part of your risk assessment procedures, discuss and provide EIGHT audit risks and explain the auditor's response to each risk in planning the audit of Turbo Co.

Note: Prepare your answer in a table and use two columns headed Audit risk and Auditor's response respectively.

(Total 25 Marks)

Question 2**ISA 560 Subsequent Events**

Subsequent events review for View Co for the year ended 31 December 2023.

- On 1 February 2023, a major customer of View Co, was placed into administration owing €1m.
- On 20 February 2023, A customer is suing the company for damages for injuries obtained on 5 January 2023 caused by a faulty product. If successful, the claim amounts to €1.4m.
- On 20 January 2023 there was a fire at the premises of the third party warehouse provider, which destroyed all inventory held there. Approximately half of the View Co's inventory was stored in these premises. The total value of inventory stored at the premises was \$2m.
- The financial statements include a €200,000 provision for an unfair dismissal case brought by an employee of View Co. On 1 February 2023 a letter was received from the claimant's solicitors stated that they would be willing to settle out-of-court for €180,000. It is likely the company will agree to this.

| Financial Statements extract | 31/12/2023 |
|------------------------------|------------|
| | €'000 |
| Revenue | 50,000 |
| Total assets | 30,600 |
| Profit before tax | 3,000 |

Required:

- (a) Discuss whether each issue above is an adjusting or non-adjusting event, in accordance with IAS 10, Events after the reporting period.

(17 Marks)

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

(8 Marks)

(Total 25 Marks)

Question 3

A.

Robert Smith has been the engagement partner in the audit of Bus Co for the last 9 years. His wife, Joan is the finance director in Bus Co and this allows for a faster audit.

The same audit team are also used for this audit and their loyalty is rewarded with a luxury weekend away. The audit team enjoy this trip every year. This year they are looking forward to the trip to the newly renovated Castle Estate, the value of the trip is about €5,000 per audit team member.

Bus Co is wishes to expand into the emerging markets and is in the process of selling shares to raise finance for this project. Your audit firm is actively promoting these shares to other clients. The audit team already hold shares in Bus Co and intend purchasing additional shares as they believe Bus Co is a good investment.

Your audit firm has also provided Bus Co with a short term loan until the finance is raised.

Required:

- a) Explain FIVE ethical threats and discuss how the threats can be mitigated in the audit of Bus Co.

(15 Marks)

B.

The external auditor gives an opinion based on sufficient appropriate audit evidence. If the client company has a strong internal controls in order to prevent, detect, correct material misstatement the external auditor can reduce but never eliminate the amount of substantive testing on the financial statements. You are the external auditor of Highlight Co, a manufacturer of Hi Vis safety jackets. Highlight Co has a material loan included in non current liabilities.

Required:

- a) Describe TEN key audit procedures to be performed to confirm the loan balance included in Highlight Co's financial statements.

(10 Marks)

(Total 25 Marks)

SECTION B: ANSWER ONE QUESTION

Question 4

Fresh Co is a food wholesaler selling fruit and vegetables to the public and to large supermarket chains. The same employees have worked for the company for the last 15 years and internal controls are kept to a minimum. Most orders are taken over the telephone and are telephoned through to the warehouse for despatch. The warehouse staff write up a goods despatch note (which are not numbered) from the telephone call.

Sales staff often give discounts to customers in order to encourage repeat business. Some of these discounts have been significantly high in recent months. Bad debts have increased in the last two years and this is concerning the directors of Fresh Co. Several customers have left the company in the last year as their order was never delivered or was late or of poor quality.

Most customers pay by cheque however the junior accounts clerk is slow to lodge these cheques and this has led to cash flow difficulties on a few occasions. The junior clerk is responsible for lodging the cheques to the bank, posting transactions to the accounts system and reconciling the bank statements and accounts receivables control account.

Required:

- a) Write a management letter to the directors of Fresh Co in respect of the sales systems which:
 - i. Identifies FIVE weaknesses in that system;
 - ii. Explains the possible effect of each weakness;
 - iii. Provides a recommendation in each case.

(15 Marks)

ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* requires auditors of listed companies to determine key audit matters and to communicate those matters in the auditor's report.

- b) Describe, with an example what are 'Key Audit Matters' .

(10 Marks)

(Total 25 Marks)

Question 5

This is an extract from the purchase cycle of Windmills Co

Recording transaction

The purchases ledger clerk enters invoices onto the system in batches. A batch control sheet is used, which details the number of invoices and the total value. These details are checked to the system batch report.

Each invoice is stamped as "recorded" once the details have been entered onto the system. The purchase ledger manager inspects the file of invoices on a monthly basis to ensure that all invoices have been recorded.

Suppliers are required to submit monthly supplier statements, which are reconciled to the suppliers ledger account by the purchases ledger manager. The purchase ledger is reconciled to the purchase ledger control account on a monthly basis by the purchase ledger manager, and reviewed by the company accountant.

Required:

- a) Identify and evaluate FOUR controls in Windmills Co's recording transaction system AND discuss how the auditor would test those controls.

(8 Marks)

Windmills Co has a substantial trade payables balance

- b) Describe TEN key audit procedures to be performed to confirm the trade payables balance included in Windmills Co's financial statements.

(10 Marks)

Reporting

In certain circumstances auditors are required to make additional communications in the auditor's report even though the financial statements show a true and fair view.

- c) Describe, with an example what is an 'Emphasis of Matters' paragraph.

(7 Marks)

(Total 25 Marks)

END OF EXAMINATION