

# AUDITING

## PROFESSIONAL 1 EXAMINATION - AUGUST 2018

### NOTES:

**Section A** - You are required to answer Questions 1, 2 and 3.

**Section B** - You are required to answer any **one** out of Questions 4 or 5. Should you provide answers to more than two questions in this section, you must draw a clearly distinguishable line through the answer(s) not to be marked. Otherwise, only the first two answers to hand for these four questions will be marked.

### TIME ALLOWED:

3 hours, plus 10 minutes to read the paper.

### INSTRUCTIONS:

During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

**Start your answer to each question on a new page.**

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

# AUDITING

PROFESSIONAL 1 EXAMINATION - AUGUST 2018

Time Allowed: 3 hours, plus 10 minutes to read the paper.

**Section A** - You are required to answer Questions 1, 2 and 3.**Section B** - You are also required to answer **either** Question 4 or 5. Should you provide answers to both Questions 4 and 5, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first answer to hand for Question 4 or 5 will be marked.

## SECTION A - Questions 1, 2 and 3 are compulsory.

**1.****(a)** You are auditing RAY Plc for the year ended 30 June 2018. The company maintains a Property, Plant and Equipment (PPE) (non-current assets) register and it has prepared the following schedule for PPE:

### Property, Plant and Equipment

	Freehold Property €	Printing Equipment €	Office Equipment €	Office Furniture €	Total €
01/07/17					
Opening Balance	0	110,219	98,725	81,234	290,178
Additions	725,000	89,621	17,978	5,350	837,949
Disposals	0	(79,540)	(11,621)	(831)	(91,992)
30/06/18					
Closing Balance	725,000	120,300	105,082	85,753	1,036,135

### Notes:

- Additions to freehold property consist of a new head office and car park. The company previously rented premises.
- Additions and disposals to printing equipment comprise two 3D printers and four photocopiers respectively.
- In relation to office equipment, the company purchased one server computer and disposed of one server computer during the period.
- Additions and disposals to office furniture comprise miscellaneous items bought, sold and scrapped.

### REQUIREMENT:

Prepare the substantive audit work programme for the PPE section of Ray Plc's Statement of Financial Position as at 30 June 2018, detailing TEN audit procedures that might reasonably be applied by an auditor in relation to the following specific audit objectives:

- Existence or occurrence
- Completeness
- Accuracy, classification
- Valuation and allocation
- Rights and obligations
- Presentation and disclosure

You are not required to consider Statement of Profit or Loss or Other Comprehensive Income audit work.

For each procedure mentioned in your programme, you should outline the associated objective(s) as appropriate.

(15 marks)

**(b)** In relation to IAS 16 *Property Plant and Equipment* (PPE):

- (i) Discuss its objective, scope and two examples of where it would not apply. (6 marks)
- (ii) Outline the criteria required for the recognition of the cost of PPE and list the two models, after initial recognition, an entity may choose to use as its accounting policy that shall apply to the entire class of PPE. (5 marks)
- (iii) What are the elements of cost that may be included when recording an item in financial statements? (4 marks)

**[Total: 30 Marks]**

## 2.

- (a) In relation to ISA 240 (Ireland) - *The auditor's responsibilities relating to fraud in an audit of financial statements*, discuss the following:
- (i) The characteristics of fraud and the objectives of the auditor in relation to fraud, and (5 marks)
  - (ii) Who is charged with the primary responsibility for the prevention and detection of fraud and the actions required to prevent potential fraud. (4 marks)
- (b) Outline the actions an auditor should take where, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question his/her ability to continue performing the audit. (3 marks)
- (c) Discuss the term 'professional skepticism' and explain how it affects the auditor's role. (3 marks)
- (d) Waterdown Hotels Co. operates a chain of 11 hotels located across Ireland. Each hotel has bedroom accommodation, a restaurant and leisure club facilities. Most visitors to the restaurant and leisure club are hotel guests; however, these facilities are open to the public as well. Hotel guests generally charge any costs to their room but other visitors must make payment directly to the hotel staff.

During the year, senior management noticed an increased level of cash discrepancies and inventory discrepancies, and they suspect that some employees have been stealing cash and goods from the hotels.

Management is keen to prevent this from reoccurring and are considering establishing an internal audit department to undertake a fraud investigation.

### REQUIREMENT:

Discuss how an internal audit department of Waterdown Hotels Co. could assist the directors in preventing and detecting fraud and error. In your discussion you should evaluate the limitations of Waterdown Hotels Co. establishing and maintaining an internal audit department. (8 marks)

- (e) The directors of Waterdown Hotels Co. would like the internal audit department to have as broad a role as possible, as this may make the decision to recruit an internal audit department more justifiable.

### REQUIREMENT:

Discuss additional functions, other than fraud investigations, the directors of Waterdown Hotels Co. should ask the internal audit department to undertake. (7 marks)

**[Total: 30 Marks]**

- 3. The following multiple-choice question contains eight sections, each of which is followed by a choice of answers. Each question carries equal marks. On the answer sheet provided, indicate for each question, which of the options you consider is the correct answer. Marks will not be awarded where you select more than one answer for any question.**

**REQUIREMENT:**

1. Auditors must design and perform audit procedures that enable them to obtain sufficient and appropriate evidence. Which of the following best describes the term 'appropriate'?
  - (i) Relevant
  - (ii) Reasonable
  - (iii) Right
  - (iv) Reliable.
  - (a) (i) & (iii)
  - (b) (i) & (ii)
  - (c) (ii) & (iv)
  - (d) (i) & (iv).
2. Before accepting an appointment as auditor, the nominated auditor is expected to communicate with the existing auditor to ensure that there is no professional reason why he should not accept the appointment:
  - (a) In all cases.
  - (b) Only in respect of audits under the Companies Act.
  - (c) Only in respect of audits of large companies.
  - (d) Only where he has reasonable cause to believe that there is some such reason.
3. Which of the following audit procedures provides evidence of valuation and existence of receivables at the year end?
  - (a) External confirmation from the customer of the amount outstanding.
  - (b) Recalculation of the receivables listing.
  - (c) Enquiry with management regarding the adequacy of an allowance for receivables.
  - (d) Inspection of post year end bank statements to identify payments by customers of balances outstanding at the year-end.
4. Which of the following is not a control activity as per ISA 315 (Ireland) - *Identifying and assessing risks of material misstatement through understanding the entity and its environment*?
  - (a) Segregation of duties.
  - (b) Observation and inspection.
  - (c) Physical controls.
  - (d) Authorisation.
5. Which of the following is not one of the core elements of an assurance engagement?
  - (a) Subject matter.
  - (b) Suitable criteria.
  - (c) Assurance file.
  - (d) Written report.

6. Which of the following characterises the so-called 'around the machine' approach to auditing in a computer environment?
- (a) Audit work is based on the review of inputs to and outputs from the computer.
  - (b) The detailed computer processing routines used in the various parts of the system are examined to determine whether controls are adequate.
  - (c) Audit software is used to examine the contents of computer files.
  - (d) Transactions are 'walked through' manually in order to test whether computerised processes are operating correctly.
7. Which of the following is prima facie the most reliable audit evidence?
- (a) Evidence as to the existence of the company's work in progress inventory derived from physical inspection by the auditor.
  - (b) Evidence as to the collectability of certain receivables derived from discussions with the credit control manager.
  - (c) Evidence as to the validity of a trade receivable derived from a telephone confirmation of the balance with the customer.
  - (d) Evidence as to the accuracy of finished goods inventory derived from full monthly stock takings performed by responsible company officials.
8. Which of the following statements describes most accurately the principal purpose of the engagement letter in respect of a limited company audit assignment?
- (a) To define the extent of the auditor's responsibilities.
  - (b) To set out the proposed timetable for the audit.
  - (c) To establish the audit fee for the current year.
  - (d) To draw the attention of the directors to the range of services that the firm can offer.

**[Total: 20 Marks]**

## SECTION B – Answer either Question 4 or Question 5

**4.**

- (a)** You have been requested by your senior to prepare training material for audit trainees on ISA 560 (Ireland) -*Subsequent Events*.

### REQUIREMENT:

Prepare a briefing that discusses:

- (i) The two types of subsequent events, giving examples of both, and (5 marks)
- (ii) The relationship between going concern and the type of subsequent event. (3 marks)

- (b)** One of your clients, Hyden Ltd, (Hyden) has a financial reporting year-end date of 31 July 2018. The financial statements (FS) are due to be approved on 18 September 2018.

Arising from your audit work, the following events have come to your attention:

1. On 2 August 2018, Hyden sold inventory for a price which was less than its cost (the inventory was recorded in the FS to 31 July 2018 as closing inventory).
2. Hyden issued new shares on 3 August 2018.
3. A fire in the warehouse destroyed all of Hyden's inventory on 8 August 2018.
4. A major customer that owed Hyden €150,000 at 31 July 2018, was declared bankrupt on 10 August 2018.
5. Hyden purchased an asset for €80,000 on 21 August 2018.
6. On 27 August 2018, Hyden's solicitor received a claim from an employee who fell on its premises on 1 March 2018. The solicitor estimates the value of the claim, including legal fees, to be €1m.

### REQUIREMENT:

Review each of the events 1- 6, above, and advise with reasons:

- If it is an adjusting or non-adjusting event, and
- The impact, if any, on Hyden's financial statements. (12 marks)

**[Total: 20 Marks]**

**5.**

- (a)** Your practice has recently employed a number of new graduate trainees. As part of their training they will receive a briefing from you on ISA 200 (Ireland) - *Overall Objectives of the Independent Auditor and, the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*.

**REQUIREMENT:**

Prepare a briefing note in which you discuss:

- (i) The overall objectives of the auditor and the legal rights afforded to an auditor of a limited company. (7 marks)
- (ii) The manner in which the director of a company has the authority to dismiss the auditor and outline the appropriate procedures that must be undertaken to remove an auditor. (5 marks)
- (b)** In adhering with the “Code of Ethics for the Institute of Certified Public Accountants in Ireland”, a member is required to comply with the five key fundamental principles laid out within the code.

**REQUIREMENT:**

Discuss any four of these fundamental principles. (8 marks)

**[Total: 20 Marks]**

**END OF PAPER**



# SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

# AUDITING

PROFESSIONAL 1 EXAMINATION - AUGUST 2018

## SOLUTION 1

(a)	Audit Procedure/Test	Associated Working Primary Paper Objective(s)
	Ensure balance brought forward in PPE account(s) in nominal ledger agrees to balance in SFP as at 30 June 2018.	Completeness, Presentation
	Review reconciliation of PPE register to PPE account in nominal ledger and obtain explanations for any discrepancies.	Completeness, Accuracy
	Review results of PPE asset verification checks carried out internally by company, as a basis for determining additional audit work to be carried out.	Completeness, Existence
	Select sample of printing equipment, office equipment and office furniture items brought forward, from PPE register and carry out physical examination.	Existence
	Select sample of categories of PPE assets in existence and check for inclusion in PPE assets register	Completeness, Existence
	For items physically examined above, check condition and whether still in use by the company. Consider implications on value of PPE assets at SFP date.	Valuation and allocation, Rights and obligations
	Examine title documents and contracts	Rights
	Check bank letter for details of securities, documents of title and assets in safe-keeping.	Existence Completeness Rights
	Complete company accounts disclosure check list.	Presentation
	Obtain details of the company's PPE asset budget for the year and enquire into any material variations from PPE assets acquired.	Completeness
	Review any notes of directors' meetings and correspondence files for details of capital expenditure additions and compare to actual expenditure. Enquire into any material variations.	Completeness
	Review the costs charged to repairs and maintenance and rental expenses in the nominal ledger to identify any costs incorrectly treated as revenue rather than capital expenditure items and confirm to costs normally associated with ownership. Resolve any inconsistencies identified with senior management of the company.	Completeness, Valuation, Presentation, Rights
	For all of the freehold property ensure that all expenditure has been properly authorised and vouch all additions to: <ul style="list-style-type: none"> <li>– authorised purchase invoices, and where applicable solicitors completion statement for the purchase of freehold property;</li> <li>– goods received notes where applicable;</li> <li>– documents of title (e.g., title deeds and land registry confirmations for the freehold property);</li> <li>– entry in PPE register;</li> <li>– entry in nominal ledger.</li> </ul>	Valuation, Presentation, Rights, Accuracy

Audit Procedure/Test	Associated Working Primary Paper Objective(s)
<p>For additions of publishing equipment, office equipment and furniture select a sample of higher value additions ensuring proper authorisation of expenditure and vouch to:</p> <ul style="list-style-type: none"> <li>– authorised purchase invoice;</li> <li>– goods received note;</li> <li>– entry in PPE register;</li> <li>– entry in nominal ledger.</li> </ul>	Valuation, Presentation, Rights

(Fifteen marks will be awarded for identifying up to ten of the above procedures and the associated primary audit objective(s))

**(b)**

- (i)** The objective of IAS 16 (PPE) is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

The Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- (b) biological assets related to agricultural activity (see IAS 41 Agriculture);
- (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 Exploration for and Evaluation of Mineral Resources);

or

- (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, the Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

(6 marks)

- (ii)** The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

(5 marks)

**(iii) Elements of cost**

The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

(4 marks)

**[Total: 30 marks]**

## SOLUTION 2

(a)

- (i) Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

Although fraud is a broad legal concept, for the purposes of the ISAs (Ireland), the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. (Ref: Para. A1-A6)

The objectives of the auditor are:

- To identify and assess the risks of material misstatement of the financial statements due to fraud;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- To respond appropriately to fraud or suspected fraud identified during the audit.

(5 marks)

- (ii) The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.

(4 marks)

- (b) If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

1. Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
2. Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; and
3. If the auditor withdraws:
  - (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
  - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

(3 marks)

- c) In accordance with ISA (Ireland) 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A7- A8) 13. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A9) 14. Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

(3 marks)

(d)

(i) Preventing and detecting fraud and error.

The directors of Waterdown Hotels Co (Waterdown) are responsible for the prevention and detection of fraud and error. However, the new internal audit department can help the directors by assessing the main areas of fraud risk, assessing the adequacy and effectiveness of control systems and helping to develop controls to mitigate key risks. Having developed the controls, they can undertake regular reviews of compliance by each hotel of these controls.

Where non-compliance is identified, they can instigate further training if necessary or report suspected frauds to senior management.

Where fraud is suspected, the internal audit department can undertake a detailed fraud investigation to identify who is involved, likely sums stolen and gather evidence for any subsequent police investigation.

In addition, the presence of an internal audit department can itself act as a fraud deterrent, as the risk of being discovered means individuals are less likely to undertake fraudulent activities.

(ii) Limitations of establishing and maintaining an internal audit department The internal auditors of Waterdown will be employees of the company and so this can impair their independence, as they may not report issues to those charged with governance for fear of losing their job. Although some internal auditors are professionally qualified, there is no requirement to be qualified, as there is for external auditors.

Hence, there may be gaps in the experience and technical knowledge of the internal audit department. The cost of establishing an internal audit department can be significant; hence prior to recruiting a team, the management of Waterdown should consider carefully the roles the team can perform and whether this will generate sufficient value for money. As Waterdown has not previously had any form of internal audit, there may be some resistance from employees of the company. They may be uncomfortable with the idea of their work being reviewed, especially if the first role of the department is to undertake fraud investigations.

(8 marks)

(e) Additional functions for Waterdown's internal audit department

#### **Monitoring asset levels**

The internal audit department could undertake inventory counts at the restaurants of the 11 hotels. There is likely to be a significant level of goods held at each hotel. Internal audit could count actual levels of goods held and compare them to the hotels' records. If consistent negative differences occur for a hotel, then this may be an early indicator of fraud. If positive differences are highlighted, then it could be because employees have not been adequately trained on how to record inventory.

#### **Cash controls at hotels**

Waterdown's internal auditors could undertake controls testing over cash receipts and cash counts. It is likely that cash at each hotel will be significant as there would be cash at the reception, restaurant and leisure club. Each hotel should have tight controls over the cash receipts process. These controls should be tested at each location as well as performance of a cash count to reduce the level of errors.

#### **Customer satisfaction levels**

In order to improve the overall guest experience in the hotel, members of the internal audit department could undertake 'mystery guest' reviews, where they enter the hotel as a guest, stay the night, eat and drink in the restaurant and visit the leisure club. They then rate the overall hotel experience. This is fed back to each hotel to improve customer service and can provide the basis for further training, if necessary.

#### **Overall review of financial/operational controls**

The department could undertake reviews of controls at head office, as well as individual hotels and make recommendations to management over such areas as the purchasing process as well as the payroll cycle.

#### **IT system reviews**

Waterdown is likely to have a relatively complex computer system linking all of the tills in the hotels to head office. The internal audit department could be asked to perform a review over the computer environment and controls.

#### **Value for money review**

The internal audit department could be asked to assess whether Waterdown is obtaining value for money in areas such as capital expenditure.

**Regulatory compliance**

Waterdown's operations include leisure clubs, restaurants and hotel rooms. There will be various laws and regulations such as health and safety, food hygiene and fire prevention that impact Waterdown. The internal audit department could help to monitor compliance with these regulations.

(7 marks)

**[Total: 30 marks]**

### **SOLUTION 3**

1. **D** Relevant and reliable
2. **A** Such a communication is necessary for all audit appointments (option A). The purpose of finding out the background to the proposed change is to enable the nominee auditor to determine whether it would be proper for him to accept nomination. In particular, the nominee auditor will wish to know if the change in appointment arises from an attempt by management to conceal unsatisfactory practices or improprieties from shareholders or others.
3. **D** After date cash testing. If the customer has since paid the full amount due it will prove that it is not a bad debt and therefore valued appropriately. It would also verify that the debt existed
4. **B** Accounting reconciliations are a type of information processing
5. **C** Assurance file, the other three are considered core elements
6. **A** Option A describes the “around the machine” approach. This contrasts with the “through the machine” approach as per option B.
7. **A** is evidence originated by the auditor and as such, is prima facie more reliable than the other options which are all examples of evidence obtained from other sources.
8. **A** The engagement letter serves a number of purposes. It provides written confirmation of the auditor's acceptance of his appointment, of the scope of his audit and of the form of his report. It will also cover such areas as the basis on which fees will be charged, and the non-audit services to be provided, but its principal purpose is to define clearly the extent of the auditor's responsibilities, distinguishing them from those of management.

(2.5 marks each)

**[Total: 20 marks]**

## SOLUTION 4

(a)

- (i) The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements

Two types of subsequent events- Adjusting and Non-adjusting

Adjusting - events providing additional evidence relating to conditions existing at the reporting date they require adjustment in the financial statements.

Examples

- Trade receivables going bad
- Credit notes relating to sales made before the reporting date
- Inventory at the year end sold lower than cost

Non-adjusting - events concerning conditions which arose after the reporting date, but which may be of such materiality that disclosure is required to ensure that the financial statements are not misleading.

Examples

- Takeover
- Legal issues after the year end
- A fire after the year end

(5 marks)

- (ii) If a non-adjusting event impacts the going concern assumption, the event becomes an adjusting event as the going concern basis of preparation may no longer be appropriate or disclosures may need to be included.

Example,

If the non-adjusting event is a ie a flood or fire which destroys the premises and inventory and adequate insurance is not in place, the company may not be able to replace the plant and equipment or inventory it needs to trade. It may not be able to buy or lease premises to operate from. In this case, the financial statements would have to be prepared on a break up basis.

(3 marks)

- (b)
1. On 2 August 18 had a sale of inventory for a price which was less than its cost (the inventory was recorded in the FS to 31 July 2018 as closing inventory) Adjusting: :new evidence on something that existed on 30 June 2018: action write stock down to its net realisable value
  2. The issue of new shares on 3 August 2018 - non adjusting: event did not exist at 31 July 2018: action disclose as a note
  3. A fire in the warehouse destroyed all of the inventory on 8 August 2018: non adjusting: the stock existed at 31 July- it was only destroyed after year end
  4. A major credit customer that owed us €150,000 per FS at 31 July 2018, was declared bankrupt on 10 August 2018: adjusting: balance existed at 31 July- event just gives us new evidence on the balance: action write off €150,000 as a bad debt.
  5. The purchase of an asset on 21 August 2018: non adjusting: event occurred after 31 July: action disclose only
  6. On 27 August 2018, Hyden's solicitor received a claim from an employee who fell at our premises on 1 March 2018. The solicitor estimates a claim against Hyden of €1m. Adjusting: the event (the fall) occurred before 31 July – we just now have the evidence- action provide for an expense and a liability

(12 marks)

**[Total: 20 marks]**



## SOLUTION 5

(a)

(i) **Objectives**

In accordance with ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*, the auditors' fundamental objectives are to:

- Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
- Express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable reporting framework.
- Report on the financial statements, and communicate as required by ISA's, in accordance with the auditor's findings.

**Legal rights afforded an auditor of a limited company**

As an auditor of a limited liability company, the following rights are typically given by legislation:

- To receive notice to attend and be heard at all general meetings.
- To obtain access at all times to all accounting records.
- To be informed of any proposal for dismissal, and to take certain actions in that event.
- To obtain all necessary information and explanations, as required, from a subsidiary and its auditor and, in any other case, to require information to be provided by the parent company.

(7 marks)

(ii) The manner in which the director of a company has the authority to dismiss their auditors and the appropriate procedures the director must undertake to remove an auditor.

- The directors do not generally have the authority in their capacity as directors to dismiss the auditor.
- The removal of auditors can usually be achieved by a simple majority at a general meeting of the company.
- There are some safeguards, such as a specified notice period, to prevent the resolution to remove the auditors being 'sprung' on the meeting.
- The auditors have to submit a statement of the circumstances surrounding their removal.
- The auditors may then wish to exercise their right to attend and be heard at the AGM in order to make representations directly to the shareholders.

(5 marks)

(b) In adhering with the "Code of Ethics for the Institute of Certified Public Accountants in Ireland", a member is required to comply with the five key fundamental principles laid out within the code.

**Fundamental Principles**

A member is required to comply with the following fundamental principles:

- (a) **Integrity** A member shall be straightforward and honest in all professional and business relationships.
- (b) **Objectivity** A member shall not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- (c) **Professional Competence and Due Care** A member shall maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member shall act diligently and in accordance with applicable technical and professional standards when providing professional services.
- (d) **Confidentiality** A member shall respect the confidentiality of information acquired as a result of professional and business relationships and shall not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships shall not be used for the personal advantage of the member or third parties.
- (e) **Professional Behaviour** A member shall comply with relevant laws and regulations and shall avoid any action that discredits the profession

(8 marks)

**[Total: 20 marks]**