NOTES:
SECTION A: Answer Question 1, and
SECTION B: Answer any two from Questions 2, 3 and 4.
Should you provide answers to more questions than required in Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers provided will be marked.

Time Allowed
3.5 hours, plus 20 minutes to read the paper.

Examination Format
This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute’s website.

Reading Format
During the reading time you may write notes on the examination paper, but you may not commence writing in your answer booklet.

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

Answers
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.

Answer Booklets
List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.
1. You are the audit senior assigned to the audit of HCS Ltd (HCS), a wholly owned subsidiary of a Belgian parent company. The company has changed its financial year-end date, and the financial statements currently subject to audit are for the 10 months to 31 March 2018. You are provided with the following information:

1. The main business of the company (which is based in Ireland) is the importation from the Far East (see below) into the European Union of high-definition and ultra-high definition televisions and home cinema systems for distribution to retailers (and, in the case of home cinema systems) to consumers in several countries.
2. All inventories are purchased from firms in Taiwan and Singapore that are either subsidiaries or associated companies of HCS’s parent company.
3. HCS was incorporated in 2008 and operated profitably until 2015 when it turned loss-making due to changes in consumer sentiment and the increased availability of similar, cheaper ‘smart’ televisions.
4. However, it has, maintained market share and even increased profitability in the market for its home cinema systems, where the excellent quality of its products is appreciated by mostly affluent customers.
5. A decision has now been taken by the company to exit the ‘ordinary’ high-definition television market and to concentrate on other products, both of which are aimed at more affluent customers. This decision has been made public by means of a press release and has been covered fairly extensively in the media.
6. You have established that one of HCS’s largest trade receivables has gone into liquidation. The amount owed by this customer is approximately €4.3 million. The client has provided for 50% of this amount, as the other 50% is covered by credit insurance. The insurance company has acknowledged receipt of the claim in respect of HCS’s loss and has requested HCS to provide evidence that it fulfilled all conditions in respect of the customer before the claim will be paid. The managing director of HCS is adamant that all such conditions have been met but correspondence in relation to this matter is ongoing.
7. The company maintains fully computerised accounting systems for sales/trade receivables, inventories and general ledger functions. Audit tests conducted in previous years do not indicate any particular difficulty with internal controls in these areas. The sales/trade receivables system matches the cash receipts to outstanding items and maintains details of unfulfilled orders in cases where these orders cannot be fulfilled immediately.
8. HCS has a wholly owned subsidiary located in Germany which was incorporated in 2014. It has been loss-making since incorporation and has a large deficiency in net assets. The figures related to this subsidiary have not been consolidated into the attached information.
9. A large stock of high definition televisions at a cost of €5.4 million was ordered and is currently en route from Taiwan. These are the most advanced high-definition televisions available. They are not, however ‘ultra-high’ and since HCS has decided to exit this segment of the market, the company has decided not to accept delivery of these items. The Taiwanese company from which they were purchased has refused to take them back and the directors of HCS are examining the possibility of off-loading them at a very small margin to a company in France.
10. One type of home cinema system (model RS 5200) which was released early in 2016 was found not to have been consistently fitted correctly by HCS’s installers. This gives rise to difficulties only in those cases where the home cinema systems are subject to extremely heavy use and, even then, there are no health and safety implications. After consulting with its engineers, HCS established a provision of €4.32 million to rectify the issues but only €720,000 of this has been utilised up to 31 March 2018. There has been a drop off in the numbers of problems being reported to HCS.
REQUIREMENT:

(a) Critically assess the key factors which indicate that a significant going-concern risk may be an issue on this audit. Support your solution with an analysis of the financial information supplied (including relevant calculations) and recommend what additional audit evidence you should seek to evaluate the issue further. (18 marks)

(b) On the assumption that HCS could continue as a going-concern, discuss the audit matters you should consider and the audit evidence you should expect to find in respect of each of the following:

(i) Inventories (including inventories in transit)
(ii) Receivables (including the provision for bad and doubtful debts)
(iii) Payables (including intra-group balances). (18 marks)

(c) Evaluate, from the perspective of the external auditor, the suggestion that the company should create and capitalise in its financial statements a deferred tax asset equivalent to 12.5% (the prevailing corporation tax rate in Ireland) of its accumulated tax losses to date. (6 marks)

(d) Critique the suggestion that, given the reduction in the volume of business in the past year (as reflected by the decrease in revenue), it should be possible to reduce the time allocated to the audit, and hence the budget, by at least 15% in comparison to the previous year. (8 marks)

[Total: 50 Marks]
HCS Ltd.
Extract from the Statement of Profit or Loss and Other Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>Unaudited accounts for 10 months to 31 March 2018</th>
<th>€’000</th>
<th>Audited accounts for 12 months to 31 May 2017</th>
<th>€’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong> (Note 1)</td>
<td></td>
<td>430,083</td>
<td></td>
<td>648,063</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td>(462,951)</td>
<td></td>
<td>(712,359)</td>
</tr>
<tr>
<td><strong>Loss before taxation</strong> (Note 2)</td>
<td></td>
<td>(32,868)</td>
<td></td>
<td>(64,296)</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td></td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Loss</strong></td>
<td></td>
<td>(32,868)</td>
<td></td>
<td>(64,296)</td>
</tr>
</tbody>
</table>

**Statement of Financial Position**

**Non-Current Assets**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments (Note 2)</td>
<td></td>
<td>9</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Property Plant and Equipment</td>
<td></td>
<td>16,200</td>
<td></td>
<td>19,494</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16,209</td>
<td></td>
<td>19,503</td>
</tr>
</tbody>
</table>

**Current Assets**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories (Note 3)</td>
<td></td>
<td>69,507</td>
<td></td>
<td>162,657</td>
</tr>
<tr>
<td>Receivables (Note 4)</td>
<td></td>
<td>93,177</td>
<td></td>
<td>128,790</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>0</td>
<td></td>
<td>360</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>1,377</td>
<td></td>
<td>9,963</td>
</tr>
<tr>
<td></td>
<td></td>
<td>164,061</td>
<td></td>
<td>301,770</td>
</tr>
</tbody>
</table>

**Less: Current Liabilities**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables and Borrowings (Note 5)</td>
<td></td>
<td>(148,833)</td>
<td></td>
<td>(244,593)</td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td>(8,010)</td>
<td></td>
<td>(15,048)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(156,843)</td>
<td></td>
<td>(259,641)</td>
</tr>
<tr>
<td><strong>Net Current Assets</strong></td>
<td></td>
<td>7,218</td>
<td></td>
<td>42,129</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23,427</td>
<td></td>
<td>61,632</td>
</tr>
</tbody>
</table>

**Financed by:**

**Non-Current Liabilities**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables and Borrowings</td>
<td></td>
<td>261,306</td>
<td></td>
<td>266,706</td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td>333</td>
<td></td>
<td>270</td>
</tr>
<tr>
<td></td>
<td></td>
<td>261,639</td>
<td></td>
<td>266,976</td>
</tr>
</tbody>
</table>

**Equity**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Share Capital</td>
<td></td>
<td>9,000</td>
<td></td>
<td>9,000</td>
</tr>
<tr>
<td>Retained profits/(losses)</td>
<td></td>
<td>(247,212)</td>
<td></td>
<td>(214,344)</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td></td>
<td>(238,212)</td>
<td></td>
<td>(205,344)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23,427</td>
<td></td>
<td>61,632</td>
</tr>
</tbody>
</table>
Notes to accounts:

**Note 1: Revenue**

<table>
<thead>
<tr>
<th></th>
<th>Period to 31 March 2018</th>
<th>Year ended 31 May 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€’000</td>
<td>€’000</td>
</tr>
<tr>
<td>High Definition Televisions</td>
<td>86,017</td>
<td>162,016</td>
</tr>
<tr>
<td>Ultra-High Definition Televisions</td>
<td>169,027</td>
<td>276,250</td>
</tr>
<tr>
<td>Home Cinema Systems</td>
<td>175,039</td>
<td>209,797</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>430,083</strong></td>
<td><strong>648,063</strong></td>
</tr>
</tbody>
</table>

**Note 2: Investment in German Subsidiary**

This represents the cost of the original investment in the German subsidiary.

**Note 3: Inventories**

<table>
<thead>
<tr>
<th></th>
<th>As on 31 March 2018</th>
<th>As on 31 May 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€’000</td>
<td>€’000</td>
</tr>
<tr>
<td>High-Definition Televisions</td>
<td>15,983</td>
<td>16,266</td>
</tr>
<tr>
<td>Ultra-High Definition Televisions</td>
<td>29,834</td>
<td>73,155</td>
</tr>
<tr>
<td>Home Cinema Systems</td>
<td>23,690</td>
<td>73,236</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69,507</strong></td>
<td><strong>162,657</strong></td>
</tr>
</tbody>
</table>

**Note 4: Receivables**

<table>
<thead>
<tr>
<th></th>
<th>As on 31 March 2018</th>
<th>As on 31 May 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€’000</td>
<td>€’000</td>
</tr>
<tr>
<td>Trade Receivables</td>
<td>71,183</td>
<td>102,197</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>(4,941)</td>
<td>(4,545)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66,242</strong></td>
<td><strong>97,652</strong></td>
</tr>
<tr>
<td>Amounts owing from German subsidiary</td>
<td>5,817</td>
<td>4,415</td>
</tr>
<tr>
<td>Other Sundry receivables</td>
<td>21,118</td>
<td>26,723</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93,177</strong></td>
<td><strong>128,790</strong></td>
</tr>
</tbody>
</table>

**Note 5: Payables and Borrowings due within one year**

<table>
<thead>
<tr>
<th></th>
<th>As on 31 March 2018</th>
<th>As on 31 May 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€’000</td>
<td>€’000</td>
</tr>
<tr>
<td>Trade Payables and Accruals</td>
<td>37,521</td>
<td>42,849</td>
</tr>
<tr>
<td>Amounts owing to parent entity</td>
<td>80,296</td>
<td>139,729</td>
</tr>
<tr>
<td>Amounts owing to related entities</td>
<td>26,242</td>
<td>37,652</td>
</tr>
<tr>
<td>Sundry Accruals</td>
<td>4,774</td>
<td>24,363</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>148,833</strong></td>
<td><strong>244,593</strong></td>
</tr>
</tbody>
</table>
You are the audit manager in charge of the audit of Fine Wires Manufacturing Ltd (FWM). The company manufactures electrical wiring for the domestic and export markets and does not sell directly to the general public. The audit is nearing completion and you intend to recommend to the partner-in-charge that an unmodified audit report be given to the client. As part of your final review, you are reading the minutes of the Executive Board’s last three meetings, one of which was held before the end of the financial year and the other two since that date.

One possibly significant item which you notice is that, about four weeks before the current financial year end, a disclosure was made to the Board by an employee claiming protection under so-called ‘whistleblower’ legislation i.e. The Protected Disclosures Act 2014. The disclosure alleged that the insulation material used in one of the company’s most popular products does not meet the required industry standards and could, in adverse conditions, expose property in which it is used to the risk of fire or, in the case of living things approaching or touching it, the risk of electric shock or even electrocution.

In response to this, the Board requested the most senior technical experts in the company to investigate and prepare a report. This report is now complete and is unequivocal in rejecting the allegations of the whistleblower. It further points out that the particular type of wire in question has been on the market for a number of years and no reports of problems with it have ever been received.

This report was presented at the most recent Board meeting. During the discussion which followed, the importance of preventing this allegation from entering the public domain was agreed by all those in attendance. It was decided to consult the company’s legal advisors and to request them to draft a formal reply to the whistleblower denying, in the strongest possible terms, the substance of his or her allegations. This process is currently ongoing.

REQUIREMENT:

(a) Appraise the significance to the auditor, of protected disclosures by whistleblowers regarding audit clients.  

(10 marks)

(b) Based on the case FWM case above, recommend the most appropriate course of action for you, as audit manager, to follow between now and the conclusion of the audit. Justify your recommendation.  

(15 marks)

[Total: 25 Marks]
3. (a) The Companies (Accounting) Act 2017 inserted a revised section 280 (280A) into the Companies Act 2014. This increased two of the three thresholds below, which a company will not be required to have an audit (still subject to various exceptions) as follows.

<table>
<thead>
<tr>
<th></th>
<th>Old limit</th>
<th>New Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€8,800,000</td>
<td>€12,000,000</td>
</tr>
<tr>
<td>Gross Assets</td>
<td>€4,400,000</td>
<td>€6,000,000</td>
</tr>
<tr>
<td>Employees</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

**Note:** A company needs to meet two of the three criteria to potentially qualify for exemption.

You are an external consultant acting for a reasonably large national accountancy practice which has several clients who will now be eligible to apply for audit exemption for the first time.

**REQUIREMENT:**

Prepare a briefing paper for a partners' meeting in which you discuss the advice the practice will offer to those clients on whether or not to avail of the option to no longer have an annual audit. Your paper should discuss the matter both from the perspective of the accounting practice and from the clients' perspective.

(18 marks)

(b) Micro-entities are defined by the Companies (Accounting) Act 2017 as those that meet at least two of the following criteria:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€700,000</td>
</tr>
<tr>
<td>Gross Assets</td>
<td>€350,000</td>
</tr>
<tr>
<td>Employees</td>
<td>10</td>
</tr>
</tbody>
</table>

**REQUIREMENT:**

Critically assess the view that, as the threshold for mandatory audit increases further, it is time to introduce a regulatory or legal prohibition on the audit of very small entities, starting perhaps with micro entities as defined above.

(7 marks)

[Total: 25 Marks]
4. (a) A national employer organisation is lobbying government on various issues that it deems are placing unnecessary costs on businesses and delivering little value to the businesses themselves or other stakeholders. One area within its line of sight is the ‘audit report’ which many of its members are required to publish within their annual reports. The organisation has had feedback from its members that audit reports have far too many “useless paragraphs and sections”, such as: Audit Opinion; Basis of Opinion; Going Concern; Key Audit Matters, Auditor’s Responsibilities; and the ‘Bannerman’ disclaimer.

As part of its consideration of the usefulness of the ‘audit report’ you have been invited to present a discussion document to the employer body’s research team.

REQUIREMENT:
Prepare a document for presentation to the research team in which you critique the usefulness of each of the paragraphs and sections of an audit report specifically referred to above.  

(b) You have been asked to review the following audit opinion:

Adverse Opinion on the Financial Statements

“As more fully explained in note 10, the financial statements include an amount of €96,192,840 representing the cost of the group’s property, plant and equipment. No provision for impairment has been made against these assets and no valuation appraisal has been undertaken by the directors. Published information concerning comparable properties indicates very significant reductions in valuations have been experienced. In our opinion, these circumstances indicate that provision should be made for impairment in values as required by International Accounting Standard 36: Impairment of Assets. Whilst the extent of impairment is subject to factors whose outcome cannot be determined with certainty, based on information relating to comparable properties, the effect of its omission is likely to materially overstate the carrying value of the Group’s assets at 31 December 2017; and understate its loss for the year then ended.

In view of the effect of the failure to provide for the impairment referred to above, in our opinion the financial statements do not give a true and fair view, in accordance with ......

REQUIREMENT:
Critically appraise the appropriateness of this audit opinion.  

[Total: 25 Marks]

END OF PAPER
SOLUTION 1
(a) It is pretty much self-evident that going concern is an issue for this company. From the draft financial statements we can see that:
1. The company was loss making in the 12 months to 31 May 2017 and the draft financial statements show that the company continues to be loss-making.
2. On the assumption that Revenue accrues evenly during the year it has fallen by approximately 20%. \[648,063 \times 10/12 = 540,052 \text{ v } 430,083\]
3. The current ratio has decreased from 1.16 to 1.04 between May 2017 and March 2018. Conversely, the liquid (acid test) ratio has increased from 0.54 to 0.602 but for a wholesaler, which carries a lot of inventory and allows a considerable period of credit, all of these figures are dangerously low.
4. HCS has almost run out of cash. It has just €1.3 million left, a decrease of over 86% in the space of a mere 10 months.

From the other information provided we can see
1. There may be a question mark over the realisability of nearly €16 million current inventory of ordinary high-definition televisions. They are clearly not worthless but may need to be disposed of at less than cost since HBS is now exiting this segment of the market.
2. The draft figures produced to date include a provision for half the loss on the impaired receivable. It seems far from certain that the credit insurance company will reimburse the other half in full.
3. HBS’s Germany subsidiary has a large deficiency of net asset which means that the investment in subsidiary in these accounts is probably impaired or worthless and so should be written off. This, in itself, is not very material but more worryingly the €5.817 million owed to us by the subsidiary may also be irrecoverable. On top of this, we also need to be sure that no creditors of the German subsidiary have any recourse to HCS.

Probably the most significant information that we need at this stage is to establish the relationship with the parent company and other companies in the group. Out of our total creditors €106,538,000 is owed to parent and related entities (down from €177,381,000) ten months earlier. If HBS is to be still considered a going concern the status of the €106 million currently owed is crucial. The figure represents over 20% of annualised turnover. \[430 \times 12/10 \times 0.2 = 103\].

The other information we would request, as a matter of urgency, would be therefore:
1. A statement of the group structure and an explanation of the trading relationships within the group. Details of any intra-group letters of support/comfort given or received by HCS.
2. Financial statements for the group as a whole to enable an understanding of the overall financial position. This would enable an assessment to be made of the availability of group resources to come to the aid of HBS if necessary.
3. Minutes of HBS board meetings discussing any of the above.
4. A detailed cash flow statement for the period under review.
5. Detailed cash flow and profit/loss forecasts for the 12 months immediately subsequent to the period under audit; and for at least three subsequent years although perhaps not in as much detail.
6. A detailed discussion with the directors in which you analyse the realism of any such forecasts, and the strategic direction of the entity.
7. Correspondence from HCS’s legal advisors to provide evidence that no undisclosed liabilities exist.
8. Details from the credit controller and financial controller as to the adequacy of the provisions for impaired receivables or inventories.
9. We are told that HCS is a wholly-owned subsidiary of a Belgian parent company. We should therefore investigate the possibility that the parent company may be prepared to support HCS and that “Letters of Support” or “Letters of Comfort” may exist in this respect.
10. We also need to clarify the reason why these accounts are being made up for only 10 months. There may be a legitimate reason but, equally, there is a possibility that it is being done for reasons of “window-dressing” or to deliberately exclude some unfavourable transaction.
(b) Inventories at 31-03-2018 are clearly material in this case representing just over 38% of total assets \[\frac{69,507}{(164,061+16,209)} = 0.03858\]; or 16% of Revenue \[\frac{69,507}{430,083} = 0.1616\]. The average inventory holding period is now (based on sales) \(1\frac{1}{3}\) months \[\frac{69507 \times 10}{430,083} = 1.616\] by comparison at 31-05-2017 the corresponding figures were just over 50% of total assets \[\frac{162,657}{(301,770 + 19,503)} = 0.5062\] and 25% \[\frac{162,657}{648063} = 0.2510\] of Revenue giving an average inventory holding period of \(2\frac{1}{2}\) months \[\frac{162,657 \times 10}{648,063} = 2.510\].

Similarly, Receivables are also material at just over 50% of total assets \[\frac{93,177}{180,270} = 0.5169\]; and 22% of Revenue \[\frac{93,177}{430,083} = 0.2166\]. The comparative figures are 40% \[\frac{128,790}{321,273} = 0.4008\], and 20% respectively \[\frac{128,790}{648,063} = 0.1987\]. These would give average collection periods of \(2\frac{1}{2}\) months \[\frac{93,177 \times 10}{430,083}\] in the 10 months to March 2018 and \(2\frac{1}{3}\) months in the previous 12 months \[\frac{128,790 \times 12}{648,063} = 2.385\].

**Note:** Candidates who use “expenses” as a proxy for “cost of sales” in the calculation of the inventory holding period would have received full credit but obviously would have obtained slightly different figures.

Notwithstanding, that the inventories and receivables figures have “improved” slightly in over the last 10 months (in the sense that inventory seems to be turned over more quickly and receivables collected slightly more efficiently) the balances are still risky and could be overstated because inter alia:

1. 23% \(\frac{15,983}{69,507}\) of the inventory balance consists of high-definition televisions a sector in which HCS has decided to cease operations. These may now have to be disposed of below cost or at a smaller margin than anticipated.
2. If the suggestion that HCS may be in financial difficulty gets into the public domain (or its customers suspect that it might be) that may make debt collection even more difficult as customers will not prioritise a supplier if they feel they may not continue to be a supplier into the future.

Inventories in transit are a particular concern for the auditor. The main point to be considered here is whether the property in the inventory has passed to the receiving company at the period-end date. If it has, then the inventories and any corresponding liability should be included in the financial statements. If not, both should be excluded. Whether the property has passed or not will need to be decided by looking at the conditions of sale, and deciding at what point the property passes. One way of considering the matter would be to ask the question who would bear the loss if the property was lost or destroyed in transit or, by extension, who pays the insurance premiums in respect of it.

The adequacy of the provision for bad and doubtful debts should be examined by looking at the experience of the firm and the industry in which it operates. For example, such a provision was made in the previous years’ financial statements. As auditors we should inquire if it turned out to be necessary and how accurate it was. We should access if the same conditions still apply and consider the need for such a provision this year.

The audit evidence that we would expect to be available is as follows:

1. Inventory and receivables lists (including ageing details) and details of attendance at inventory count(s)
2. Details of any slow moving or damaged inventory
3. Calculations of relevant ratios.
4. Purchase invoices including responsibility for transport arrangements.
5. Systems descriptions and records of tests of control for inventories and receivables.
6. Payment records for individual receivables.
7. Details of any inventory or receivables written off during the year.
8. Direct confirmations from third parties holding inventories on HCS’s behalf, if relevant.
9. Direct confirmations from individually material and selected other receivables.

(iii) As regards payables the emphasis of the auditors is different inasmuch as we are more concerned with omission or understatement. This means that the audit of liabilities is inherently more difficult than the audit of assets. We can look at the balances in the draft financial statements but this is meaningless if the balances are materially understated.

Another issue is that there are considerable amounts owed to related entities and the parent company. This is to be expected since we are told that all inventories are purchased from firms in Taiwan and Singapore that are either subsidiaries or associated companies of HCS’s parent company. In fact, if this is the case we, as auditors, need to query why (and to whom) we owe the €37.5 million classified as “Trade Payables and Accruals” and the €4.3 million of “Sundry Accruals”.

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We need a reconciliation of all balances owed to the suppliers' statements. In the case of the external companies, this is very good audit evidence but for intra-group balances a certain independence is lacking and so the evidence is not quite so strong. However, there is some suggestion that the internal controls are strong so this adds some comfort. We may still need Written Representations from Management in respect of intra-group balances.

The evidence that we would therefore expect to be available is as follows:

1. List of trade payables, accruals, sundry accruals, and intra-group balances at current date and corresponding date at end of previous period.
2. Calculations of relevant ratios.
3. Reconciliation of such balances with suppliers' statements.
4. Evidence of direct confirmation from suppliers, if statements unavailable.
5. Evidence of search for unrecorded liabilities.

(c) Based on the draft Statement of Financial Position as on 31 March 2018, the company currently has accumulated retained losses of €247,212,000. Theoretically, this could give rise to the existence of a deferred tax asset of, say, €31 million. This would clearly be a material amount in the current context. Unfortunately, it would almost certainly be inappropriate for the company to capitalise this.

Firstly, we would need to be sure that all of the €247 million would be allowed for tax purposes in the first place. This is almost certainly not the case. Any Deferred Tax Asset could only be based on tax losses carried forward at this point. It should be relatively easy to establish what this is and it may not vary too much from the accumulated losses figure.

If we assume that this figure can be established we need to decide if the company will have taxable profits to absorb it in a reasonable period. In other words, for the creation of the asset to be appropriate we, as auditors, must be reasonably certain that the company will have taxable profits which these losses forward could be used to reduce. We also need to check that this is permitted by the tax legislation.

There is insufficient information in the question to come to a definitive conclusion on this point but the accumulated losses are now so large that it seems very unlikely that the company will be profitable enough to absorb them in the foreseeable future. The fact that no such asset exists in the audited financial statements at 31-05-2017 suggests that the auditors reached a similar conclusion last year and the continuing losses suggests that this was the correct conclusion.

(d) There is little doubt that the volume of transactions undertaken by HCS has decreased in the 10 months to March 2018 in comparison to the corresponding period of the previous year. As we saw in the solution to part (a) above revenue has decreased by about 20% and there have been corresponding falls in inventories and receivables. On the liabilities side, there have been falls in amounts falling due within one year although not to any significant extent in longer dated liabilities.

On the assets side it is, therefore, reasonable to suppose that the volume of work involved for the auditor will reduce. It would not be correct to suggest, however, that this should be proportionate to any decrease in volume of activity. An audit requires a minimum of testing and this will not vary proportionally with the client activities. In this case, there is a clear implication in the question that much reliance is placed on tests of controls. Tests of controls seek to provide audit evidence that the clients’ systems are being applied as prescribed throughout the period under review and hence the amount of testing will be relatively insensitive to the volume of transactions.

On the substantive testing side, we note that this is a very large client (albeit not as large as previously) so it is probable that statistical sampling and/or computer assisted audit techniques will be used in the testing. The time taken to undertake substantive testing using either of these techniques is relatively unaffected by the number of transactions in the population being tested. This is normally considered to be an advantage of these techniques but, in this instance, may preclude the auditor from reducing the fee as much as the client would expect or like.
Therefore, the routine work on the audit may not be reduced in proportion to the reduction in revenue. On the other hand, the more difficult, expensive, judgemental work will almost certainly increase and this will militate against a reduction in fee. Going concern has been identified as a potential risk so several areas of the audit take on even more importance and even more risk than would normally be the case. Such areas include:

- The search for unrecorded liabilities
- The susceptibility of financial statements to fraud and error
- The impact of intra-group and related party transactions
- The subsequent events review
- Consideration of the need for written representations from management
- The Key Audit Matters for inclusion in the Audit Report
- The audit opinion.

In summary is it likely that the difficulty and complexity of this work would at least outweigh any savings on more routine work and, therefore, any reduction in the audit fee may be difficult to achieve.

Similarly, the fact that the period subject to audit is 10 rather than 12 months could not be relied upon to give rise to significant savings.

**Marking Scheme for Question One**

<table>
<thead>
<tr>
<th>Part</th>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Overall comments about going concern</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Identified reasons specific to HCS why going concern is a problem either from financial statements as provided or from information in question (reasons as given in solution or other valid reasons) maximum</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Identification of issue of related parties</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Relevant calculations maximum</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Identification with reasons of other information needed</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Other relevant points</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Maximum marks for part (a)</strong></td>
<td><strong>18</strong></td>
</tr>
<tr>
<td>(b)</td>
<td>For each of inventories, receivables, and payables a discussion of materiality (they all are material) and degree of risk attached (3 X 2)</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Relevant calculations (e.g. credit period allowed (3 X 1))</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Note: Mark may be awarded here if referred to even if calculation included in solution to part (a) above</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Discussion of inventories-in-transit, provision for bad and doubtful debts, and intra-group balances (3 X 2)</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Audit evidence you would expect to find for each part (2 X 3)</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Other relevant points</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Maximum marks for part (b)</strong></td>
<td><strong>18</strong></td>
</tr>
<tr>
<td>(c)</td>
<td>Brief explanation of deferred tax assets</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Calculations /observations of the amount potentially involved and materiality thereof</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Reasons why it may be inappropriate to capitalise</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Other relevant points</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Maximum marks for part (c)</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td>(d)</td>
<td>Volume of transactions reduced with illustrations or calculations</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Volume of work distinguishing tests of controls and substantive tests and also assets and liabilities</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Need for more professional, judgemental, and higher skilled work</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Examples of same</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Conclusion</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Other relevant points</td>
<td>2</td>
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<td></td>
<td><strong>Maximum marks for part (d)</strong></td>
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<tr>
<td></td>
<td><strong>Maximum marks for Q1</strong></td>
<td><strong>50</strong></td>
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</table>
SOLUTION 2

(a) Auditors will take audit evidence from wherever they can get it. If the auditor becomes aware that a client company is the subject of a protected disclosure this is certainly a matter of interest to him or her. As an aside, the auditor may well question what it is about the company that has put the employee into a position of feeling that he or she needs the protection of the whistleblower legislation in order to make disclosure. Does it, for example, suggest that there is a culture of bullying within the company or at least a culture of not valuing employees or making them feel that their voice is not heard? Does it reflect poorly on the integrity of management?

That aside, the auditor will need to consider the impact the disclosure could potentially have on the financial statements. For example a disclosure might suggest that the company could possibly have an unrecorded liability because, for example, it might be subject to claims against it by individuals or entities who may feel aggrieved by the actions of the company and who may have some legal redress. Similarly, it might find itself exposed to fines or penalties for breaches of laws or regulations. In an extreme case, it might even have implications for the going concern status of the company. This might arise in a situation in which the accusation was so serious that it might suggest the possibility of the company’s license to operate being withdrawn.

As with any other piece of evidence, however, the auditor will also need to try to assess the credibility of what the whistleblower is saying. The auditor should not be too quick to dismiss the credibility of the accusations. Companies will often “circle the wagons” when faced with a whistleblower and, in some cases, this leads them to not addressing the problem which then accumulates and becomes harder to solve later on. It is of course true that the accusations of whistleblowers may be mistaken, vexatious or even malicious. However as sceptical as the company may be about the whistleblowers claims the auditor needs to be equally sceptical about the management responses to them.

The auditor should also consider any efforts made by the whistleblower to bring the problem to the attention of the company prior to raising the matter under the whistleblower legislation. For example, with whom were the allegations first raised? Was any action taken at that time and, if so, how did the problem persist or recur?

The more specific and detailed the whistleblowers accusations are the more likely it is that they have some credibility. Fortunately, in that case, it should also be easier to confirm or contradict the allegations of the whistleblower. As in every other case, the auditor should look for corroborative or contradictory evidence any place that it might be expected to be found.

The status of the complainant within the company should also be considered. For example if the complainant is a former senior member of management then it is credible that they would have detailed information about how the company operates and about, for example, its finances. In short the auditor needs to examine every aspect of the situation which led to the episode of whistleblowing and come to a conclusion on its credibility. This is obviously very difficult to do and the auditor must proceed with caution. Because of the sensitivities involved it may be appropriate for the auditor to seek the advice of his or her professional body and also legal advice.

(b) The first point to be made is that as audit manager you should take the claims seriously. The claim is reasonably specific and, on the face of it, very worrying. If there is any truth in the claim it means that the company may have potentially exposed customers to the risk of fire, electric shock, or even electrocution. It may also have put its own employees at risk. There is little doubt that if any of this is true then customers could have a claim against the company. As well as that the negative publicity that would follow from such a claim could be extremely serious for the company. Therefore as auditors it is imperative that we satisfy ourselves as to the veracity of the claims, or otherwise.

It is certainly the case that the company management are fully denying the claims. The company has commissioned employees who are experts in this area to write a report which denies the claims. However it is perhaps significant that there has been to date no external examination of the claims by any independent third party. As auditors we need to make our own investigation and come to our own conclusion.

We should therefore proceed as follows:

1. Interview the CEO or a member of senior management with a view to discovering how to claim came about in the first place. For example we should enquire as to whether the complainant is a current employee or has he or she now left the company. If the complainant is still employed (and if the complaint was not made anonymously) we should consider talking to them directly. This will be more problematic if the employee has already left the company.

   We should enquire what happened before the claim was made under the protected disclosure legislation. For example, had the complainant previously made a complaint within the company which they felt was ignored?
2. Review any information available about sales of the particular product in question. If it is one of the companies' most popular products, then there should be a large number of continuing and ongoing sales of the product. Examine the correspondence from buyers of the product to see if there is any information available about sales of the particular product in question. Examine the correspondence from buyers of the product to see if there are any complaints being made by them about the performance of the product or any instances being noted of any unusual occurrences. Also have a look at the extent of returns of the products and examine any refunds that may have been given in relation to purchases of the product.

3. With the permission of the company, contact the legal advisers of the company and enquire specifically if there had been any claims or any threats of any claims in relation to incidents concerning this product. This query could form part of the normal enquiries that are usually made with companies' legal advisers in the course of an audit but the question should be raised specifically in this case.

4. Read the report of the company's technical expert and note if they have, for example, mentioned any change in the materials that are used to manufacture this particular product or any change in the manufacturing process that might have led to such problems as the whistleblower has suggested.

5. If the company is in some way subject to inspection by some statutory or regulatory authority, then obtain the reports from that body and read them carefully to see if there is any mention of any problems with this product. Obviously if there is any mention of any such problem, the matter should be followed up with extreme diligence.

6. Consider the possibility of instigating an independent investigation by an auditor's expert into the matter. This would be likely to be resisted by the company and would be expensive and so it is a step that should not be undertaken lightly. However in this situation if there is any evidence whatsoever to support what the whistleblower is saying then this should certainly be considered.

In conclusion, this will ultimately be a matter of exercising professional judgment and professional scepticism in the light of the facts that our enquiries reveal. The whistleblower's claims could turn out to be entirely without foundation or they could turn out to be of fundamental importance for the future of the company.

Marking Scheme for Question Two

(a) General comments on whistleblowers and protected disclosures...maximum 3
   The whistleblower's revelations as audit evidence and their potential impact on the financial statements 3
   Examining how the disclosure came about and assessing the credibility of the whistleblower 3
   Considering how specific the complaint is... 2
   The status of the whistleblower within the entity 2
   Other relevant points 2
   Maximum marks for part (a) 10

(b) Matter should be taken seriously 1
    Company denies claim 1
    Claim, if true, could have serious consequences for the company 2
    Steps to be followed (solution suggests six steps and a conclusion ... up to 2 marks for each of the seven points (six steps + conclusion))...to be adjusted if fewer, but more detailed, points are suggested 14
    Other relevant points or steps 2
   Maximum marks for part (b) 15

Maximum marks for Q2 25
(a) To: Partners of XXX Certified Public Accountants and Statutory Audit Firm
Date: Today’s date
Re: Advice to audit clients for whom a statutory audit is no longer mandatory

The decision as to what to recommend to each client in relation to continuing to have an audit is obviously one that should be ultimately made on a case-by-case basis. However, there are a number of factors that should be considered when we are looking at these clients whose turnover will be, give or take, around €10 million.

These clients are reasonably large and so will therefore probably have quite well developed systems of internal control. On the assumption that we are going to be employed anyway in order to prepare, or at least finalise, the financial statements for the client the extra cost of carrying out an audit may not be burdensome for the client who may derive some benefit from it (see below).

The clients could also consider the fact that if they are growing it may be that they will go over the annual turnover limit of €12 million in the reasonably near future and therefore will be required to have an audit anyway. In that situation it may be easier to continue with an audit now rather than have the disruption of not having one and then having to restart again in one or two years’ time.

For various reasons third parties may require an audit of such a client; for example bankers, trade organisations, are the revenue may insist that such clients present audited financial statements. Also, the requirement for an audit may be written into covenants that the companies have signed in relation to obtaining finance from the banks.

Any company that may feel that it is vulnerable to the potential for takeover may find it useful to have had an audit when subsequent negotiations or due diligence procedures need to be carried out.

Another reason for the continuation of audits would be in a situation where the owners are coming close to retirement age or are trying to decide on matters of succession. The additional comfort and assurance given by an audit could be important in that situation.

Also having an audit may be perceived as giving the impression that the client has good corporate governance and that the company is well run and less susceptible to fraud.

Clients should also be reminded that even if they choose to avail of the audit exemption it is still the responsibility of the directors to ensure that the company keeps adequate accounting records and to prepare accounts which give a true and fair view. They will still be required to prepare a full set of accounts to lay before the annual general meeting of the company and to annexe to the annual return. Also some company’s articles of association may include a requirement for an audit. In that case, if it is desired to dispense with an audit a change to the constitution of the company would be required.

If a company chooses not to have an audit no report by an accountant is legally necessary. However accountants will usually include such report if they are involved with the preparation of the financial statements.

From your point of view as auditors you may feel that the loss of the client as an audit client represents a loss of business; a diminution in value of the client. There may be some truth in this depending on the circumstances. However, audit work is not the most profitable nor the most exciting work undertaken by your practice. Also, it has quite a high level of professional risk attached to it. Therefore, not having to continue audits on certain clients may release resources which might be more profitably, and perhaps more interestingly, used elsewhere; for example in the provision of corporate financial advice.

Moreover, if these clients are no longer audit clients it may free your practice up somewhat in the sense that you are less constrained by the ethical rules in relation to the services that you can provide to them or at the extent of those services. The same constraints in relation to independence do not necessarily apply to the provision other services. Similarly, inspections from the supervisory bodies may be less frequent and less onerous in respect of non-assurance clients.

On the other hand some accountants and indeed some members of the public see the provision of the audit service as meritorious and would feel that if it was something we did less of that might make our standing as accountants, or in the local business community, seem somewhat diminished. That might have, for example, a detrimental effect on our ability to attract other clients or, perhaps more significantly, to attract certain staff. Most trainees will want to be exposed to a practice which allows them a broad range of experience. This is particularly relevant in today’s tight labour market for graduates.

Please let me know if you would like any further clarifications.

A. Consultant, Consultants & Co.
All companies were required to have an audit until the introduction of Companies (Amendment) No. 2 Act 1999. The fact that we have gone from a situation where no company was exempt from audit to one where audit is no longer mandatory for a company with a turnover of €12 million in less than 20 years is quite remarkable. However, there has never been any prohibition on a company (or indeed any kind of an entity) from having an audit. Certainly, some entities are not “auditable” but this is quite different from prohibiting certain types of entity from audit entirely. If an entity does not meet the “preconditions of an audit” as laid down in ISA 210 (Ireland) then it is for the accountant not to perform the audit. It could be argued that this is the appropriate approach rather than prohibiting the audit of certain types of entity.

The next question is whether micro entities as defined (to take an example of a very small entity) are ever really “auditable”. For example, if there 10 or fewer employees can there be any meaningful separation of duties? The extent or the possibility of management override in these situations may be so overwhelming as to render such controls as may exist effectively meaningless.

There may be advantages in confining audits to larger entities as it would allow for more consistent application of standards and enable more standardised documentation to be produced. It would, therefore, help to reduce the “expectation gap” and might also help to reduce some dilemmas currently faced by auditors.

Also, for an audit to be possible the accounts must be produced using an acceptable financial accounting framework capable of showing a true and fair view. Company law allows the use of FRS 105 as the accounting framework for micro entities. It is doubtful if financial statements produced under FRS 105 could be said to really show a “true and fair view” so the production of such financial statements may be incompatible with auditing.

On the other hand, a prohibition on the audit of certain entities could give rise to legal difficulties in situations where other legislation requires those entities to be audited. It could be quite a difficult matter to draft legislation which would cover all eventualities and create the necessary degree of legal certainty.

Marking Scheme for Question Three

(a) Format and style of briefing paper
Case by case basis
Reasonably large clients...systems of control...cost
Third parties requiring audit
Potential takeover, changes of ownership, succession
General feature of good governance, less susceptible to fraud
Residual duties of company directors even if no audit
From the point of view of the practice; possible alternative work
Practice released from certain obligations
Merits of retaining audit clients .prestige...retaining staff
Other relevant points up to

Maximum marks for part (a) 18

(b) Requirement to have an audit being confined to larger companies...comment, reasons, history, trend etc
Are small companies capable of being audited?...discussion of problems that can arise...
preconditions for an audit ISA 210 (Ireland)
Expectation gap...increasing audit standards incompatible with micro entities
Micro-entities and FRS 105
Other relevant points

Maximum marks for part (b) 7

Maximum marks for Q3 25
There can be no question that the opinion paragraph is the most important paragraph in the audit report. It sets out the auditor’s opinion on the financial statements. The auditing standards require that the auditor express his or her opinion within certain categories. For example, the report can be unqualified, qualified, adverse, or a disclaimer of opinion can be issued. It is sometimes argued that forcing the auditor to express his or her opinion within such narrow categories denies the auditor the possibility of expressing their opinion in a very subtle or precise manner. As against that, it arguably focuses the auditor on the requirement to come to a quite specific opinion and it excludes the possibility of waffle or indecision. It is no surprise therefore that one of the changes in the new standard is the relocation of the opinion paragraph to the very start of the audit report.

It is sometimes argued that some of the additional paragraphs in the audit report are presented more for the legal protection of the auditor than to add any particular value to the reader.

The basis of opinion paragraph, the auditor’s responsibilities paragraph and the so-called Bannerman paragraph all fall into this category to some degree or other. All these paragraphs set out details about how the audit is conducted; about the work the auditor has to do in order to reach his or her conclusion; and to whom is auditor owes a legal duty of care. It could be said that they also rather pedantically specify the reverse – what the auditor does not do and to whom the auditor does not owe a duty of care.

If the audit report is unmodified, these paragraphs will typically be identical. It is therefore questionable as to their usefulness to a reader of the accounts. However, from the auditor’s point of you, they have the benefit of clarifying to the reader what the auditor has, and has not, done and what the audit opinion does, and does not, mean. This could be very significant to the auditor in the event of litigation against them but, as I say, may have limited enough usefulness to the reader.

Having a mandatory going concern paragraph in an audit report is a new requirement and, a cynic might suggest, just about 10 years too late. The requirement has come into being as a result of ISA 570 (Ireland). Prior to the introduction of this provision auditors only had to refer to going concern in the audit report if there was at least some issue in relation to the entity's ability to continue as a going concern. This led to observations that many companies had failed despite having not had a going concern mention in the previous year's audit report. Conversely companies which did have going concern mentioned in their audit reports often survived. Putting a going concern paragraph into every audit report will at least remove this ambiguity and focus attention on the importance of mentioning going concern. This should be a useful addition to the audit report for the reader.

Although they have been utilised by the auditors of public interest entities for the past few years the requirement to include Key Audit Matters in the audit report has only recently been enshrined in ISA 701 (Ireland) - Communicating Key Audit Matters in the Independent Audit Report.

In some ways communicating these matters is something of a culture shift for the accounting profession. In the past, it would have been deemed inappropriate to publicise matters that the auditor considered in arriving at his or her opinion. It would have been felt to dilute the opinion in some way. Nowadays, it is felt that it is better and more useful to let the reader have access to the information so the reader can decide for him or herself the relative significance of the matters mentioned. These are typically areas of higher than normal audit risk or where judgement is critical to the audit opinion. It would seem to be useful information for a reader of the accounts to have available.

On balance, therefore, it would seem that there is merit in the new audit report requirements. However, care must also be taken to ensure that the report does not become so onerous to read and comprehend that potential users become disinclined to read it. The problem of too much information being dumped on readers of financial statements is, many would say, already manifest in the ever-lengthening nature of the notes to the financial statements. Audit reports should surely not also go down this road.
We have no way of judging the substance of this report in the sense that we are not aware of the facts that lie behind it. However we can see that it is reasonably well constructed and that it appears to have a high degree of internal consistency. The situation here appears to be that the directors of the company in question have refused to carry out a revaluation on the property plant and equipment. We have no idea of the materiality of the property, plant and equipment in the context of the company as a whole but at nearly €100 million it surely must be material. The auditors are obviously of the opinion that this valuation is seriously impaired. In an ideal world a reader of the audit report might wish to be informed about the extent of that impairment. In this case this is not forthcoming probably because it is unknown to the auditors but nevertheless they do state that published information concerning comparable properties indicates that very significant reductions in the value have been experienced. They further go on to state, in essence, that in their opinion the extent of the impairment is such as to render the financial statements as a whole misleading and therefore it is necessary for them to issue an adverse opinion on the financial statements. This is consistent with the heading to the paragraph which is “adverse opinion on the financial statements”. Appropriate reference is also made to the relevant International Accounting Standard 36 - *Impairment of Assets*.

Whilst this audit report does not contain all of the information that perhaps it would in ideal circumstances it does seem like a reasonable report and reasonable opinion for the auditors to have formed given the lack of information. The alternative presumably would have been for them to disclaim the opinion on the financial statements on the basis of a lack of information. However they have obviously been convinced that an adverse opinion is more appropriate in the circumstances. There is nothing in the information provided to suggest that there is any reason why they should not have come to this conclusion.

**Marking Scheme for Question Four**

(a) Opinion paragraph is most important and states auditor’s opinion 3
    Now moved to very start of the report to emphasise importance 2
    Opinion must be in a set format e.g. unqualified, qualified, adverse etc. 2
    Some paragraphs inserted by auditor for defensive legal reasons, e.g. basis of opinion, auditor’s responsibilities, “Bannerman” 2
    These paragraphs also emphasise what the auditor did not do. 2
    General discussion of going concern paragraphs in audit reports 2
    Key Audit Matters paragraph represents new departure…discussion of what it might contain…its uses and circumstances…useful extra information for reader? 3
    Danger of audit report becoming cluttered and excessively long 2
    Other relevant points 2
    (Candidates who attempt the question on a point-by-point basis to be awarded up to 5 points for opinion paragraph and up to 3 for others unless excessive repetition is evident in solution)

Maximum marks for part (a) 18

(b) Cannot know the exact details behind the example 1
    However, the report is clear, unambiguous and highly internally consistent 2
    Figure for PPE identified for avoidance of doubt 1
    Exact extent of impairment unknown but this, in a way, is the whole point 2
    Disclaimer of opinion could have been issued but adverse opinion also completely reasonable, and perhaps more courageous from auditors in circumstances. 3
    Other relevant points 2

Maximum marks for part (b) 7

Maximum marks for Q4 25