# Answers

**1 (a) (i)** It is mandatory to perform analytical procedures as part of risk assessment. Analytical procedures can help the auditor to develop an understanding of the entity, and highlight matters of which the auditor was previously unaware. Procedures are therefore invaluable in terms of developing knowledge about the operations and performance of the entity. For example, this may be particularly important in the case of a new audit client, when analytical procedures such as a comparison of margins made by the entity with those made by its competitors will provide the auditor with some degree of knowledge about the relative performance of the entity within its business environment.

In addition, performing analytical procedures at the planning stage may indicate aspects of the financial statements which appear to carry a high risk of material misstatement. This would happen when unexpected trends and unusual relationships between pieces of financial data were revealed by the analytical procedures. For example, procedures may reveal that revenue has increased by 20% compared to the previous year, but that the budgeted increase was only 5% and the industry average increase was only 8%. These results could indicate the possible overstatement of revenue, and thus the auditor has been alerted to a possible material misstatement in the financial statements.

For these reasons, performing analytical procedures can help the auditor to identify and to prioritise potential areas of risk, and to develop an appropriate audit strategy to minimise detection risk.

**(ii)** Analytical procedures are usually performed before the financial year end, and will therefore be based on draft projected figures up to the year end, or interim financial information, budgets and management accounts. This may make the analysis problematical for the following reasons.

Firstly, the information will not cover the entire accounting period. Extrapolating figures to cover a 12 month period is not always easy to do, especially for a seasonal business where income and expenses do not accrue evenly throughout the year. Care must be taken when performing the procedures to take account of this, and it should not be assumed that income and expense figures should simply be grossed up on a monthly basis to enable annual comparisons.

Secondly, year end close down procedures will not have occurred. For example, many entities will only account for items such as asset impairments or revisions to estimated figures such as provisions at the financial year end. Thus comparisons to figures derived from prior year published accounts may not be valid.

Thirdly, information may be produced differently during the year, controls may be weaker, and the internal management accounts may not be produced in compliance with the same reporting framework as the year end financial statements. Measurement, recognition and presentation of financial information may be very different, so care should be taken when extracting figures from management accounts to be used in comparisons with published financial information.

Finally, some entities, especially smaller companies, may not have a complete or formal reporting system during the year, making analytical procedures before the year end accounts have been produced difficult. It may be possible to perform some limited analysis on the information that is available before the year end, but the use of this analysis will be limited due to its incomplete nature. This means that it may be impossible to base expectations on the data, as it is incomplete at the time of the preliminary analytical review.

**(b)** The definitions of 'overall audit strategy' and 'audit plan' are found in SSA 300 (Revised) *Planning an Audit of Financial Statements*.

The overall audit strategy sets the scope, timing and direction of the audit. Scope involves determining the characteristics of the audit client, such as its locations, and the relevant financial reporting framework, as these factors will help to establish the scale of the assignment. Timing refers to establishing deadlines for completion of work and key dates for expected communications. Establishing the overall audit strategy also includes the consideration of preliminary materiality, and initial identification of high risk areas within the financial statements. All of these matters contribute to the assessment of the nature, timing and extent of resources necessary to perform the engagement.

The overall audit strategy should then lead to the development of the audit plan.

The audit plan is more detailed than the audit strategy and includes a description of the risk assessment procedures, and the further planned audit procedures necessary at the assertion level for gathering evidence on the material transactions and balances in the financial statements. The general purpose of developing the audit plan is to design audit procedures which will reduce audit risk to an acceptably low level.

The difference between the audit strategy and the audit plan is therefore that the strategy is the initial planning to ensure there will be adequate resources allocated to the audit assignment in response to an initial evaluation of the entity's characteristics, whereas the audit plan is a detailed programme of audit procedures.

The strategy will therefore usually be developed before the plan, however, the two activities should be seen as inter-related, as changes in one may result in changes to the other. Both the strategy and the plan should be fully documented as this represents the record of proper planning of the audit assignment.

**(c)** Financial information is needed in order to calculate operating and net margins and to compare to prior period(s). If possible, separate information from the statement of comprehensive income, and asset and liability information should be obtained for each segment of the business.

It is important that the information is disaggregated as Papaya Co operates in different business segments and different geographical locations. Information would be needed at a minimum level of disaggregation as follows:

– Financial information for the Papaya Mart chain of supermarkets
– Financial information for the operations in Farland
– Financial information for the Papaya Express chain of supermarkets
– Financial information for the new financial services division.

The information should be separated out as above to enable analytical procedures to be performed on each separate component of the business, as each component is likely to achieve different margins and returns on capital. Calculating ratios and making comparisons for the company as a whole would be relatively meaningless. For example, the margins made by the two different supermarket chains are likely to be different, as the Papaya Express stores are in city centres where overheads are likely to be much higher than in the out of town locations used by the Papaya Mart stores. The two types of supermarket also sell a different range of goods, which will also make the overall margins different.

Analytical procedures should be performed on the operations in Farland as a separate exercise if possible. This division is likely to have a different cost base, and revenue may be based on a different pricing structure due to the overseas locations of the stores. There may also be distortions to the figures caused by retranslation into the currency of Papaya Co.

The financial services division will have a completely different profit structure, cost base and return on investment than the retail divisions and so must be analysed separately. It is likely to be much less capital intensive, which will mean that returns on investment and asset utilisation ratios will be very different to the retail divisions.

Information about any significant non-recurring items of income and expense for each division should also be requested as these would cause fluctuations in profit and make comparisons difficult if not taken into account. For example, the heavy advertising costs of the new overseas operations will reduce the margin of that division of supermarkets compared to the local stores.

Budgeted information should also be requested. This will be important for the two new divisions – the foreign stores, and the financial services division. As these are start-up activities during the year, there will be no possible comparisons to prior year information. Therefore the main analytical procedures to be performed will be comparisons of actual to budgeted performance. The auditor should bear in mind the reliability of the budgeted information when performing these procedures.

The auditor should also request any information about new accounting policies or estimation techniques which have been used this year. New accounting treatments may distort comparisons, so full understanding of the impact of any new policies is important when evaluating the results of analytical procedures. For example, the new forward exchange contracts entered into during the year will have caused the introduction of a new accounting policy which may cause fluctuations in profit.

It is also useful to make comparisons to similar companies in the same industry. There should be financial information which is readily available for Papaya Co's competitors in the supermarket retail sector, and also for financial services companies. This is a useful source of information, as the auditor will be able to gauge the relative performance of Papaya Co, and assess if margins and returns are similar to industry comparisons or averages. Care should be taken however, when comparing the new divisions to industry competitors, as there may be one off start-up costs included in the statement of comprehensive income for this year, which will reduce profitability.

**(d) Briefing notes to be used at audit planning meeting**
**Subject: Financial statement risks identified at planning meeting**

**Introduction**
At a recent planning meeting held with the finance director of Papaya Co, several issues were discussed which could lead to financial statement risks. All of these issues relate to matters which are potentially material to the financial statements.

**Alleged collusion and price fixing**
It appears that several companies are under investigation for breaching regulations, and Papaya Co could face potentially material financial penalties if found guilty. The situation needs to be assessed by reference to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The risk is that the financial statements do not reflect the situation as either a provision or a contingent liability, depending on the evaluation of the potential outcome of the case. If it is considered that the company faces a probable cash outflow, then a provision and associated expense should be recognised. If the outflow is considered possible, then a note to the financial statements should describe the contingent liability and show an estimate of the potential financial effect. Therefore the financial statement risk is both understated liabilities and overstated profit, if the cash outflow is considered probable but no provision is made. Alternatively, the risk is incomplete disclosure if the outflow is considered possible and no note is provided.

**Convertible debentures**
According to FRS 32 *Financial Instruments: Presentation*, convertible debt instruments should be presented in the statement of financial position split into two separate components. This is because the company does not know if it has an obligation to pay cash on the redemption of the debt in 2015, or whether the debt will be settled by an equity distribution. Therefore, on the receipt of cash proceeds, the credit entry is split between debt and equity. The debt is valued by discounting the potential cash outflows to present value, with the credit entry to equity a residual balancing figure. The financial statement risk is firstly that split accounting has not been applied, so the whole of the credit has been recognised as either debt or equity, and therefore incorrectly recognised in the statement of financial position. This would then have a further consequence for the statement of comprehensive income, as any finance charge calculated on the basis of an incorrect debt component would then also be incorrectly measured.

**Forward exchange contracts**
These contracts are derivative financial instruments. As such, they must be recognised in the statement of financial position at the year end, as a financial asset or a financial liability, depending on whether the terms of the derivative contract are favourable or unfavourable at the reporting date. The financial statement risk is that the derivatives have not been recognised at all, particularly because the contracts were acquired at no cost, so there is no accounting entry when the contract is taken out. A second risk relates to the valuation of the derivative asset or liability. This could be complex to calculate, and if not performed by an experienced specialist, could cause the over or understatement of the financial instrument recognised, and an associated incorrect entry recognised in profit. Finally, FRS 107 *Financial Instruments: Disclosures* imposes potentially onerous disclosure requirements in relation to derivative instruments. The risk is that disclosures made in the notes to the financial statements are incomplete.

**Land held for development potential**
There are indicators that the land could be impaired at the year end. Some land was sold at a loss during the year, and it seems that planning permission for the development of the sites is becoming harder to obtain, meaning that the value of the land has fallen. Following FRS 36 *Impairment of Assets*, an impairment review must be carried out if there are indicators of impairment to an asset. It is likely that land will be overstated in the statement of financial position, and expenses understated, unless an impairment review is conducted and any resulting loss fully recognised. In addition, the losses made on the disposal of land during the year should be separately disclosed in the statement of comprehensive income or a note to the financial statements per FRS 1 *Presentation of Financial Statements*, so there is a risk of inadequate disclosure if this is not done.

**Inspection of warehouses**
A new regulatory requirement has resulted in an inspection of all of the warehouses operated by Papaya Co. Under FRS 16 *Property, Plant and Equipment*, costs of a major inspection should be capitalised and then depreciated over the period to the next inspection. The risk is that the cost has been expensed, in other words, treated as an operating expense. This would result in understated profit and understated non-current assets.

Other financial statement risks (not arising from notes made at the planning meeting) include the following:

**Disclosure of operating segments**
FRS 108 *Operating Segments* requires listed companies to disclose in a note to the financial statements information about the performance of the various different operating segments of the business. Papaya Co has two potential new disclosures this year end. The first is the new financial services division, which is likely to be a separate reportable segment under FRS 108. The second new disclosure relates to the overseas expansion of the company, as FRS 108 requires disclosure of limited geographical analysis of revenue and non-current assets. The financial statement risk is the non-disclosure of information relating to these new operating and geographical segments.

**Internally generated brand names**
Papaya Mart and Papaya Express are internally generated brand names. FRS 38 *Intangible Assets* prohibits the recognition of internally generated brands. The risk arises from significant expenditure on the launch of the brand in Farland. If any of the associated expense has been capitalised as a brand name, this would mean that non-current assets are overstated, and profit for the year would be overstated.

**Conclusion**
There are several financial statement risks identified at the planning meeting, resulting from the company operating in a regulated industry, changed market conditions, and new business activities for the company. Now that the risks have been identified, an appropriate audit strategy will be devised to minimise the risk of material misstatement in relation to these matters.

*Tutorial note: Credit will be awarded for other financial statement risks identified from the question scenario, such as potential over-valuation of inventories, classification of land as held for sale, incorrect timing of recognition of revenue from financial services products, and potential impairment of loans made to financial services customers.*

**2 (a) (i)** Training costs

**Matters to consider**
**Materiality** – the relevant materiality calculations are:

Based on revenue: 500,000/12·5 million x 100 = 4%
Based on net profit: 500,000/400,000 x 100 = 125%
Based on total assets: 500,000/78 million x 100 = <1%

Based on the above, the training costs are immaterial to the statement of financial position, but material to the statement of comprehensive income and therefore to revenue and profit. It is important to note that any adjustment made to recognise the costs as an expense will have the effect of turning the profit of $400,000 currently recognised into a loss of $100,000.

**Accounting treatment**
The finance director's argument is based on the idea that the training costs are directly related to the assets concerned and therefore should be capitalised. FRS 16 *Property, Plant and Equipment* (paragraph 19 c) does not permit the capitalisation of these costs as they are operating costs rather than costs directly attributable to the item of plant. The concept behind this is that assets should only be recognised if they are controlled by the entity. It is unlikely that

Banana Co can exercise control over the skills of its staff which have been developed by the training programme, as staff may decide to leave employment with the company. In addition, FRS 38 *Intangible Assets* also argues against the recognition of training costs as an intangible asset. Therefore there are no grounds for recognising the training costs as a non-current asset, and the $500,000 cost of the training programme should be expensed in the financial statements.

**Audit opinion**

If the financial statements are not amended, the audit opinion should be modified due to a disagreement in accounting treatment. This would most likely be a qualified 'except for' opinion due to the material nature of the disagreement.

**Evidence**

– A schedule detailing the major categories of expenses which make up the total $500,000 costs of the training programme.
– Agreement of a sample of the costs per the schedule to supporting documentation such as invoices provided from the external training firm.
– Agreement of a sample of the costs to the cash book and/or the bank statement.
– Confirmation that the training programme was completed before the year end (i.e. that none of the $500,000 represents a prepayment of costs).
– Confirmation that the $500,000 is complete, and that no further invoices received after the year end in respect of training carried out before the year end should have been accrued.
– Clarification that Banana Co does not exercise specific control over the skills of its staff, by a review of standard terms of employment.
– Confirmation that the amount spent on the training programme agrees to an authorised budget or an approved expenditure programme relating to the new machinery, and that the amount incurred is in line with expectations.

**(ii) Trade receivable**

**Matters to consider**

**Materiality** – the relevant calculations for the total value of the trade receivable are as follows:

Based on revenue: 300,000/12·5 million x 100 = 2·4%
Based on net profit: 300,000/400,000 x 100 = 75%
Based on total assets: 300,000/78 million x 100 = <1%

Therefore the total receivable is not material to the statement of financial position, however, it is material to the statement of comprehensive income and therefore to profit for the year, which is relevant given that it appears that an impairment loss should be recognised in respect of this amount.

**Accounting treatment**

FRS 39 *Financial Instruments: Recognition and Measurement* requires that impaired trade receivables are recognised at fair value, which is the present value of estimated cash inflows. According to the information provided by Cherry Co's administrators, it is likely that 25% of the amount outstanding will be paid. Therefore, it seems that 75% of the $300,000 is irrecoverable, and so an impairment loss of $225,000 should be recognised. This is material to the statement of comprehensive income, illustrated by the following materiality calculations:

Based on revenue: 225,000/12·5 million x 100 = 1·8%
Based on net profit: 225,000/400,000 x 100 = 56%

The potential expense to be recognised is highly material to net profit.

A further issue is that there may be inventory in relation to Cherry Co within current assets. As Banana Co has several contracts with Cherry Co, there may be raw materials purchased specifically for use in a contract agreed with Cherry Co, or items of work-in-progress. As Cherry Co is in insolvency, all activity on such contracts will cease with immediate effect. Any such inventory should be reviewed to see if it can be re-allocated to different contracts or back into general inventory. If not, the inventory should be written down to the lower of cost and fair value less costs to sell, with the associated loss recognised in profit for the year.

**Audit opinion**

If the impairment loss on the trade receivable is not recognised, the audit opinion should be modified due to a disagreement in accounting treatment. This would most likely be a qualified 'except for' opinion due to the material nature of the disagreement.

Looking at the two issues together, it appears that with the adjustments needed in respect of the training costs, and the impairment to be recognised for the receivable, the income statement should show a loss for the year of $325,000 (400 – 500 – 225). If the adjustments are not made, the auditor may come to the opinion that the statement of comprehensive income is rendered meaningless, and may issue an adverse opinion, stating that the financial statements are not fairly presented.

*Tutorial note: Credit will be awarded for discussion of going concern issues arising from the loss of a major customer.*

**Audit evidence**

– The initial correspondence from the administrators of Cherry Co confirming that the company is insolvent and that only 25% of amounts outstanding is likely to be paid.
– A written confirmation from the administrators of Cherry Co stating the amount that is likely to be paid, and an anticipated payment date.

– Agreement of the amount owed by Cherry Co to the receivables ledger, and to confirmation from the administrators.
– Recalculations of the impairment losses.
– A review of inventory documentation for the value of inventory relating to contracts with Cherry Co.

**(b)** Evaluation of the management of the audit of Banana Co

The comments made by the junior indicate that the audit has not been properly planned or supervised. Both SSQC1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements*, and SSA 220 (Revised) *Quality Control for Audits of Historical Financial Information* provide guidance in this area. There are many indicators of poor quality control which are evaluated below.

**No audit planning meeting was held at the start of the audit.** A meeting is important as this is where the audit partner should direct the audit assignment by explaining to the members of the audit team their responsibilities, the nature of the client's business, and significant risk or fraud indicators identified, and the detailed approach to the audit. If no meeting is held at the start of the audit, then it is unlikely that members of the audit team will understand the audit strategy, the objectives of the work they have been asked to perform or how tasks have been allocated amongst members of the team. The audit partner should lead the meeting, as it is their responsibility to ensure that the audit is directed, supervised and performed in accordance with professional and regulatory standards.

**Audit manager and supervisor are not always available.** All audit assignments should be properly supervised. In the absence of a manager and supervisor, the more junior members of the audit team will not be able to resolve problems which arise, and the longer there is a lack of supervision, the more problems will accumulate. Without supervision, the audit plan may not be properly followed, and inappropriate modifications may be made to audit programmes.

**Junior was given the tasks of auditing goodwill and inventory.** It seems that audit work has not been properly delegated amongst members of the audit team. An inexperienced audit junior should not be given relatively complex procedures to perform. Both goodwill and work-in-progress can be challenging to audit, and involve the use of judgement (e.g. the evaluation of the stage of completion of work-in-progress), and it is unlikely that a junior who has only been on two audits will have enough knowledge and experience to fully understand the complexities of the accounting and audit issues involved. Tasks associated with goodwill and work-in-progress should be allocated to a more experienced member of the team, leaving more straightforward tasks for the junior.

**Junior helped with the count procedures during the inventory count.** The junior did not understand the objectives of the inventory count. Test counts should have been performed by the junior, in order to gather audit evidence for the completeness and existence of inventory items, but members of the audit team should not 'help out' the client's staff with counting. Instead, the junior should have observed the client's staff and assessed whether the count was being performed in accordance with count instructions.

**Junior asked to challenge the finance director.** It is inappropriate for an inexperienced junior to challenge a senior member of the client's management. Contentious issues should be discussed with the client by the audit manager or partner, as they have a more appropriate level of authority and will be in a better position to explain why the provision is considered to be inadequate. This is an inappropriate delegation of tasks within the audit team.

**Inadequate time to complete necessary audit procedures.** It seems that either not enough time has been allowed to complete the necessary audit procedures, or that in the absence of much direction and supervision, the audit procedures have been performed inefficiently. One of the key aspects of supervision is to keep track on the progress of the audit engagement. The audit plan should initially determine appropriate timescales and deadlines, and if it transpires that more time is needed, this should be discussed with the client.

**Modification to planned audit procedures.** The audit procedures have been changed in response to lack of time. It is not acceptable to cut corners by reducing sample sizes or changing the items selected for the sample. Modifications should be discussed by senior members of the audit team, and should only occur for genuine reasons. The danger is that reduced sample sizes or changing the items selected for testing will not provide sufficient, reliable audit evidence as the sample selected may no longer be representative of the population as a whole.

Conclusion

Poor quality control means that this audit engagement has not had appropriate direction and supervision. The evidence gathered may be inappropriate and inadequate for the purposes of issuing an audit opinion. This could result in an incorrect opinion being issued. A detailed hot and cold review should be performed to determine if any areas need extra audit work performed, and to consider what measures the firm should take to improve its quality control monitoring procedures.

**(c)** Briefing notes to be used at training session

Subject: Money laundering policies and procedures

**(i)** Introduction

In recent years accountants and auditors have become subject to anti-money laundering regulations. This is largely due to the work of the inter-governmental body the Financial Task Force on Money-Laundering (FATF). A firm of Certified Public Accountants must establish sound policies and procedures to ensure that the firm meets its responsibilities under the relevant regulation in which the firm is operating. It is important that everyone who is a member of an audit engagement team is aware of the regulations, the firm's policies and procedures, and their own responsibilities regarding money laundering activities.

**Definition of money laundering**
Money laundering is a process by which criminals attempt to conceal the true origin and ownership of the proceeds of criminal activities. It is a way in which money earned from criminal activities ('dirty money') is transferred and transformed so it appears to have come from a legitimate source ('clean money'). Money laundering includes a wide range of potential crimes including possessing, dealing with, or concealing the proceeds of crime.

**Illustrations**
Money laundering activities could include:

– Acquiring, using or possessing the proceeds of criminal activities such as drug trafficking and terrorist activities, or retaining control over the proceeds of tax evasion.
– Benefits obtained through bribery or corruption.
– Inciting, aiding, counselling or concealing such activities.

The three stages of the money laundering process are placement, layering and integration:

– Placement is putting money into financial products or instruments, including life policies, pension arrangements, unit trusts, travellers cheques, and bank deposits.
– Layering is creating a series of transactions so that the original source of funds is obscured and difficult to trace.
– Integration is converting the proceeds of money laundering into a legitimate form.

For accountants there are specific ways that they could commit offences relating to money laundering. These could include:

– Handling the proceeds of criminal activity, or advising on the use of such proceeds.
– Failure to report knowledge or suspicion of money laundering activities to the appropriate authority.
– Making a disclosure which is likely to prejudice an investigation into money laundering (known as 'tipping off').
– Failure to comply with the specific regulatory requirements in relation to money laundering in the jurisdiction in which the accountant is operating.

**(ii) Policies and procedures**
**Appointment of a Money Laundering Reporting Officer (MLRO).** The MLRO is a nominated officer who is responsible for receiving and evaluating reports of suspected money laundering from colleagues within the firm, and making a decision as to whether further enquiry is required and if necessary making reports to the appropriate external body (such as the Financial Investigation Division of the Commercial Affairs Department in Singapore or the Serious Organised Crime Agency in the UK). The MLRO should have an appropriate level of seniority and experience and would usually be a senior partner.

**Customer identification procedures.** This is often referred to as customer due diligence, or 'know your client' procedures. The point of these procedures is to ensure that the firm has verified the identity of clients (whether the client is an individual or an entity), and has obtained evidence of that identity. For an individual, typical evidence of identity would be a passport, driving licence, and evidence of address such as a utility bill. For an entity evidence may include a certificate of incorporation. The identification process for an entity would also involve identification of key management personnel and those people in control of the entity, and an assessment as to whether any connected individuals are politically exposed people.

**Enhanced record keeping.** Records must be kept of clients' identity, the firm's business relationship with them, and details of transactions with the client. All records should be kept for five years after the end of the business relationship or completion of the transactions. Internal and external reports made in connection to money laundering should also be securely kept for five years.

**Communication and training.** All relevant employees should receive training so that they are aware of the main provisions of money laundering regulations, and so that they know how to recognise and deal with activities which may be money laundering. The training programme should be offered to all members of the firm with an involvement in audit engagements. Training should also be provided on the firm's internal policies and procedures with relation to money laundering. In particular all staff should be aware of appropriate lines of communication, and who they should report suspicions of money laundering activities to. Training should be considered for all staff, including support staff who do not carry out an advisory role.

**Internal controls, risk assessment, management and monitoring.** The firm should establish systems and controls to effectively manage the risk that the firm is exposed to in terms of money laundering activities. This could include:

– Client screening procedures to minimise the risk of taking on a new client with a high risk of money laundering activities
– Systems and controls to ensure that training is taken/attended and understood by all relevant employees
– Systems that allow periodic testing that the firms' policies and procedures comply with legislative and regulatory requirements.

All of the above contribute to the acceptance and following of firm-wide practices by all relevant individuals and can be seen as quality control measures.

Conclusion
It can be seen that the firm needs to have in place appropriate measures to ensure that complex anti-money laundering regulation is adhered to. It is the responsibility of all relevant staff to be alert for suspicious activities and to understand their own responsibility to report the activity. Failing to do so places the individual and the firm at risk of a breach of regulation.

**3 (a)** Recommended procedures to be performed on the cash flow forecast include:

Accuracy checks:
- Agree the opening cash position to cash book and bank statement/bank reconciliation.
- Cast the forecast.

Cash receipts:
- Assess whether the assumption regarding the split of revenue between cash and credit sales is accurate by considering whether it is in line with knowledge of the business.
- Agree the forecast cash receipts from cash sales to the forecast revenue figures in the profit forecast for January, February and March 2010.
- Verify the 10% discount has been accounted for in calculating the cash sales by recalculation.
- Agree the 10% discount to a small sample of invoices raised.
- Recalculate the pattern of receipts from credit customers by applying the stated average credit terms to actual sales in October, November and December 2009, and the forecast sales for January, February and March 2010.
- Review the latest aged receivables analysis available for confirmation of the pattern of payment from credit customers.

Purchases:
- Recalculate the pattern of cash flows relating to purchases by applying the stated credit terms to the forecast purchases figures in the profit forecast.
- Using the latest available information, calculate a suppliers payment ratio to compare with the stated usual credit terms applied to purchases of 30 days.
- Agree the 12% discount to invoices received, supplier statement reconciliations, or signed contracts with suppliers.

Other operating cash outflows:
- Discuss with the management of Apricot Co the relationship between sales and operating cash outflows. It appears that outflows could be understated, as salaries and expenses are static, whereas cash receipts from sales are increasing over the period.
- Agree the monthly salary cash outflow to latest available payroll records, and to the profit forecast.
- Obtain a breakdown of the contents of the overheads cash outflow category.
- Review the schedule for any non-cash items which should not be included, e.g. depreciation and amortisation, bad debt expenses.
- Compare the components of the overhead cash outflow to a breakdown of operating expenses included in the profit forecast, looking for omissions.
- For each of the main components of the overheads cash outflow, review supporting documentation such as invoices, utility bills, and agree the amount paid each month.

Non-recurring cash flows:
- Agree the cost of the licence to supporting documentation, e.g. any correspondence already received from the issuing body, and compare the cost of $35,000 to the cost of the previous year's licence.
- Confirm that the 2009 licence expires in December and that the new licence will be required in January 2010 by reviewing the terms of the licence.
- Discuss the inspections required for the new licence to be granted, and ascertain if the inspections have yet taken place, and if so, the results of the inspection.
- Review the board minutes, and minutes of shareholder meetings for approval of the dividend payment in February 2010.

Cash flows associated with the new premises:
- For the new fixtures, agree the estimated cost to supplier price lists, or to any quotations received.
- Discuss the timing of the cash outflow in relation to fixtures with management. Presumably the fixtures can only be put into place once the premises have been acquired, which is planned for the end of March. It seems likely that the fixtures will not be purchased until April, in which case the cash payment is recognised too early in the forecast.
- For the premises, agree the potential purchase price to correspondence with the vendor and solicitors.
- Obtain a breakdown of the potential cost of $500,000 and review to ensure the cost is complete, i.e. have legal fees, stamp duty and other associated costs been included.
- Review board minutes for approval of the purchase, and approval that the finance will be raised from Pik Choi.

General enquiries:
Enquire with the preparer of the forecast regarding the following:

- Enquire as to the competence and experience of the preparer of the forecast.
- No finance costs or tax payments appear to have been included – have they been omitted or are there no finance or tax payments in the three-month period?
- Are there any other costs to be incurred in relation to the new premises in the three-month period? e.g. recruitment costs for new staff, any additional working capital requirements, installation of plant and fixtures to the new premises.

- Discuss the reason for the acquisition of the new premises.
- Enquire whether any payments in advance or deposits will need to be made as currently the full amount is forecasted to be paid on the date of acquisition.
- Enquire about any other potential sources of finance in case Pik Choi fails to provide the full amount required, or in case the new premises cost more than the estimated amount.

**(b)** Main contents of an assurance report:
Singapore Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information* provides guidance on the content of an assurance report given when a professional accountant has examined forecasts or projections.

- Title and addressee.
- Identification of the prospective financial information (PFI). This should be by reference to a page number, or to the titles of the statements which have been evaluated. There should also be a reference to the period that the PFI covers.
- A reference to SSAE 3400 or relevant national standards applicable to the examination of PFI. This adds credibility to the report because it has been prepared according to a recognised regulatory statement.
- A statement that management is responsible for the PFI including the assumptions on which it is based. There should be a page reference for the assumptions, as these are a key component of the PFI.
- Where applicable, a reference to the purpose and/or restricted distribution of the prospective financial information. The report should caution readers that because the PFI is based on hypothetical assumptions, the events and figures contained in the PFI may not necessarily occur as expected. There should also be a caution as to the potential use of the PFI.
- A statement of negative assurance as to whether the assumptions provide a reasonable basis for the PFI. This would be stated as follows: 'nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the projection…'.
- An opinion as to whether the PFI is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.
- Appropriate caveats concerning the achievability of the results indicated by the PFI.
- The date, name of the audit firm, and a signature.

The following points are not specifically referred to in SSAE 3400, but would commonly be included by firms providing assurance reports on PFI:

- A reference to the engagement letter and to the specific procedures that were requested, and have been carried out.
- A statement that the procedures carried out were those specified by the company and the third party to whom the report is issued.
- Details of any errors and exceptions found.

If the auditor believes that the presentation and disclosure of the PFI is not adequate, the auditor should express a qualified or adverse opinion. If one or more significant assumptions do not provide a reasonable basis for the PFI, the auditor should express an adverse opinion on the report. A limitation in scope should be expressed if conditions preclude application of one or more procedures considered necessary in the circumstances.

**4 (a) (i) Definitions and contrast:**
Prescriptive auditing occurs in a regulatory framework which contains fixed rules which must be followed, with little or no consideration of whether or how the rules apply to a particular situation. In contrast, principle-based auditing occurs in a regulatory framework which contains limited or no fixed rules, but instead is based on guiding principles which the auditor must consider how or whether to apply in a given situation.

**(ii) Advantages of a prescriptive approach:**
Using prescriptive wording and rules should improve the clarity and understandability of auditing standards. The problem is that principles-based standards use words like 'should' (e.g. the auditor should understand/investigate/perform…) to indicate a requirement, which is not always clear. Does this mean a mandatory requirement, or something which is best practice, but can be omitted if necessary? Prescriptive auditing standards (e.g. using the word 'shall' instead of 'should') would make it clear exactly what is expected of the auditor, and therefore reduce the scope for the auditor to misunderstand the exact requirements of the standard.

It can be argued that having more precise requirements in auditing standards will then lead to uniformity in audit practice, and an improvement in audit quality, as the auditor will be in no doubt as to which procedures need to be performed. It could also be easier to monitor the quality of work, as it would be easier to spot missing procedures.

**Disadvantages of a prescriptive approach:**
The main issue is that using a prescriptive approach, there is little or no scope for tailoring audit procedures to the specific situation of a client. This means that over-auditing is likely, as the auditor is forced to carry out mandatory procedures when there is really no need. This is particularly likely to be a problem in the audit of small entities which have relatively simple transactions. These entities usually pose low risk to the auditor, but under a prescriptive auditing regime, a wide variety of procedures would still need to be carried out. Equally, there is a risk of under-auditing, as under a prescriptive approach there is little scope to consider whether further procedures, not mandatory under the auditing standard, need to be performed.

Additionally, the lack of judgement which is needed under a prescriptive approach is a disadvantage of the approach. Many entities are complex and present challenges to the auditor, which only experienced auditors will be able to deal with. The problem is that under a prescriptive approach to auditing, audit staff will not gain experience of making judgements.

This could lead to a reduction in the quality of audits conducted. It could also deter people from entering, or staying in the audit profession, as audit work would become mundane and routine, and would not offer the chance to develop the same skills as would be developed in a principles-based auditing environment.

**(b) (i)** Auditors are required to identify and assess the circumstances which could adversely affect the auditor's objectivity, including any perceived loss of independence. Intimidation is one of the categories of threats to objectivity and independence identified in the Code of Professional Conduct and Ethics of the Accountants (Public Accountants) Rules 2004 and IFAC's *Code of Ethics for Professional Accountants*.

Intimidation means a threat arising when the auditor's conduct is influenced by fear or threats. This could happen when the auditor encounters an aggressive and domineering individual who could coerce or manipulate the actions of the auditor using threatening behaviour.

However, intimidation is more likely to arise in the following ways:

– Being threatened with dismissal or replacement,
– Being threatened with litigation,
– Being pressured to reduce inappropriately the extent of work performed, e.g. in order to reduce audit fees.

Intimidation is often linked to other types of threats to objectivity and independence. For example, an auditor may be more susceptible to intimidation if the other person is a close family member, as they may be able to exert significant influence over the actions of the auditor. This is therefore linked to the familiarity threat.

When threats are identified (unless the threats are assessed as insignificant), the auditor should establish safeguards to eliminate or to reduce the threats to an acceptable level. In some jurisdictions, the regulatory framework provides a specific safeguard in the case of being intimidated with dismissal, as usually it is only the shareholders and not the management of an entity that can remove the auditor from office.

**(ii)** Advertising
Advertising is allowed as long as the advertising does not go against any of the fundamental principles contained in the Code of Professional Conduct and Ethics of the Accountants (Public Accountants) Rules 2004 or ACCA's *Code of Ethics and Conduct* or IFAC's *Code of Ethics for Professional Accountants*.

Advertisements should be truthful and not make false claims. For example, it would be inappropriate to claim that Peaches & Co could promise to offer a cheaper audit service than the competitor firm. Equally, it would be inappropriate to make exaggerated claims regarding the experience or the qualifications possessed by the firm's partners and employees.

In addition, any advertisement should not make disparaging remarks about any other audit or accountancy firm, for example, it would be inappropriate to state that Peaches & Co offered a higher quality service than any other provider.

Any advertisements should also be in compliance with any local rules and regulations. For example, in some jurisdictions it is prohibited for professionals such as auditors to advertise on television, and most jurisdictions will have some kind of regulatory authority, such as the Advertising Standards Authority in Singapore, which imposes rules on advertising to ensure it is not misleading and is in good taste.

**(iii)** Lowballing
Lowballing is a term used to describe a situation where an audit firm submits a tender to provide an audit service at a very low fee, with the objective of under-cutting competitors' prices in order to win the tender. The audit firm will hope to recover the low fees quoted in the tender either by increasing the audit fee in the future, or by providing some lucrative non-audit services.

The problem is that when low fees are charged for the audit, the quality of the audit work performed may suffer, as the temptation will be to cut back on audit work in order to reduce costs. It could be perceived that the auditor is not acting with due care and competence if not enough time is spent on audit work due to the low fee attached to the audit work. This perception is damaging to the firm concerned, and to the profession as a whole.

IFAC's Code does not prohibit this practice, but it does state that when a firm obtains an audit appointment at a significantly lower fee than that quoted by competitors or the predecessor audit firm, the firm should be able to demonstrate that appropriate time and qualified staff are assigned to the audit, and that all applicable standards are being adhered to.

In Singapore, the Code of Professional Conduct and Ethics of the Accountants (Public Accountants) Rules 2004 prescribes that professional fees charged by public accountants should be a fair reflection of the value of the work performed taking into account four factors, as follows:

(1) the skill and knowledge required for the type of work involved;
(2) the level of training and experience of the persons necessarily engaged in the work;
(3) the time necessarily occupied by each person engaged in the work; and
(4) the degree of responsibility and urgency that the work entails.

**5 (a) Auditor's responsibilities in relation to subsequent events.**

Subsequent events are defined as those events occurring between the date of the financial statements and the date of the auditor's report, and also facts discovered after the date of the auditor's report.

SSA 560 (Redrafted) *Subsequent Events* differentiates the auditor's responsibilities in relation to subsequent events depending on when the subsequent event occurs.

**Events occurring up to the date of the auditor's report.** The auditor has an active duty to perform audit procedures designed to identify, and to obtain sufficient appropriate evidence of all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements. These procedures should be performed as close as possible to the date of the auditor's report, and in addition, representations would be sought on the date that the report was signed.

Procedures would include reviewing management procedures for ensuring that subsequent events are identified, reading minutes of meetings of shareholders and management, reviewing the latest interim financial statements, and making appropriate enquiries of management.

Where a material subsequent event is discovered, the auditor should consider whether management have properly accounted for and disclosed the event in the financial statements in accordance with FRS 10 *Events After the Balance Sheet Date*.

**Facts discovered after the date of the auditor's report but before the date the financial statements are issued.** The auditor does not have any responsibility to perform audit procedures or make any enquiry regarding the financial statements or subsequent events after the date of the auditor's report. In this period, it is the responsibility of management to inform the auditor of facts which may affect the financial statements.

When the auditor becomes aware of a fact which may materially affect the financial statements, the matter should be discussed with management. If the financial statements are appropriately amended then a new audit report should be issued, and procedures relating to subsequent events should be extended to the date of the new audit report. If management do not amend the financial statements to reflect the subsequent event, in circumstances where the auditor believes they should be amended, a qualified or adverse opinion of disagreement should be issued.

**Facts discovered after the financial statements have been issued.** After the financial statements have been issued, the auditor has no obligation to make any enquiry regarding the financial statements. However, the auditor may become aware of a fact which existed at the date of the audit report, which if known at the date may have caused a modification to the auditor's report. In this case, the matter should be discussed with management. This could result in the revision of the financial statements, in which case the auditor should issue a new audit report on the revised financial statements. This report should include an emphasis of matter paragraph referring to a note to the financial statements in which the reason for the revision is fully discussed. If management do not revise the financial statements, the auditor should take legal advice with the objective of trying to prevent further reliance on the auditor's report.

**(b) (i)** The announcement of a restructuring after the reporting date is a non-adjusting event after the reporting date, according to FRS 10 *Events After the Balance Sheet Date*. This is because the event does not provide evidence in relation to a condition that existed at the year end.

Materiality calculations in respect of the potential cost of closure are as follows:

Based on revenue: $250,000/15 million = 1·67%
Based on profit: $250,000/3 million = 8·3%
Based on assets: $250,000/80 million = <1%

Therefore this amount is material to the statement of comprehensive income.

Per FRS 10, a note should be provided to the financial statements, which describes the nature of the event, and provides an estimate of the financial effect.

*Tutorial note: credit will also be awarded for discussion of whether a provision for the restructuring costs is required under FRS 37* Provisions, Contingent Liabilities and Contingent Assets*.*

Audit procedures could include:

– Review any potential note to financial statements which should disclose the non-adjusting event, providing a brief description of the event, and an estimate of the financial effect.
– Discuss the reason for the restructuring with a member of key management personnel, and read minutes of board meetings where the plan was discussed, in order to gain an understanding about the reason for the restructuring.
– Verify the approval of the plan itself, and the approval of the announcement of the plan, which can be performed through a review of board minutes.
– Confirm the date on which the plan was approved, and also the date of the announcement, using supporting documentation such as press release, letters sent to employees, internal meetings held with employees, etc.
– Obtain a copy of the announcement and review for details, particularly a description of the exact nature of the restructuring, including the number of employees to be affected.
– Agree the $250,000 potential cost of closure to supporting documentation, including a schedule showing the number and grade of staff to be made redundant, which should be supported by payroll/contract details.

– Using the results of the discussion with management, assess the planned restructuring in the context of the auditor's knowledge of the business, considering whether any further costs are likely to be incurred.

**(ii) Actions to be taken by the auditor:**

If no note is provided to the financial statements, then there is a breach of FRS 10. In this case there is insufficient disclosure provided in the notes to the financial statements regarding a material non-adjusting event after the reporting date.

According to SSA 701 *Modifications to the Independent Auditor's Report*, in cases where the auditor is in disagreement with management regarding the application of a financial reporting standard and where the disagreement is material to the financial statements, the auditor should express a qualified or an adverse opinion. Here, the matter is material (as discussed in (b)(i) above) but is not pervasive to the financial statements, so a qualified 'except for' opinion should be given.

The audit report should contain a paragraph which explains the reason for the qualification, specifying the breach of accounting standards, and stating the relevant financial amount. It would also be best practice for the auditor to clarify that the profit for the year is not affected by the breach of accounting standards, and that the disagreement is solely due to inadequate disclosure in the notes to the financial statements.

The auditors should ensure that the matter, and the potential consequence for the audit report, has been made known to those charged with governance. This will allow the highest level of management (including executive and non-executive directors) the opportunity to discuss the matter, having reference to all relevant facts of the disagreement and implications thereof.

Finally, the auditors could choose to raise this issue at the annual general meeting, where the matter leading to the qualified audit opinion should be explained to the shareholders of the company.

| | | | Marks |
|---|---|---|---|
| **1** | **(a)** | **(i) Reasons for performing analytical procedures during risk assessment** | |
| | | Up to 1 mark for each reason, and 1 mark for relevant example:<br>– Develop business understanding + example<br>– Identify risks + example | |
| | | **(ii) Limitations of analytical procedures at planning** | |
| | | 1 mark each point explained (limit to $^1/_2$ mark if just identified):<br>– Does not cover whole period<br>– Year end procedures not yet carried out<br>– Weaker controls/different reporting framework<br>– Small entities may lack interim financial data | |
| | | Maximum marks allocated 3 to (a) (i) and 3 to (a) (ii) | 6 |
| | **(b)** | **Explain and differentiate between the terms 'audit plan' and 'overall audit strategy'** | |
| | | – Up to 2 marks for each explanation<br>– 1 mark for each point of comparison or comment on timing<br>– $^1/_2$ mark for ref to SSA 300 | |
| | | Maximum marks | 4 |
| | **(c)** | **Identify with reasons, information needed for analytical procedures** | |
| | | Generally $^1/_2$ mark for identification, 1 further mark for reasons, from ideas list.<br>– Disaggregation by business segment i.e. supermarkets v financial services<br>– Separate out the different brands of supermarket<br>– Separate out the foreign division<br>– Information regarding one-off items<br>– Information regarding new accounting policies/treatments<br>– Budget information<br>– Industry/competitor comparisons | |
| | | Maximum marks | 6 |
| | **(d)** | **Financial statement risks** | |
| | | Professional marks to be awarded for format (heading, introduction, conclusion) – 1 mark, and clarity of explanation – 1 mark<br>Generally $^1/_2$ mark for identifying financial statement risk, up to further 2 marks for explanation (credit may be awarded for other risks not shown on the list below, as long as the risk is specific to the question scenario). | |
| | | Allow $^1/_2$ mark for ref to relevant financial reporting standard up to max 1 mark | |
| | | – Lack of disclosure of contingent liability/understatement of provision (FRS 37)<br>– Incorrect recognition and measurement of separate components of convertible debenture (FRS 32)<br>– No recognition of financial asset or liability regarding derivative/incorrect measurement/lack of disclosure (FRS 107)<br>– Impairment of land (FRS 36)<br>– Undervaluation of PPE if inspection cost not capitalised (FRS 16)<br>– Operating segments – risk of non-disclosure (FRS 108)<br>– Risk of capitalisation of internally generated brand (FRS 38) | |
| | | Maximum marks – technical | 16 |
| | | Maximum professional marks | 2 |
| | | **Maximum** | **34** |

| | | | Marks |
|---|---|---|---|
| **2** | **(a)** | **(i) Training Costs** | |

Generally 1 mark per matter/evidence point:
Matters:
- Correct calculation and assessment of materiality
- Cannot capitalise training costs
- Expenditure does not create an asset which the entity controls
- Potential qualification re disagreement
- $^1/_2$ mark ref FRS 16 or FRS 38

Evidence:
- Schedule of costs ($^1/_2$ only)
- Agree costs to supporting documentation
- Agree costs to cash book/bank statement ($^1/_2$ mark only)
- Cut-off procedure
- Compare to budgeted cost
- Confirm cost to approved plan/budget

**(ii) Trade receivable**

Generally 1 mark per matter/evidence point:
Matters:
- Correct calculation and assessment of materiality
- Receivable impaired
- Consider any inventory in relation to Cherry Co
- Potential qualification re disagreement
- Impact of two issues together on the audit opinion

Evidence:
- Initial correspondence with administrators of Cherry Co
- Confirmation with the administrators
- Agreement to receivables ledger
- Recalculations of impairment losses
- Review of inventory schedules

Maximum marks allocated 6 to (a) (i) and 6 to (a) (ii) — 12

**(b) Quality control matters**

Up to $1^1/_2$ marks for each point evaluated from ideas list, plus 1 mark for overall conclusion
- No audit planning meeting – lack of direction
- Absence of manager and senior – lack of supervision
- Junior assigned difficult audit work (goodwill and WIP)
- Junior helped out with inventory count – lack of understanding/supervision
- Junior asked to challenge FD – inappropriate delegation
- Audit running out of time – poor planning?
- Changed sample size – inappropriate response to time pressure
- Changed item selected in sample – inappropriate response to time pressure
- $^1/_2$ mark ref SSQC1 and SSA 220

Maximum marks — 10

**(c) Money laundering briefing notes**

Professional marks to be awarded for format (heading, introduction, conclusion) – 1 mark, and clarity of explanation – 1 mark

Generally up to 3 marks for each explanation from list below:
- Definition of money laundering (1 mark)
- Examples of money laundering activities (1 mark each up to 3 marks)
- Procedures – appoint MLRO
- Procedures – enhanced record keeping systems
- Procedures – know your client
- Procedures – staff training
- Procedures – internal controls, monitoring and management of compliance

| | |
|---|---|
| Maximum marks – technical | 10 |
| Professional marks | 2 |
| **Maximum** | **34** |

Marks

**3 (a) Procedures on cash flow forecast**

Generally 1 mark per specific procedure from ideas list:

– Accuracy checks – recalculation
– Agree opening cash position
– Recalculate patterns of cash in and out for credit sales and purchases
– Agree patterns using aged receivables analysis/working capital ratios
– Agree discounts received and allowed to invoices/contracts/correspondences
– Agree derivation of figures from profit forecast
– Agree monthly salary expense to payroll
– Review content of overheads – check non-cash expenses not included
– Review for missing outflows e.g. tax and finance charges
– Agree premises costs e.g. to legal documents
– Discuss timing of fixtures cash flow
– General enquiries with the preparer of the forecast

Maximum marks 11

**(b) Content of an assurance report**

Up to 1 mark per point if explained:

– Title/addressee ($^1/_2$ mark)
– Identification of PFI
– Reference SSAE 3400 ($^1/_2$ mark)
– Management responsibility
– Purpose of PFI
– Restricted use of PFI
– Negative assurance opinion re assumptions
– Opinion on presentation
– When may qualifications be necessary/explanation of errors found
– Reference to engagement letter ($^1/_2$ mark)
– Statement/reference to procedures carried out ($^1/_2$ mark)

Maximum marks 5

**Maximum** **16**

| | | | | Marks |
|---|---|---|---|---|
| 4 | (a) | (i) | **Prescriptive and principles-based approach to auditing** | |
| | | | – Up to 2 marks for contrast | |
| | | (ii) | **Arguments for and against prescriptive approach** | |
| | | | – 1 mark for each advantage – clarity, increase in quality, uniformity, easy to monitor<br>– 1 mark for each disadvantage – lack of tailoring, over-auditing, no use of skill/judgement, process becomes mundane/routine, issues for staff retention<br>– Additional marks may be given for relevant comments on practical issues relating to adoption of clarified SSAs e.g. additional costs, increase in audit fee, training needs | |
| | | | Maximum marks | 7 |
| | (b) | (i) | **Intimidation threat** | |
| | | | 1 mark per comment explained:<br>– Independence/objectivity threat<br>– Example – aggressive individual<br>– Example – fear of dismissal/legal action<br>– Link to familiarity (or other) threat<br>– Safeguards needed<br>– $^1/_2$ mark ref to IFAC Code of Conduct/Code of Professional Conduct and Ethics of the Accountants (Public Accountants) Rules 2004 | |
| | | | Maximum marks | 3 |
| | | (ii) | **Advertising** | |
| | | | 1 mark per comment explained:<br>– Must abide by professional principles ($^1/_2$ mark for ref IFAC/ACCA/Code of Professional Conduct and Ethics of the Accountants (Public Accountants) Rules 2004 if not given in (b)(i))<br>– Must not make false/exaggerated claims<br>– Must not make disparaging remarks about other firms<br>– Must abide by local rules on advertising generally | |
| | | | Maximum marks | 3 |
| | | (iii) | **Lowballing** | |
| | | | 1 mark per comment explained:<br>– Definition<br>– Why is problem – low quality audit, not acting with due care/competence<br>– Not prohibited but not encouraged | |
| | | | Maximum marks | 3 |
| | | | **Maximum** | **16** |

| | | | | Marks |
|---|---|---|---|---|
| **5** | **(a)** | **Auditor's responsibility in relation to subsequent events** | | |

1 mark per comment explained:

- Definition of subsequent events
- Responsibility divided into three distinct periods
- Active duty up-to-date audit report issued
- Examples of procedures up-to-date of audit report
- Procedures to be as near to date of report as possible
- No active duty after date report issued
- Facts discovered before financial statements issued – discuss with management/reissue audit report if financial statements revised
- Facts discovered after financial statements issued – discuss with management/issue new audit report/need emphasis of matter/take legal advice

Maximum marks — 6

**(b) (i) Audit procedures in respect of announcement of restructuring**

1 mark per specific procedure provided:

- Non-adjusting event after the reporting date
- $^1/_2$ mark for ref to FRS 10
- 1 mark for calculation/consideration of materiality which can be awarded in either (b)(i) or (b)(ii)
- FRS 10 requires note to financial statements
- Obtain copy of announcement and review for details
- Confirm date of approval and announcement of restructuring
- Read minutes of board meetings where the plan was discussed
- Verify announcement of plan approved by directors
- Agree numerical disclosures to supporting documentation
- Consider completeness of the amount disclosed
- Discuss/review potential note to financial statements

Maximum marks — 6

**(ii) Implication for audit report if adjustments not made**

Marks to be awarded as follows:

- $^1/_2$ mark ref SSA 701

1 mark for each comment:

- Material disagreement
- 'Except for' opinion
- Description of reason for qualification
- Report to those charged with governance
- Raise at AGM

Maximum marks — 4

**Maximum — 16**