1)

Consequences:
- data breaches
- loss of customer data
- regulatory fines
- loss of customer goodwill
- loss of reputation
- loss of trading licence
- going concern implications

Internal controls:
- document and implement data protection procedures
- use of passwords
- change passwords frequently
- regular back ups
- backups stored on different locations
- regular monitoring of procedures
- disciplinary action for any non compliance

2)

- Ensures proper maintainence of accounting records
- Reduces chances of misstatements
- Increases credibility of the financial statements
- Provides assurance to third parties such as tax authorities and lenders
- Provides assurance to shareholders who are not responsible in day to day running of business
- Deficiencies identified and recommendations provided by auditors about controls
- Deterrent to fraud
- Good practice in case company becomes large enough to have an audit
- For valuation purposes in case of shares being sold

3)

- Test the appropriateness of journal entries recorded in the general ledger such as checking for journal entries that have unusual transactions or made at the year end
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unsual activity
- Review accounting estimates, judgements and decisions made by management and evaluate whether they indicate bias

4)

Ethical issues:
- Swale could be window shopping
- Indicates lack of management integrity
- Creates threats to professional competence and due care
- Audit firm has incomplete informtion to make a decision
- Could lead to risk of inappropriate opinion and claims to damages

Actions:
- Seek client permission to contact the exsiting auditor
- If permission is refused, do not do the engagement
- Notify the existing accountant of the proposed work
- Obtain relevant information needed for proper conduct

5)

- Email is not reliable audit evidence
- No proof that it was provided by Sunwac
- Could have been falsfied by Aire's management
- Email is not legally binding agreement

Audit work:
- Obtain direct confirmation from Sunwac
- Confirmation should be in a legally binding form e.g. contract
- Check Sunwac's latest financial statements to assess whether it can continue providing finance to Aire
- Check any contracts for terms and conditions
- Ascertain from Aire's management its plan if Sunwac is unable to provide the finance

6)

- Threats to obejctivity and independence as already in position for the maximum 5 years for listed companies
- Long association with engagement creates self-interest, self-review and familiarity threats
- May be predisposed to accept or insufficently questioning of client's point of view
- Ethical Standard S3 allows engagement partners for listed companies to continue for an additional period of up to two years
- No longer than seven years in total should be spent in the engagement partner position
- This is to safeguard the quality of the engagement
- This applies here as the company has gone through a major change in structure
- Safeguards should be put in place
- Expanded review of the engagement work undertaken by engagement quality control reviewer or partner not involved in engagement
- Disclose to those charged with governance
- If no disclosures are to be made, do not allow Sue to continue in the role

	A	B
1	7.1)	
2	To obtain professional clearance, the firm should have explained to LEL that there is a professional duty to communicate with the previous auditors. This is done to request LEL the authorize the previous auditors to cooperate. If permission was not granted, the firm should have considered not accepting the engagement. The firm should have then written to the previous auditors to request disclosure of any issue or circumstance which might be relevant in making the decision to accept or decline the engagement. This is done so the firm can have complete information and be made aware of any issues regarding why the previous auditor did not seek reappointment such as disagreements, unpaid fees or illegal acts. In light of the information received from the previous auditor, the firm should have then considered whether to accept the engagement or decline it. If no respone was obtained from the previous auditor, the firm should take the silence that there was no adverse comment to be made.	

4	7.2)	
5	**Justification**	**Procedures**
6	**General Risk:** This is a first year audit and so the firm lacks cumualative knowledge and experience. The opening balances may be misstated. This includes trade receivables and inventories.	Determine whether the prior period's closing balances have been brought forward correctly.
7		Determine whether the opening balances reflect the application of appropriate accounting policies.
8		Review the previous auditor's working papers to obtain evidence regarding the opening balances.
9		Consider performing substantive procedures if no other evidence about opening balances.
10		
11	**Trade Receivables:** Trade receivable days have increased from 31 days in 2016 to 45 days in 2017. This is out of line with the 30 days credit period and suggests overstatement. Further, the bank is relying on the audited financial statements which increases the risk of management bias and overstatement.	Evaluate and test controls over the recording of customer invoices and payments.
12	There is a balance of £1.3m in dispute with a customer which may be incorrectly included in the receivables balance. This balance represents 1% of revenue and is therefore material.	Obtain direct confirmation of balances.
13	There may be further defective instruments which result in more customers disputing balances and witholding payments.	Inspect post year receipts for any that relate to pre year end sales to check for recoverability.

14	The allowance for receivables may not be adequate.	Check the contract with Ruritania Education Consortium for the terms and conditions.
15		Inspect correspondence with the company's legal advisors and customers to check for any evidence of disputed balances.
16		Ascertain from management the basis of the allowance for receivables and check its reasonableness. Recalculate the allowance.
17		Use data analytics to perform aged analysis listing reports.
18		Check board minutes for evidence of any further problems with the company's instruments.
19		
20	**Inventory:** Inventory days have increased from 47.4 days in 2016 to 75.6 days in 2017. This suggests overstatement. Further, the bank is seeking to rely on the audited financial statement so management bias can lead to overstatement.	Inspect the aged analysis inventory report and check for any slow moving or obsolete items.
21	LEL updates its instruments each year, which increases risk of items becoming obsolete and having a net realisable value lower than cost. There is a chance those items have not been written down.	Check post year end selling prices to determine if net realisable value is lower than cost.

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22	LEL buys components from overseas suppliers so there is a risk that translation errors have occurred.	For a sample of foreign transactions, reperform the calculation and check rates used to an independent reliable external source. Vouch costs recorded to supplier's invoices.
23	There is a risk of errors arising from the inventory system. Costs may be recorded incorrectly or not at all. Integration errors may arise.	Evaluae and test controls over the recording of costs in the system. Vouch labour entires to timesheets and payroll and vouch component costs to supplier's invoices.
24	The chief buyer has exceeded reorder limits which increases risk of slow moving stock if not being used.	Ascertain from management the basis of any overheads and recalculate.
25	Agents are used which increases the risk of labour costs not being recorded correctly.	Comapre periodic counting results to results from the perpetual inventory system and check accuracy. Enquire about any reasons for significant differences.
26	A full inventory count is not undertaken at year end.	Inspect the inventory to check existence and condition.
27		Ascertain from management how it proposes to account for obsolete items.
28		For defective instruments, ascertain from managements it's intentions and whether it will seek compensation from suppliers.
29		
30		

a) Internal Control Deficiency: Amending prices

Consequences:
The wrong prices may be included in the catalogue which means incorrect amounts charged to customers. If customers are charged a higher amount, this may lead to loss of customer goodwill. If customers are charged a lower amount, this will have a negative impact on cash flows and profits.

Oral authority from the director means there is no evidence to come back to if any disputes arise.

Recommendations:
Require any amendments to be evidenced by signed written authority from the sales director.

IT controls put in place to remind staff to obtain the authority.

Regular checks of amendments made to ensure the authority has been obtained by matching it to the amendment.

Communicate the policy to all sales staff.

Regular monitoring of the process to ensure policy is being adhered to.

Disciplinary action for any non compliance.

2 **b) Internal Control Deficiency: No bribery prevention policies**

Consequences:
It is a criminal offence under the Bribery Act 2010 for not preventing bribery. This is global in scope and makes companies liable for the actions of their employees.

Employees will not be aware of how to report or how to prevent bribery.

LEL uses agents around the world which increases the risk of bribery taking place.

Material impacts on financial statements may arise through fines and liabilities requiring provisions or disclosures.

Going concern impacts may arise from any reputational issues the firm may face if it is subject to regulatory investigations.

Recommendations:
Document and put in place anti bribery prevention policies.

Set up a whistleblowing hotline.

Provide training to staff on how to recognize and report bribery.

34 7.4)

35

In this scenario, threats to objectivity and independence arise out of the inducement offers. A self-interest threat arises as the audit team may be reluctant to modify the audit opinion or upset the client in fear of having this offer being withdrawn. An intimidation threat also arises if the managing director is exerting pressure on the team to accept the offer. The manging director's integrity is questionable as he is bribing the team. The offer of the private box, paid travel and hotel costs is not insignificant.

Threats to professional behaviour and professional competence and due care also arise. The managing director wants the audit to be completed within a certain timeframe which may impact on audit quality. If the audit team accept the inducements, their professional behaviour will be brought into question.

1 8.1)

2 A)

3 The auditor should obtain written representations from management regarding the intended use of the prospective cash flow financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the information.

The reasons these representations are required are to decrease engagement risk by knowing who will be seeing the report to limit the auditor's liability from third parties making claims against them. The representations also set out the responsibilities of the parties which helps close the expectations gap.

4

5 B)

6 Moderate assurance is a low level of assurance that is expressed in a negative manner. It is a limited assurance engagement in which the engagement risk is reduced to a level that is acceptable in the circumstances of the engagement.

A higher level of assurance cannot be provided as the scope of the work is limited in comparison to a statutory audit. For example, a moderate assurance engagement is limited to enquiries of management and analytical procedures whereas reasonable assurance engagements involve tests of details and test of controls.

Cash flow forecasts are also prospective financial information and are subject to estimates and judgements which may not occur. Reasonable assurance engagements are based on historical information which is more accurate.

7

8 8.2)

9 **1) Receipts from ticket sales:**
These should be prudent and in line with current sales until conversions start.
A decline in ticket sales should be seen when the conversions start in January 2019 reflecting the closure of 10 cinemas each year.
No ticket sales should be recorded for any of the closed cinemas during that year.
Once coversions are completed by January 2021, 10% ticket price increase should be reflected and increased capacity should be reflected.
No ticket sales should be recorded for the two small cinemas after 30 June 2018. A further decline in sales should be seen between 1 July 2019 and January 2021 whislt construction is taking place and closure of those two cinemas.

2) Payments for the coversion of cinemas, new seating and project management fees:
The conversion payments should reflect the construction firm quotes and are paid in line with any contract terms. They should start on 1 January 2019.
New seating payments and project management fees should reflect any quotes to be obtained and paid in line with contract terms.

3) Proceeds from the sale of the two cinemas:
The proceeds should be prudent, in line with any quotes obtained from the developer and similar to prices in the locality.
They should be included after 30 June 2018.

4) Payments to the film distribution company:
These should be in line with current fees until the conversions start.
They should be paid in line with the contract terms, monthly in arrears.
During the conversion period, the payments should decline and none should be included for the closed cinemas after 30 June 2018.
Following the cinema conversions, no rent should be paid for the first three months (estimated to be January - March 2021)

5) Payments to employees:
These should be in line with current payments until conversions start.
No salaries regarding the closed cinemas from 30 June 2018 should be included.
Any redundancy payments should be paid in line with contract terms.
Following each conversion, payments should reflect the six additional employees.
Payments should be in line with the minimum hourly wage.
Any NIC and PAYE taxes should be paid on the due dates.
Any bonuses incldued should be checked against the profits forecast.

6) Receipts from and payments to the bank:
The bank loan should be sufficient to cover the costs of conversion and should be included before work has started on the conversion.
Loan repayments should be paid in line with the bank's contract terms.
Finance costs should be prudent and reflect current market rates. They should reduce as the loan is being repaid.

General matters:
Sensitivity analysis should be performed on key variables such as sales receipts and interest rates.
Items in the cash flow forecast should be consistent with the profit forecast.

10

1 9.1)

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Foyle:

In this case, there is a subsequent event as the loss relates to a contract that was in place before year end. Offsetting a contingent liability against a contingent asset is not allowed and the loss should be provided for. However, In this situation, the audit report and opinion will not be modified as the loss is not material. It is 2% of profit before tax and 0.2% of total assets.

Ogmore:

In this situation, there is no disagreement over accounting treatment and no limitation on scope as the notes include adequate disclosures. The audit opinion will not be modified. However, there is a significant uncertainty about the going concern status. The audit report will be modified by the inclusion of a 'Material Uncertainity Related to Going Concern' paragraph, drawing users attention to the note in the financial statements. This is because the matter is fundamental to users understanding of the financial statements. It will also state that the audit opinion is not modified in respect of this matter.

Pattack:

In this situation, there is an undisclosed related party transaction. Although the transaction is not material by size as it is only 3.5% of profit before tax and 0.45% of assets, related party transactions are material by nature. A disclosure should have been included, therefore a disagreement over accounting treatment arises resulting in a material misstatement. It is not pervasive though as it is confined to specific area of the financial statements.

Therefore, the audit opinion will be modified using a qualified except for opinion. The opinion paragraph in the audit report will be headed 'Qualified opinion' and the reasoning and amounts involved will be included in the 'Basis for Qualified Opinion' section included below the opinion paragraph.

Tyne:

In this situation, the firm should disclose in the audit report the fact that the FRC's Ethical Standard Provisions Available for Small Entities has been applied.

5 A)

6

The firm is liable to the members and shareholders of the company as well as any third party who can show that it has relied on the financial statements and made a loss.

7

8 B)

9

The firm can limit its liability through several ways.
It can agree a liability cap based on a fixed figure or formula based, to be agreed with the shareholders annually and must be fair and reasonable.
It can enter into a proportional liability agreement to split the costs between both parties.
It can include a Bannerman paragraph in the auditor's report, disclaiming its liability to anyone other than the members.
Audit firms can also operate as limited liability partnerships which limits the liability to the assets of the firm and no one individual is responsible for blame.

10

11 C)

12

To reduce the risk of an inappropriate opinion, the firm should ensure it carries out client identification procedures and assesses management's integrity before accepting clients.

It should ensure policies and procedures are in place to assign appropriate resources with the necessary competence and capabilities to engagements.

The work of less experienced team members should be reviewed by more experienced members.

Appropriate consultation should take place on difficult or contentious matters.

An engagement quality control review should take place for listed clients and for any engagement determined as high risk.

The firm should establish a monitoring process to ensure that policies and procedures are adequate and operating effectively.