Answers
1 (a) Examples of matters the external auditor should consider in determining whether a deficiency in internal controls is significant include:

- The likelihood of the deficiencies leading to material misstatements in the financial statements in the future.
- The susceptibility to loss or fraud of the related asset or liability.
- The subjectivity and complexity of determining estimated amounts.
- The financial statement amounts exposed to the deficiencies.
- The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
- The importance of the controls to the financial reporting process.
- The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
- The interaction of the deficiency with other deficiencies in internal control.

Tutorial note: ISA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management states that a significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement, is of sufficient importance to merit the attention of those charged with governance.

(b) Board of Directors
Greystone Co
30 Any Street
A Town
X Country
8 December 2010
Dear Sirs,

Audit of Greystone Co for year ended 30 September 2010

Please find enclosed the report to management on significant deficiencies in internal controls identified during the audit for the year ended 30 September 2010. The report considers deficiencies in the purchases system, implications of those deficiencies and provides recommendations to address those deficiencies.

<table>
<thead>
<tr>
<th>(i) Deficiency</th>
<th>(ii) Implication</th>
<th>(iii) Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The purchasing manager decides on the inventory levels for each store without discussion with store or sales managers. The purchasing manager may not have the appropriate knowledge of the local market for a store.</td>
<td>This could result in stores ordering goods that are not likely to sell and hence require heavy discounting. In addition as a fashion chain, if customers perceive that the goods are not meeting the key fashion trends then they may cease to shop at Greystone at all.</td>
<td>The purchasing manager should initially hold a meeting with area managers of stores; if meeting all store managers is not practical, he should understand the local markets before agreeing jointly goods to be purchased.</td>
</tr>
<tr>
<td>The purchase orders are only reviewed and authorised by a purchasing director in a wholly aggregated manner (by specified regions of countries).</td>
<td>It will be difficult for the purchasing director to assess whether overall the correct buying decisions are being made as the detail of the orders is not being presented and he is the only level of authorisation. This could result in significant levels of goods being purchased that are not right for particular market sectors.</td>
<td>A purchasing senior manager should review the information prepared for each country and discuss with local purchasing managers the specifics of their orders. These should then be authorised and passed to the purchasing director for final review and sign off.</td>
</tr>
<tr>
<td>The store managers are responsible for re-ordering goods through the purchasing manager.</td>
<td>If the store managers forget or order too late, then as the ordering process can take up to four weeks, the store could experience significant stock outs leading to loss of income.</td>
<td>Automatic re-order levels should be set up in the inventory management systems. As the goods sold reach the re-order levels the purchasing manager should receive an automatic re-order request.</td>
</tr>
</tbody>
</table>
Please note that this report only addresses any significant deficiencies identified during the audit and if further testing had been performed then more deficiencies may have been reported.

This report is solely for the use of management and if you have any further questions then please do not hesitate to contact us.

Yours faithfully

An audit firm
(c) Substantive procedures over year-end trade payables

- Obtain a listing of trade payables from the purchase ledger and agree to the general ledger and the financial statements.
- Reconcile the total of purchase ledger accounts with the purchase ledger control account, and cast the list of balances and the purchase ledger control account.
- Review the list of trade payables against prior years to identify any significant omissions.
- Calculate the trade payable days for Greystone and compare to prior years, investigate any significant differences.
- Review after date payments, if they relate to the current year then follow through to the purchase ledger or accrual listing to ensure completeness.
- Review after date invoices and credit notes to ensure no further items need to be accrued.
- Obtain supplier statements and reconcile these to the purchase ledger balances, and investigate any reconciling items.
- Select a sample of payable balances and perform a trade payables’ circularisation, follow up any non-replies and any reconciling items between balance confirmed and trade payables’ balance.
- Enquire of management their process for identifying goods received but not invoiced or logged in the purchase ledger and ensure that it is reasonable to ensure completeness of payables.
- Select a sample of goods received notes before the year-end and follow through to inclusion in the year-end payables balance, to ensure correct cut-off.
- Review the purchase ledger for any debit balances, for any significant amounts discuss with management and consider reclassification as current assets.
- Ensure payables included in financial statements as current liabilities.

(d) Additional assignments for Greystone’s internal audit department

Testing cash controls at stores

Currently the internal audit department undertake inventory counts at each of the stores. This role could be increased to include controls testing over cash receipts and cash counts. As a retailer the stores will have a significant amount of cash at each premise and will have tight controls over the cash receipts process. These controls should be tested at each location as well as performance of a cash count to reduce the level of fraud and error reported.

Mystery shopper reviews

In order to improve the customer experience in stores, internal audit department members could undertake ‘mystery shopper’ reviews, where they enter the store as a customer, purchase goods and rate the overall shopping experience. This is then fed back to each shop to improve customer service and can provide the basis for further training if necessary.

Overall review of financial/operational controls

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

Fraud investigations

It is likely that as a retailer, Greystone would have problems with theft of inventory as well as cash. Internal audit could be asked to review the main areas of fraud risk and develop controls to mitigate these risks. If fraud is suspected then internal audit could be asked to investigate these cases further.

IT system reviews

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

Value for money review

The internal audit department could be asked to assess whether Greystone are obtaining value for money in areas such as the just in time ordering system recently introduced.

Regulatory compliance

Greystone operates in countries throughout the world and hence will be subject to varying degrees of law and regulation. The internal audit department could help ensure compliance with those regulations.

2 (a) True and Fair presentation

Financial statements are produced by management which give a true and fair view of the entity’s results. The auditor in reviewing these financial statements gives an opinion on the truth and fairness of them.

Although there is no definition in the International Standards on Auditing of true and fair it is generally considered to have the following meaning:

True – Information is factual and conforms with reality in that there are no factual errors. In addition it is assumed that to be true it must comply with accounting standards and any relevant legislation. Lastly true includes data being correctly transferred from accounting records to the financial statements.

Fair – Information is clear, impartial and unbiased, and also reflects plainly the commercial substance of the transactions of the entity.
International Standards on Auditing

International Standards on Auditing (ISAs) are issued by the International Auditing and Assurance Standards Board (IAASB) and provide guidance on the performance of an audit.

ISAs only apply to the audit of historical financial information. They are written in the context of an audit of financial statements by an independent auditor.

The ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory material and appendices. It is necessary to consider and understand the entire text of an ISA to understand and apply the basic principles and essential procedures.

The basic principles and essential procedures of an ISA are to be applied in all cases. If in exceptional cases the auditor deems it necessary to depart from an ISA to achieve the overall aim of the audit, then this departure must be justified.

documenting audit work

- Provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objective of the audit.
- Provides evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.
- Assists the engagement team to plan and perform the audit.
- Assists members of the engagement team responsible for supervision to direct, supervise and review the audit work.
- Enables the engagement team to be accountable for its work.
- Retains a record of matters of continuing significance to future audits.

ISA 210 Agreeing the Terms of Audit Engagements provides guidance to auditors on the steps they should take in accepting a new audit or continuing on an existing audit engagement. It sets out a number of processes that the auditor should perform including agreeing whether the preconditions are present, agreement of audit terms in an engagement letter, recurring audits and changes in engagement terms.

To assess whether the preconditions for an audit are present the auditor must determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. In considering this the auditor should assess the nature of the entity, the nature and purpose of the financial statements and whether law or regulations prescribes the applicable reporting framework.

In addition they must obtain the agreement of management that it acknowledges and understands its responsibility for the following:

- Preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- To provide the auditor with access to all relevant information for the preparation of the financial statements, any additional information that the auditor may request from management and unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

- If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable; or
- If management agreement of their responsibilities has not been obtained.

Matters to consider in obtaining an understanding of the entity:

- The market and its competition
- Legislation and regulation
- Regulatory framework
- Ownership of the entity
- Nature of products/services and markets
- Location of production facilities and factories
- Key customers and suppliers
- Capital investment activities
- Accounting policies and industry specific guidance
- Financing structure
- Significant changes in the entity on prior years.
Ratios to assist the audit supervisor in planning the audit:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>12/23 = 52·2%</td>
<td>8/18 = 44·4%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>4·5/23 = 19·6%</td>
<td>4/18 = 22·2%</td>
</tr>
<tr>
<td>Inventory days</td>
<td>2·1/11 * 365 = 70 days</td>
<td>1·6/10 * 365 = 58 days</td>
</tr>
<tr>
<td>Receivable days</td>
<td>4·5/23 * 365 = 71 days</td>
<td>3·0/18 * 365 = 61 days</td>
</tr>
<tr>
<td>Payable days</td>
<td>1·6/11 * 365 = 53 days</td>
<td>1·2/10 * 365 = 44 days</td>
</tr>
<tr>
<td>Current ratio</td>
<td>6/6/2·5 = 2·6</td>
<td>6·9/1·2 = 5·8</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>(6·6 – 2·1)/2·5 = 1·8</td>
<td>(6·9 – 1·6)/1·2 = 4·4</td>
</tr>
</tbody>
</table>

Audit risk

Management were disappointed with 2009 results and hence undertook strategies to improve the 2010 trading results. There is a risk that management might feel under pressure to manipulate the results through the judgements taken or through the use of provisions. A generous sales-related bonus scheme has been introduced in the year, this may lead to sales cut-off errors with employees aiming to maximise their current year bonus.

Revenue has grown by 28% in the year however, cost of sales has only increased by 10%. This increase in sales may be due to the bonus scheme and the advertising however, this does not explain the increase in gross margin. There is a risk that sales may be overstated.

Gross margin has increased from 44·4% to 52·2%. Operating margin has decreased from 22·2% to 19·6%. This movement in gross margin is significant and there is a risk that costs may have been omitted or included in operating expenses rather than cost of sales. There has been a significant increase in operating expenses which may be due to the bonus and the advertising campaign but could be related to the misclassification of costs.

The finance director has made a change to the inventory valuation in the year with additional overheads being included. In addition inventory days have increased from 58 to 70 days. There is a risk that inventory is overvalued.

Receivable days have increased from 61 to 71 days and management have extended the credit period given to customers. This leads to an increased risk of recoverability of receivables.

The current and quick ratios have decreased from 5·8 to 2·6 and 4·4 to 1·8 respectively. In addition the cash balances have decreased significantly over the year. Although all ratios are above the minimum levels, this is still a significant decrease and along with the increase of sales could be evidence of overtrading which could result in going concern difficulties.

Response to risk

Throughout the audit the team will need to be alert to this risk. They will need to carefully review judgemental decisions and compare treatment against prior years.

Increased sales cut-off testing will be performed along with a review of post year-end sales returns as they may indicate cut-off errors.

During the audit a detailed breakdown of sales will be obtained, discussed with management and tested in order to understand the sales increase.

The classification of costs between cost of sales and operating expenses will be compared with the prior year to ensure consistency.

The change in the inventory policy will be discussed with management and a review of the additional overheads included performed to ensure that these are of a production nature.

Detailed cost and net realisable value testing to be performed and the aged inventory report to be reviewed to assess whether inventory requires writing down.

Extended post year-end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation.

Detailed going concern testing to be performed during the audit and discussed with management to ensure that the going concern basis is reasonable.
A value for money audit focuses on whether the best combination of services has been obtained for the lowest level of resources.

In performing a value for money audit there are three areas which an auditor will commonly focus on being economy, efficiency and effectiveness, and these are known as the three Es.

**Economy** – Keeping the cost of resources used to a minimum.

**Efficiency** – The relationship between the output from goods and services and the resources used to produce them.

**Effectiveness** – How well the organisation’s objectives have been achieved.

### (b) Strengths and improvements of Bluesberry’s operating environment to provide best value for money

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Improvements</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bluesberry has an internal audit department to monitor the internal control environment. This will help to provide advice over value for money.</td>
<td>This could be further improved in that the internal audit department could provide advice to departments on initial implementation of procedures rather than just reviewing them afterwards.</td>
</tr>
<tr>
<td>The centralised buying department purchases all medical supplies after researching for the lowest costs. This ensures that the hospital is being economical as the least amount of resources is being used.</td>
<td>However, care must be taken to ensure that the quality of the goods purchased is considered as well as the cost.</td>
</tr>
<tr>
<td>All orders are authorised by a purchasing director. This will ensure that only valid expenditure is incurred.</td>
<td>To improve the process the buying department could consider establishing an approved supplier listing. In order to be placed on the list both the cost and quality of goods has to be of an adequate level, hence improving the efficiency of the goods purchased.</td>
</tr>
<tr>
<td>Bluesberry has introduced an overtime scheme which has seen a reduction in the use of temporary staff, which was expensive. This has resulted in an overall reduction in labour costs and possibly improved care levels with permanent rather than temporary staff working, who may better understand the patients’ needs.</td>
<td>The purchasing director is a senior individual and it is not necessarily an efficient use of his time for him to authorise every purchase order, especially as there is a considerable number of them. The buying team receive in excess of 200 forms a day.</td>
</tr>
<tr>
<td>Although overall costs may have been reduced, a smaller number of staff now has to cover all of the required staffing hours. Their efficiency levels must have reduced as they are working normal shifts and then overtime.</td>
<td>Instead a purchasing supervisor should be designated to authorise orders up to a pre-set level with only orders above this level going to the director for authorisation. This should free the director to focus on other areas where costs can be reduced within the hospital.</td>
</tr>
<tr>
<td>To improve this further the human resources department should embark on a recruitment drive to find permanent staff members to fill gaps and reduce overall overtime and temporary staff usage.</td>
<td>This system is also used to determine overtime payments; however, there does not appear to be any authorisation of this overtime and employees could be being paid simply for staying longer hours as opposed to filling a staffing gap.</td>
</tr>
<tr>
<td>This equipment is not being utilised efficiently as there is a shortage of trained medical staff. In order to maximise the efficiency and effectiveness of this equipment it would be advisable to look at ways to address these staff shortages.</td>
<td>This could be further improved in that a report of overtime hours per staff member should be sent on a weekly basis to the department head for authorisation. This should ensure that the hospital keeps its labour costs to a minimum.</td>
</tr>
<tr>
<td>For example, there may be medical staff at other hospitals who wish to be seconded to Bluesberry to gain experience on this new type of surgical equipment.</td>
<td></td>
</tr>
</tbody>
</table>

Bluesberry has heavily invested in new surgical equipment, which has improved patient recovery rates and will lead to more operations being performed. With improving recovery rates and utilisation of equipment the overall effectiveness of the hospital will improve.
Valuation of property, plant and equipment (PPE):

- Review depreciation policies for reasonableness by comparison to prior year, industry practices, the entity’s replacement policy and the profits/losses arising on disposal of assets.
- For a sample of assets recalculate the depreciation charge for the year and agree to the entity asset register.
- Perform a proof in total calculation of depreciation, considering the timing of additions and disposals and compare this expectation to the actual charge, and investigate any significant differences.
- If any assets have been revalued during the year then assess the reasonableness of the valuer. In particular consider their experience, independence, scope of work and assumptions used.
- Agree the revalued amounts to a valuation report, for a sample recalculate the revaluation surplus and agree to the revaluation reserve.
- For a sample of the new surgical equipment additions vouch the cost to a recent purchase invoice.

Completeness of PPE:

- Reconcile the schedule of PPE with the general ledger.
- Select a sample of assets physically present at the entity’s premises and inspect the asset register to ensure that these are included.
- Reperform the reconciliation of the non-current asset register to the general ledger, investigate any differences.
- Review the repairs and maintenance expense account in the statement of comprehensive income for items of a capital nature.

Rights and obligations of PPE:

- Verify ownership of property via inspection of title deeds and land registration documents.
- For a sample of additions agree to purchase invoices to verify invoice relates to the entity.
- Review any new lease agreements to ensure assets are correctly treated as finance or operating leases.
- Inspect vehicle registration documents to confirm ownership of motor vehicles.

5 (a) Procedures the auditor should adopt in respect of auditing accounting estimates include:

- Enquire of management how the accounting estimate is made and the data on which it is based.
- Determine whether events occurring up to the date of the auditor’s report (after the reporting period) provide audit evidence regarding the accounting estimate.
- Review the method of measurement used and assess the reasonableness of assumptions made.
- Test the operating effectiveness of the controls over how management made the accounting estimate.
- Develop an expectation of the possible estimate (point estimate) or a range of amounts to evaluate management’s estimate.
- Review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias.
- Evaluate overall whether the accounting estimates in the financial statements are either reasonable or misstated.
- Obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates and estimation uncertainty are reasonable.
- Obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

(b) Receivables balance owing from Yellowmix Co

(i) The written representation proposed by management is intended to verify valuation, existence and rights and obligations of a material receivables balance. As management has refused to allow the auditor to circularise the balance and there has been little activity on the account for the past six months then there is very little evidence that has been obtained by the auditor.

This representation would constitute entity generated evidence and this is less reliable than auditor generated evidence or evidence from an external source. If related control systems operate effectively then this evidence becomes more reliable. In addition if the representation is written as opposed to oral then this will increase the reliability as an evidence source.

Overall this representation is a weak form of evidence, as there were more reliable evidence options available, such as the circularisation but this was not undertaken.
(ii) In order to reach a conclusion on the balance the following procedures should be performed:
– Discuss with management the reasons as to why a circularisation request was refused.
– Review the post year-end period to identify whether any cash has now been received from Yellowmix Co.
– Review correspondence with Yellowmix Co to assess reasons for the continued non-payment.
– Review board minutes and legal correspondence to assess whether any legal action is being taken to recover the amounts due.
– Discuss with management whether a provision or write down is now required.
– Consider impact on audit opinion if balance is considered to be materially misstated.

Warranty provision

(i) In this case the auditor has performed some testing of the provision in order to obtain auditor generated evidence. The team has tested the calculations and assumptions. None of this is evidence from an external source.

The very nature of this provision means that it is difficult for the auditor to obtain a significant amount of reliable evidence as to the level of future warranty claims. Hence the written representation, whilst being an entity generated source of evidence, would still be useful as there are few other alternatives.

(ii) In order to reach a conclusion on the balance the following procedures should be performed:
– Review the post year-end period to compare the level of claims actually made against the amounts provided.
– Review the level of prior year provisions with the amounts claimed to assess the reasonableness of management’s forecasting.
– Review board minutes to assess whether any changes are required to the level of the provision as a result of an increased or decreased level of claims by customers.

(c) Steps to take if written representation on warranty provision is not provided

ISA 580 Written Representations provides guidance to the auditor in the case where written representations are requested from management but they refuse to provide.

If management does not provide the requested written representation on the warranty provision the auditor of Greenfields should discuss the matter with management to understand why they are refusing.

In addition the auditor should re-evaluate the integrity of Greenfields’ management and consider the effect that this may have on the reliability of other representations (oral or written) and audit evidence in general.

The auditor should then take appropriate actions, including determining the possible effect on the audit opinion.

Impact on audit report

As the auditor is unable to obtain sufficient appropriate evidence to conclude that the warranty provision is free from material misstatement then a modified audit opinion will be required.

The warranty provision is material but not pervasive and therefore a qualified opinion would be appropriate.

The audit report will require an additional paragraph before the opinion which will describe the reason for the modification; namely that management refused to provide a written representation in relation to the warranty provision and hence we are unable to form an opinion on this balance. The opinion paragraph will be amended to state ‘except for’.
1 (a) Up to 1 mark per valid point

- Likelihood of deficiencies leading to errors
- Risk of fraud
- Subjectivity and complexity
- Financial statement amounts
- Volume of activity
- Importance of the controls
- Cause and frequency of exceptions
- Interaction with other deficiencies

(b) Up to 1 mark per well explained, deficiency, up to 1 mark per implication and up to 1 mark per recommendation. If not well explained then just give ½ mark for each.

- 2 marks for presentation; 1 for address and intro and 1 for conclusion
- Purchasing manager orders goods without consulting stores
- Purchase order reviewed in aggregate by purchasing director
- Store managers re-order goods
- No inter-branch transfer system
- Deliveries accepted without proper checks
- Sales assistants produce the goods received note
- Goods received but not checked to purchase orders
- Manual matching of goods received notes to invoice
- Purchase invoice logged late

(c) Up to 1 mark per well explained substantive procedure

- Agree purchase ledger to general and financial statements
- Review payable to prior year
- Calculate trade payables
- After date payments review
- After date invoices/credit notes review
- Supplier statement reviews
- Payables’ circularisation
- Goods received not invoiced
- Cut-off testing
- Debit balances review
- Disclosure within current liabilities

(d) Up to 1 mark per well explained point

- Cash controls testing
- Mystery shopper
- Financial/operational controls
- Fraud investigations
- IT system review
- Value for money review
- Regulatory compliance

Total = 30
2  (a)  Up to 1 mark per valid point
Accounts produced and auditors give opinion on true and fair view
True – factual, conforms with reality
True – conforms with standards and legislation
True – correctly transferred from accounting records
Fair – clear, plain and unbiased
Fair – reflects commercial substance 4

(b)  Up to 1 mark per valid point
Issued by IAASB
Apply to audit of historical financial information
Contain basic principles/essential procedures/explanatory material and appendices
If depart from ISA – justify 2

(c)  Up to 1 mark per valid point
Evidence of conclusions
Evidence of compliance with ISAs
Helps team to plan and perform audit
Helps supervision
Team is accountable
Record of matters of continuing significance 4

3  (a)  Up to 1 mark per valid point
– ISA 210 provides guidance
– Determination of acceptable framework
– Agreement of management responsibilities
– Preparation of financial statements with applicable framework
– Internal controls
– Provide auditor with relevant information and access
– If preconditions are not present discuss with management
– Decline if framework unacceptable
– Decline if agreement of responsibilities not obtained 3

(b)  ½ mark per example of matter to consider in obtaining an understanding of the nature of an entity. 2

(c)  (i)  ½ mark per ratio calculation per year.
– Gross margin
– Operating margin
– Inventory days
– Receivable days
– Payable days
– Current ratio
– Quick ratio 5

(ii)  Up to 1 mark per well explained audit risk and up to 1 mark per audit response
– Management manipulation of results
– Sales cut-off
– Revenue growth
– Misclassification of costs between cost of sales and operating
– Inventory valuation
– Receivables valuation
– Going concern risk 10

20
4  (a)  Up to 1 mark per valid point
Explanation of value for money audit
Economy – description
Efficiency – description
Effectiveness – description

(b)  ½ mark for identification of and up to 1 mark for explanation of each well explained strength and up to 1 mark per improvement, if not well explained then only give ½ mark, but overall maximum of four points.
Internal audit department
Centralised buying department buys from lowest cost supplier
Authorisation of all purchase order by purchasing director
Reduction in use of temporary staff
Employee clocking in cards to monitor hours worked
New surgical equipment leading to better recovery rates
Capital expenditure committee

(c)  Up to 1 mark per substantive procedure.
Valuation:
– Review depreciation policies for reasonableness.
– Recalculate the depreciation charge.
– Proof in total calculation of depreciation.
– Reasonableness of valuer.
– Agree the revalued amounts to a valuation report.
– Surgical equipment additions vouch the cost to invoice.

Completeness:
– Reconcile PPE schedule to general ledger.
– Physical inspection of assets.
– Reconciliation of non-current asset register to the general ledger.
– Review the repairs and maintenance expense account.

Rights and obligations:
– Verify ownership of property via inspection of title deeds.
– Additions agree to purchase invoices to verify invoice relates to the entity.
– Review any new lease agreements.
– Inspect vehicle registration documents.

MARKS

4

(b)  10

(c)  20

21
<table>
<thead>
<tr>
<th>MARKS</th>
<th>5 (a) Up to 1 mark per well explained procedure</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Enquire of management how estimate made</td>
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<td></td>
<td>Review after the reporting period</td>
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<td></td>
<td>Review method and assumptions</td>
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<td></td>
<td>Test effectiveness of controls</td>
</tr>
<tr>
<td></td>
<td>Develop expectation of estimate</td>
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<tr>
<td></td>
<td>Consider management bias</td>
</tr>
<tr>
<td></td>
<td>Overall assessment whether estimates reasonable or misstated</td>
</tr>
<tr>
<td></td>
<td>Disclosures adequate</td>
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<tr>
<td></td>
<td>Written representation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKS</th>
<th>(b) (i) Up to 2 marks for each discussion of reliability of representations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receivable balance</td>
</tr>
<tr>
<td></td>
<td>Warranty provision</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKS</th>
<th>(ii) Up to 1 mark per procedure, max of 3 marks per issue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receivable balance</td>
</tr>
<tr>
<td></td>
<td>Discuss with management why circularisation not allowed</td>
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<td></td>
<td>Review post year-end receipts</td>
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<td></td>
<td>Review customer correspondence</td>
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<td></td>
<td>Board minutes and legal correspondence</td>
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<tr>
<td></td>
<td>Discuss with management need for provision or write down</td>
</tr>
<tr>
<td></td>
<td>Consider impact on audit opinion</td>
</tr>
<tr>
<td></td>
<td>Warranty provision</td>
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<td></td>
<td>Review post year-end claims</td>
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<td>Compare prior year provisions to claims made</td>
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<td>Review board minutes</td>
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<table>
<thead>
<tr>
<th>MARKS</th>
<th>(c) Up to 1 mark per point</th>
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<tr>
<td></td>
<td>ISA 580 provides guidance</td>
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<td></td>
<td>Discuss with management</td>
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<td></td>
<td>Re-evaluate management integrity</td>
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<td></td>
<td>Consider impact on audit opinion</td>
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<tr>
<td></td>
<td>Modified opinion</td>
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<td></td>
<td>Qualified opinion as not pervasive</td>
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<td>Additional paragraph describing modification</td>
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<td>‘Except for’ opinion</td>
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| MARKS | 20 |