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# Answers

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**Section B**

**1 Corporate governance weaknesses and recommendations**

**Weakness**

The board is comprised of six executives and only four non-executive directors (NEDs). There should be an appropriate balance of executives and NEDs, to ensure that the board makes the correct objective decisions, which are in the best interest of the stakeholders of the company, and no individual or group of individuals dominates the board's decision-making.

One of the NEDs and the chairman are former executive directors of Tangerine who were asked to take on their existing roles following retirement. As former executive directors, they were previously employed by the company and so may not bring the required level of independence and objective judgement to the role as is necessary. The independence of the other NEDs cannot be assessed.

The chairman, who is a NED, sits on the audit committee as the chair. The audit committee is supposed to be made up of independent NEDs. The chairman can, for smaller companies, sit on the committee provided that he is an independent non-executive, which is not the case for Tangerine.

All four members of the audit committee were previously involved in sales or production related roles. At least one member of the audit committee should have recent and relevant financial experience. None of the NEDs were former finance directors and so it is unlikely they possess the required financial experience.

All of the directors have been members of the board for at least four years. The shareholders should review on a regular basis that the composition of the board of directors is appropriate, and that there is an appropriate re-election process in place to ensure this can be achieved.

The chairman has sole responsibility for liaising with the shareholders and answering any of their questions. However, this is a role which the board as a whole should undertake.

Currently Tangerine has not established an internal audit function. The audit committee should consider the effectiveness of internal controls and internal audit could support this role. Where there is no internal audit function, the audit committee is required to annually consider the need for one.

**Recommendation**

At least half of the board should be comprised of NEDs. Hence the board of Tangerine Tech Co (Tangerine) should consider recruiting and appointing additional independent NEDs to satisfy this requirement.

Only independent non-executives with relevant experience and skills should be appointed to the board of Tangerine. A review should be undertaken of the independence of all existing NEDs. Any who are not independent should ideally be replaced or supplemented by independent NEDs.

The chairman should cease to undertake the role of chair of the audit committee. One of the newly appointed independent NEDs should be appointed to this role instead.

The company should ensure when they recruit the new independent NEDs that at least one of them has the required recent and relevant financial experience.

The directors should be subject to re-election by the shareholders at regular intervals not exceeding three years.

At the current year's annual general meeting it should be proposed that a number of the directors are subject to re-election. The remaining directors could then be subject to re-election next year.

All members of the board should be involved in ensuring that satisfactory dialogue occurs with shareholders, for example, all should attend meetings with shareholders such as the annual general meeting.

The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company.

Further consideration should be given to establishing an internal audit function. Having an internal audit function will help the audit committee to discharge their responsibility for monitoring internal controls. However, the costs of establishing an internal audit function should be considered against the benefits to be gained.

**2 Procedures to obtain evidence and an audit test relevant to bank balances**

**(i) Inspection**

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

**(ii)** Inspect the bank reconciliation for any outstanding lodgements and agree to the pre year-end cash book, post year-end bank statement and also to paying-in-book pre year end.

**(i) Observation**

Observation consists of looking at a process or procedure being performed by others.

- (ii)** Observe the process for the opening of mail and logging of any cheques received from customers to ensure adequate segregation of duties.

**(i) Analytical procedures**

Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships which are inconsistent with other relevant information or which differ from expected values by a significant amount.

- (ii)** Review the year-end bank balance against prior year to identify any significant fluctuations as these could be evidence of window dressing and discuss with management.

**(i) Inquiry**

Inquiry consists of seeking information from knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

- (ii)** Inquire of management as to whether the company has opened/closed any bank accounts during the period.

**(i) Recalculation**

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

- (ii)** Recalculate the additions in the year-end cash book to confirm accuracy of the amount.

**(i) External confirmation**

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party, in paper form, electronic form or by other medium.

- (ii)** Obtain a standard bank confirmation from each bank the company has undertaken banking transactions with during the year.

**(i) Re-performance**

Re-performance involves the auditor's independent execution of procedures or controls which were originally performed as part of the entity's internal control.

- (ii)** Re-perform the year-end bank reconciliation to ensure the process was undertaken accurately.

**Tutorial note:** Marks will be awarded for any other relevant bank balance tests.

### 3 Subsequent events

#### Event 1 – Fire

A fire has occurred at the largest of the company's distribution depots and property, plant and equipment in excess of \$650,000 has been damaged as well as inventory of \$25,000. The company has contacted its insurance company and they have begun to investigate the likelihood and level of any payment. This event occurred after the reporting period and is not an event which provides evidence of a condition at the year end and hence this is a non-adjusting event.

Normally as the company is insured, only uninsured losses suffered by Grains 4U Co (Grains) would need to be accounted for, which in the normal course of events would be an immaterial amount.

However, the insurance company is investigating, as there is a possibility the fire was started deliberately, and this would invalidate the insurance policy. If this is the case, the total damaged assets of \$675,000 (650 + 25) would be material as they represent 8.5% (675/7,900) of profit before tax. Therefore as a material non-adjusting event, the assets should not be written down to their scrap value in the current year financial statements; however, the directors should include a disclosure note detailing the fire and the total value of assets which may be impacted due to the possibility of a lack of an insurance settlement.

The following audit procedures should be applied to form a conclusion on any amendment:

- Obtain a schedule showing the damaged property, plant and equipment and agree the net book value to the non-current assets register to confirm the total value of affected assets.
- Obtain a breakdown of the inventory stored at the distribution centre on 15 February 2016 and compare to earlier records or despatch documents to ascertain the likely level of inventory at the time of the fire.
- Review any correspondence from the insurance company confirming the amount of the claim, and the current status of their investigation into the fire and any likely payments to assess the extent of any uninsured amounts.
- Discuss with the directors whether they will disclose the effect of the fire, as a non-adjusting event, in the year-end financial statements.

### Event 2 – Inventory

Grains has identified that inventory at the year end with a cost of \$915,000 is defective, due to an excessive amount of food colouring; the scrap value of this inventory is \$50,000. This information was obtained after the year end but provides further evidence of the net realisable value of inventory at the year end and hence is an adjusting event.

IAS 2 *Inventories* requires that inventory is valued at the lower of cost and net realisable value. The inventory of \$915,000 must be written down to its net realisable value of \$50,000. The write down of \$865,000 (915 – 50) is material as it represents 10.9% (865/7,900) of profit before tax. Hence, the directors should amend the financial statements by writing down the inventory to \$50,000.

The following audit procedures should be applied to form a conclusion on the adjustment:

- Discuss the matter with the directors and enquire if they are prepared to write down the cost of the inventory to net realisable value.
- Review the board minutes to assess whether this event was the only case of defective inventory as there could potentially be other inventory which requires writing down.
- Obtain a schedule showing the defective inventory and agree to supporting production documentation that it was produced prior to 31 December, as otherwise it would not require a write down at the year end.
- Discuss with management how they have assessed the scrap value of \$50,000 and agree this amount to any supporting documentation to confirm the value.

## 4 Substantive procedures

### (i) Property, plant and equipment

- Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings.
- Select a sample of additions and agree cost to supplier invoice to confirm valuation.
- Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Kyanite.
- Review the list of additions and confirm that they relate to capital expenditure items rather than repairs and maintenance.
- For a sample of additions recorded in fixtures and fittings, physically verify them via site visits to a sample of restaurants to confirm existence.
- Inspect the repairs and maintenance account in the general ledger for items of a capital nature to confirm completeness of additions.
- Obtain a breakdown of disposals, cast the list and agree all assets removed from the non-current assets register to confirm existence.
- Select a sample of disposals and agree sale proceeds to supporting documentation such as sundry sales invoices.
- Recalculate the profit/loss on disposal and agree to the trial balance and statement of profit or loss.
- Recalculate the depreciation charge for a sample of additions and disposals to confirm the calculations are correctly applied as per the company policy of a pro rata basis or a full year in the year of acquisition and none in the year of disposal.
- Review the disclosure of the additions and disposals in the draft financial statements and ensure it is in line with IAS 16 *Property, Plant and Equipment*.

### (ii) Equity

- Review board minutes to confirm the issue of additional share capital during the year.
- Agree the issue of shares is permitted from a review of any statutory constitution agreements in place.
- Inspect the cash book and bank statements for evidence of cash receipts from the share issue.
- Where the sum received is less than \$1.6 million, agree the difference is treated as share capital called up but not paid in the financial statements.
- Recalculate the split of proceeds between the nominal value of shares and premium on issue and agree correctly recorded within share capital and share premium account.
- Review the disclosure of the share issue in the draft financial statements and ensure it is in line with relevant accounting standards and local legislation.

**5 (a) Deficiencies, controls and test of controls**

<b>Deficiencies</b>	<b>Controls</b>	<b>Test of controls</b>
<p>The count will be undertaken by teams of warehouse staff.</p> <p>There should be a segregation of roles between those who have day-to-day responsibility for inventory and those who are checking it. If the same team are responsible for maintaining and checking inventory, then errors and fraud could be hidden.</p>	<p>The counting teams should be independent of the warehouse; hence members of alternative departments should undertake the counting rather than the warehouse staff.</p>	<p>Attend the year-end count and enquire of the counting teams which department they normally work in.</p>
<p>The inventory sheets contain quantities as per the inventory records. There is a risk that the counting teams may simply agree with the pre-printed quantities rather than counting the balances correctly, resulting in significant errors in inventory.</p>	<p>The count sheets should be sequentially numbered and contain product codes and descriptions but no quantities.</p>	<p>Inspect the updated inventory count instructions to verify that they have been communicated to members of staff outside the warehouse department.</p>
<p>There are 15 teams of counters, each team having two members of staff. However, there is no clear division of responsibilities within the team. Therefore, both members of staff could count together rather than checking each other's count; and errors in their count may not be identified.</p>	<p>Each team should be informed that both members are required to count their assigned inventory separately. Therefore, one member counts and the second member also undertakes a count and then records the inventory on the count sheets correctly.</p> <p>In addition, the financial controller supervising the count should undertake some sample checks of inventory counted by each team.</p>	<p>Observe the counting teams to assess if they are counting together or if one counts and the other then double checks the quantities counted.</p> <p>Review the records of the sample checks undertaken by the supervisor of the inventory count.</p>
<p>Inventory owned by third parties is also being counted by the teams with adjustments being made by the finance team to split these goods out later. There does not appear to be a method for counters to identify which items are third party inventory.</p>	<p>All inventories belonging to third parties should be moved to one location. This area should be clearly marked and excluded from the counting process.</p>	<p>Enquire of the count supervisor where the third party inventory is to be stored, confirm through inspection of the counting sheets that these bays are not included on any pre-printed forms.</p>
<p>There is a risk that these goods may not be correctly removed from the inventory count sheets, resulting in inventory being overstated.</p>		
<p>High value inventory which is normally stored in a secure location will be accessible by all team members as they will be given the access code. This significantly increases the risk of theft as any member of the counting team could subsequently access these goods.</p>	<p>The high value inventory should be kept in the locked area of the warehouse. Senior members of the team should be allocated to count these goods, and they should be given the access code to enter the area.</p> <p>Upon completion of the count the access code should be changed.</p>	<p>Attempt to access the area where the high value inventory is stored; this should not be possible without the access code.</p> <p>At the year-end visit attempt to access with the code which was supplied during the inventory count.</p>
<p>Each bay of the warehouse is counted once only. If inventory is only checked once, then counting errors may arise resulting in under or overstated inventory.</p>	<p>Once all inventories have been counted once, each area should be recounted by a different team. Any differences on the first count should be promptly notified to the count supervisor and a third count undertaken if necessary.</p> <p>If a full second count would be too time-consuming for the company, then sample checks on the inventory counted should be undertaken by a different counting team.</p>	<p>Observe the counting team undertake second counts of all areas; confirm that different teams undertake this process.</p>

Deficiencies	Controls	Test of controls
Once areas are counted, the teams are not marking the bays as completed. Therefore there is the risk that some areas of the warehouse could be double counted or missed out.	All bays should be flagged as completed, once the inventory has been counted. In addition, the count supervisor should check at the end of the count that all of the bays with Quartz's inventory have been flagged as completed.	Physically confirm that the completed bays of the warehouse have been flagged to indicate that the goods have been counted.  At the end of the count, review any bays containing Quartz's goods which have not been flagged.
The inventory sheets are sequentially numbered and at the end of the count they are given to the count supervisor who confirms with each team that they have returned all sheets.  However, no sequence check of the sheets is performed. If sheets are missing, then the inventory records could be understated.	After the counting has finished, each team should return all of their sequentially numbered sheets and the supervisor should check the sequence of all sheets at the end of the count.	Review the sequence of the inventory sheets for any gaps in the sequence and obtain an explanation from the count supervisor.

**(b) Elements of an assurance engagement**

In accordance with ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, an assurance engagement will require a three-party relationship comprising of:

- The intended user who is the person who requires the assurance report.
- The responsible party, which is the organisation responsible for preparing the subject matter to be reviewed.
- The practitioner (i.e. an accountant) who is the professional who will review the subject matter and provide the assurance.

A second element which is required for an assurance engagement is suitable subject matter. The subject matter is the data which the responsible party has prepared and which requires verification. Thirdly this subject matter is then evaluated or assessed against suitable criteria in order for it to be assessed and an opinion provided.

Fourth, the practitioner must ensure that they have gathered sufficient appropriate evidence in order to give the required level of assurance. Last, an assurance report provides the opinion which is given by the practitioner to the intended user.

**6 (a) Audit risk and its components**

Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of two main components, being the risk of material misstatement and detection risk. Risk of material misstatement is made up of a further two components, inherent risk and control risk.

Inherent risk is the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement which could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

Control risk is the risk that a misstatement which could occur in an assertion about a class of transaction, account balance or disclosure and which could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement which exists and which could be material, either individually or when aggregated with other misstatements. Detection risk is affected by sampling and non-sampling risk.

**(b) Audit risks and auditors' responses**

Audit risks	Auditors' responses
Aquamarine Co (Aquamarine) undertakes continuous production and the work in progress balance at the year end is likely to be material. As production will not cease, the exact cut-off of the work in progress will need to be assessed. If the cut-off is not correctly calculated, the inventory valuation may be under or over stated.	The auditor should discuss with management the process they will undertake to assess the cut-off point for work in progress at the year end. This process should be reviewed by the auditor while attending the year-end inventory count.  In addition, consideration should be given as to whether an independent expert is required to value the work in progress. If so, this will need to be arranged with consent from management and in time for the year-end count.

### Audit risks

Aquamarine has ordered \$720,000 of plant and machinery, two-thirds of which may not have been received by the year end.

Only assets which physically exist at the year end should be included in property, plant and equipment. If items not yet delivered have been capitalised, PPE will be overstated. Consideration will also need to be given to depreciation and when this should commence. If depreciation is not appropriately charged when the asset is available for use, this may result in assets and profit being over or understated.

A patent has been purchased for \$1.3 million, and this enables Aquamarine to manufacture specialised elevator equipment for the next five years. In accordance with IAS 38 *Intangible Assets*, this should be included as an intangible asset and amortised over its five-year life.

If management has not correctly accounted for the patent, intangible assets and profits could be overstated.

The company has borrowed \$1.2 million from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure.

Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.

During the year Aquamarine outsourced its payroll processing to an external service organisation. A detection risk arises as to whether sufficient and appropriate evidence is available at Aquamarine to confirm the completeness and accuracy of controls over payroll. If not, another auditor may be required to undertake testing at the service organisation.

The payroll processing transferred to Coral Payrolls Co from 1 January. If any errors occurred during the transfer process, these could result in the payroll charge and related employment tax liabilities being under/overstated.

The land and buildings are to be revalued at the year end; it is likely that the revaluation surplus/deficit will be material.

The revaluation needs to be carried out and recorded in accordance with IAS 16 *Property, Plant and Equipment*, otherwise non-current assets may be incorrectly valued.

Receivables for the year to date are considerably higher than the prior year. If this continues to the year end, there is a risk that some receivables may be overvalued as they are not recoverable.

### Auditors' responses

Discuss with management as to whether the remaining plant and machinery ordered have arrived; if so, physically verify a sample of these assets to ensure existence and ensure only appropriate assets are recorded in the non-current asset register at the year end. Determine if the asset received is in use at the year end by physical observation and if so, if depreciation has commenced at an appropriate point.

The audit team will need to agree the purchase price to supporting documentation and to confirm the useful life is five years.

The amortisation charge should be recalculated in order to ensure the accuracy of the charge and that the intangible is correctly valued at the year end.

During the audit, the team would need to confirm that the \$1.2 million loan finance was received. In addition, the split between current and non-current liabilities and the disclosures for this loan should be reviewed in detail to ensure compliance with relevant accounting standards. Details of security should be agreed to the bank confirmation letter.

The finance costs should be recalculated and any increase agreed to the loan documentation for confirmation of interest rates. Interest payments should be agreed to the cash book and bank statements to confirm the amount was paid and is not therefore a year-end payable.

Discuss with management the extent of records maintained at Aquamarine and any monitoring of controls undertaken by management over the payroll charge.

Consideration should be given to contacting the service organisation's auditor to confirm the level of controls in place.

Discuss with management the transfer process undertaken and any controls put in place to ensure the completeness and accuracy of the data.

Where possible, undertake tests of controls to confirm the effectiveness of the transfer controls. In addition, perform substantive testing on the transfer of information from the old to the new system.

Discuss with management the process adopted for undertaking the valuation, including whether the whole class of assets was revalued and if the valuation was undertaken by an expert. This process should be reviewed for compliance with IAS 16.

Discuss with management the reasons for the increase in receivables and management's process for identifying potential irrecoverable debt. Test controls surrounding management's credit control processes.

Extended post year-end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation. Also consider the adequacy of any allowance for receivables.

#### **Audit risks**

Aquamarine is planning to make approximately 65 employees redundant after the year end. The timing of this announcement has not been confirmed; if it is announced to the staff before the year end, then under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* a redundancy provision will be required at the year end. Failure to provide will result in an understatement of provisions and expenses.

#### **Auditors' responses**

Discuss with management the status of the redundancy announcement; if before the year end, review supporting documentation to confirm the timing. In addition, review the basis of and recalculate the redundancy provision.

#### **(c) Payroll service organisations**

Additional factors Amethyst & Co should consider in relation to Aquamarine's use of the service organisation, Coral Payrolls Co (Coral) include:

- The audit team should gain an understanding of the services being provided by Coral, including the materiality of payroll and the basis of the outsourcing contract.
- They will need to assess the design and implementation of internal controls over Aquamarine's payroll at Coral.
- The team may wish to visit Coral and undertake tests of controls to confirm the operating effectiveness of the controls.
- If this is not possible, Amethyst & Co should contact Coral's auditors to request either a type 1 (report on description and design of controls) or type 2 report (on description, design and operating effectiveness of controls).
- Amethyst & Co is responsible for obtaining sufficient and appropriate evidence, therefore no reference may be made in the audit report regarding the use of information from Coral's auditors.

**Section B**

This marking scheme is given as a guide in the context of the suggested answers. Scope is given to markers to award marks where alternative relevant points are made.

**1** Up to 1 mark per well described weakness and up to 1 mark per recommendation. Overall maximum of 5 marks for weaknesses and 5 marks for recommendations.

- Four of ten directors are non-executive directors (NEDs), should be at least half
- Chairman and one of the NEDs are not independent
- Chairman sits on the audit committee as the chair
- None of the NEDs have recent, relevant financial experience
- No director subject to re-election for the last four years
- Only chairman involved in dialogue with shareholders
- No internal audit function established

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**2** Up to 1 mark per well described procedure and up to 1 mark for a valid audit test, overall maximum of 2 marks per type of procedure and test, maximum of 5 marks for procedures and maximum of 5 marks for tests.

- Inspection
- Observation
- Analytical procedures
- Inquiry
- Recalculation
- External confirmation
- Re-performance

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**3** Up to 1 mark per valid point, overall maximum of 5 marks per event.

**Event 1 – Fire**

- Provides evidence of conditions which arose subsequent to the year end
- Non-adjusting event, requires disclosure if uninsured losses material
- Calculation of materiality
- Obtain schedule of damaged property, plant and equipment and agree values to asset register
- Obtain distribution/despatch records to confirm damaged inventory levels
- Review correspondence with insurance company
- Discuss with the directors if they will make disclosures

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**Event 2 – Inventory**

- Provides evidence of conditions at the year end
- Inventory to be adjusted to lower of cost and net realisable value
- Calculation of materiality
- Discuss with the directors if they will write down the inventory to net realisable value
- Review board minutes
- Obtain schedule of defective inventory, agree to supporting documentation
- Discuss with directors basis of the scrap value

5

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- 4 Up to 1 mark per well described procedure, overall maximum of 6 marks for property, plant and equipment and maximum of 4 marks for equity.

**(i) Property, plant and equipment**

- Cast a breakdown of additions and agree included in the non-current assets register
- Select a sample of additions and agree cost to supplier invoice
- Agree the additions to a supplier invoice in the name of Kyanite
- Review the list of additions and confirm they relate to capital expenditure
- Physically verify a sample of additions
- Inspect the repairs and maintenance account for items of a capital nature
- Cast a breakdown of disposals and agree all assets removed from the non-current assets register
- Agree sale proceeds to supporting documentation such as sundry sales invoices
- Recalculate the profit/loss on disposal and agree to the trial balance and statement of profit or loss
- Recalculate depreciation to confirm the calculations are correctly applied on a pro rata basis/full year in year of acquisition and none in year of disposal basis
- Review the disclosures in the draft financial statements and ensure it is in line with IAS 16 *Property, Plant and Equipment*

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**(ii) Equity**

- Review board minutes to confirm the issue of share capital during the year
- Agree the issue of shares is allowed from a review of any statutory constitution agreements
- Inspect the cash book and bank statements for evidence of cash receipts from the share issue
- Where the sum received is less than \$1.6 million, agree difference is treated as share capital called up but not paid
- Recalculate the split of proceeds and correct treatment of nominal value of shares and share premium account
- Review the disclosure in the draft financial statements and ensure it is in line with relevant accounting standards and local legislation

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- 5 **(a)** Up to 1 mark per well explained deficiency, up to 1 mark for each well explained recommendation and up to 1 mark for each well described test of control. Overall maximum of 5 marks each for deficiencies, controls and tests of control.

- Warehouse employees undertaking the count
- Inventory counting sheets contain quantities per records
- No clear division of roles within counting teams
- Third-party inventory included in the count
- Access to high value finished goods
- Each location counted once only
- No flagging of bays once counted
- No sequence checks of inventory sheets

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**(b)** Up to 1 mark per well explained element.

- Intended user, responsible party, practitioner
- Subject matter
- Suitable criteria
- Appropriate evidence
- Assurance report

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6 (a) Up to 1 mark for each definition of audit risk and its components (if just a component is given without an explanation then just give ½ marks).

- Audit risk (max of 2 marks)
- Inherent risk
- Control risk
- Detection risk

5

(b) Up to 1 mark per well described risk and up to 1 mark for each well explained response. Overall maximum of 6 marks for risks and 6 marks for responses.

- Work in progress
- Existence of plant and machinery ordered
- Valuation of intangible asset
- New loan finance obtained
- Completeness of finance costs
- Use of service organisation
- Transfer of data to service organisation
- Valuation of land and buildings
- Overvaluation of receivables
- Redundancy provision

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(c) Up to 1 mark per well explained point.

- Gain an understanding of the services being provided
- Assess the design and implementation of internal controls over Aquamarine's payroll at Coral
- Visit Coral and undertake tests of controls
- Contact Coral's auditors to request either a type 1 or type 2 report
- No reference in audit report of use of information from Coral's auditors

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