This document contains:

- Audit risks from the AI and 11m dataset.
- Audit procedures which could be performed to address those risks.
- Examples of potential exam scenarios and illustrative answers explaining the financial reporting treatment.
- Examples of potential audit requirements and illustrative answers.
- An example of a potential ethics requirement and illustrative answer.
- Financial reporting and audit notes on relevant topics.
- Inflo technique guidance to identify audit risks or justify why a particular balance has been identified as an audit risk.
- General CR exam technique guidance.

Please ensure that you use the exam paper information and 12m data as much as possible and do not rely exclusively on the AI.

In addition to this document and our CR Materials (sold separately), you may find it useful to bring in a copy of the TB for the 11m period. This can be downloaded from Inflo.

AI Risk	Procedures
Loans Risk of understatement of interest expense and loan liability because the loan should be accounted for under amortised cost but there is no interest expense in PL.	Inspect signed agreement to identify terms (interest, redemption amounts and dates).
Risk of understatement of liabilities and receivables because transaction 1924 on 01/05/22 shows £1.9m ($2.3m) 'received from ProEd' being credited to receivables. If the amount is a loan, it should be an amortised cost financial liability under IFRS9. It is the only receivables transaction recorded by FD and was recorded outside of normal UK office hours which increases risk.	Inspect contractual documentation and correspondence with ProEd to identify what $2.3m relates to. Calculate effective interest rate using RATE function to identify interest expense which should be recorded in PL and amortised cost balance for SFP.
[redacted]	[redacted]
Assets Risk of understatement of assets and profit if HSS has developed new software but expensed the costs to P&L despite meeting IAS38 capitalisation criteria. As HSS is selling access to its developed software profitably, it has the ability to use the software and future economic benefits are probable. Transaction 1892 in AC 6420-10 for £74,985 on 31/01/22 described as 'ProEd Purchases' could be costs directly attributable to developing software for the education sector. [redacted]	Review SFP/asset accounts for software development asset. [redacted]

Example of potential FR treatment scenario

<u>HSS has developed / is developing new software for education sector</u>

Under IAS38, development costs are capitalised if strict criteria are met. Research costs and development costs not meeting the criteria are expensed.

The capitalisation criteria are met from DD.MM.2022 because:

1. Future economic benefits (FEB) are probable (HSS will sell access to the platform at a profit)
2. Technically feasible to complete software and HSS has the resources to complete
3. HSS has intention to complete the software
4. Ability to sell the software (HSS will sell to education customers)
5. Costs can be measured reliably (payroll, contractors, software, licenses)
6. The software is controlled by HSS and it is separable because it can be licenced/sold.

Costs prior to this date should be expensed to PL.

Only costs directly attributable to bringing the software into use should be capitalised e.g. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

JOINT CONTROL

- Two or more investors share control of the operation via unanimous consent
- Joint Operation: where the investors have a right to their **share/portion** of assets and income
  - the investors have rights to the assets/have obligations for the liabilities
  - a joint arrangement not structured through a separate entity is always a joint operation

  [redacted]
- Joint Venture: [redacted]
  - HSS can account for its investment in JV using:
    - equity accounting
    - cost
    - IFRS9 (FVPL or FVOCI)
  - equity accounting, as per associate:

Consolidated (Group) SFP		
Investment in JV		
Consideration paid (cost) to acquire shares in JV	X	
HSS% share of JV profits/gains since acquisition	X	
Dividends received from JV	(X)	Not included in P&L
Impairment of investment	(X)	
SFP	**X**	Cannot be negative unless HSS has obligation on behalf of JV
Consolidated (Group) P&L and OCI		
P&L: Share of JV profit		
HSS% share of JV profit	X	
Impairment of investment	(X)	
P&L	**X**	
OCI: Share of JV gains		
HSS% share of JV gains	X	

  - Intragroup transactions and balances

    [redacted]
  - P&L

    [redacted]

Weaknesses in the work performed by the audit assistant

Risk assessment

Trade receivables

The conclusion that there are not any audit risks for TR because the credit period is line with the benchmark is incorrect because:

- has not identified reasons for the decrease in TR and TR days e.g. £1.9m cash received from ProEd.
- has not challenged management's explanation (OHotel balance does not explain the decrease in TR).

[redacted]

Trade payables

The conclusion that there are not any audit risks for TP because the TP days are greater than credit period is incorrect because:

[redacted]

Cash

[redacted]

Procedures

Trade receivables

No procedures performed which

- challenge (or corroborate) management's explanation e.g. recalculate PY TR days excluding OHotel.
- identify credit terms agreed with customers.
- test completeness by tracing invoices to TR balance.

[redacted]

Trade payables

No procedures performed which

[redacted]

Cash

No procedures performed which:

- identify whether the other side of the entry is the correct classification, measurement and presentation.
- test existence and rights of the cash balance by inspecting bank statements.
- test valuation by reconciling cash balance to bank statements.