SECTION ONE. ANSWER ALL QUESTIONS (CONTINUED)

Question 3

a) There are three conditions requiring a departure from an unqualified audit report. State each of these three conditions and indicate the appropriate audit report for each condition.

(8 marks)

b) The following is a portion of a qualified audit report issued for a Jamaican company:

> **Independent Auditor's Report**
>
> To the member of Finmac Limited
>
> **Report on the Financial Statements**
> We have audited the accompanying financial statements of Finmac Limited set out on pages 2 to 20. The financial statements comprise the balance sheets as of 31 March 2011 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.
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> **Management's Responsibility for the Financial Statements**
> Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
>
> **Auditors' Responsibility**
> Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.