

**UNIVERSITY OF BOLTON**  
**WESTERN INTERNATIONAL COLLEGE FZE**  
**BA (HONS) ACCOUNTANCY**  
**SEMESTER TWO EXAMINATION 2018/19**  
**ADVANCED AUDITING PRACTICE**  
**MODULE NO: ACC6006**

Date: Thursday 23<sup>rd</sup> May 2019

Time: 1.00pm – 4.00pm

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**INSTRUCTIONS TO CANDIDATES:**

There are **FIVE** questions on this paper.

**SECTION A** consists of **TWO** questions, answer **ALL** questions.

**SECTION B** consists of **THREE** questions, answer **ONLY TWO** questions.

This is a closed book exam.

You must hand in the exam paper with your answer booklet.

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**SECTION A (Answer ALL Questions)**

**Question 1**

- (a) You are an audit manager of Khans, a firm of Chartered Certified Accountants. You are assigning staff to the final audit of Irene plc, a company listed on a stock exchange, for the year to 31 December 2018. You are aware of the following matters:

**Irene**

Irene has recently issued a profits warning. The company has announced that the significant synergies expected from the acquisition of Varna, a former competitor company, have not materialised. Moreover, it has emerged that certain of Varna's assets are significantly impaired. Your firm's corporate finance department, assisted by two audit trainees, carried out due diligence work on behalf of Irene before the purchase of Varna was completed in December 2017.

**Mariam**

Mariam, the assistant manager assigned to the interim audit of Irene, has since inherited 5,000 £1 shares in Irene. Mariam has told you that she has no intention of selling the shares until the share price recovers from the fall to £1.95 which followed the profit warning.

**Adam**

Adam, an audit senior, has been assigned to the audits of Irene since joining the firm nearly three years ago. He has confided to you that his father owned 1,001 shares in Irene but sold them only days before the profits warning at a share price of £7.95. You are assured that Adam did not previously know that his father had the shares.

**Question 1 continued over the page**

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**Question 1 continued**

**Required:**

Critically evaluate the ethical and other professional issues raised by the above matters for the year to 31 December 2018. **(20 marks)**

**(b)** You have just joined the partnership of a small firm of Chartered Certified Accountants, Tahir & Co, and the partners are concerned that the firm's quality control procedures may not be satisfactory, as they have never been reviewed since they were first implemented five years ago. In addition, although staff are able to read the policies and procedures in the staff manual, there are currently no other ways in which the information is communicated to them.

**Required:**

Critically evaluate why quality control policies and procedures are necessary, the areas that should be covered by quality control policies and outline procedures that would be required to ensure that the policies are met. **(10 marks)**

**Total 30 marks**

**End of question 1**

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**Question 2**

- (a) You are the audit manager of Daud & Co and you are briefing your team on the approach to adopt in undertaking the review and finalisation stage of the audit. In particular, your audit senior is unsure about the steps to take in relation to uncorrected misstatements.

During the audit of Mina Co the following uncorrected misstatement has been noted.

The property balance was revalued during the year by an independent expert valuer and an error was made in relation to the assumptions provided to the valuer.

The following additional issues have arisen during the course of the audit of Mina Co. Profit before tax is £10m.

(i) Depreciation has been calculated on the total of land and buildings. In previous years it has only been charged on buildings. Total depreciation is £2.5m and the element charged to land only is £0.7m. **(6 marks)**

(ii) Mina Co's computerised wages program is backed up daily, however for a period of two months the wages records and the back-ups have been corrupted, and therefore cannot be accessed. Wages and salaries for these two months are £1.1m. **(6 marks)**

(iii) Mina Co's main competitor has filed a lawsuit for £5m against them alleging a breach of copyright; this case is ongoing and will not be resolved prior to the auditor's report being signed. The matter is correctly disclosed as a contingent liability. **(6 marks)**

**Required:**

Critically discuss each of these issues and describe the impact on the auditor's report if the above issues remain unresolved. **(18 marks)**

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**Question 2 continued.**

**(b)** There are specific regulatory obligations imposed on accountants and auditors in relation to detecting and reporting money laundering activities. You have been asked to provide a training session to the new audit juniors on auditors' responsibilities in relation to money laundering.

**Required:**

(i) Critically evaluate the term 'money laundering'. Illustrate your explanation with examples of money laundering offences, including those which could be committed by the accountant; and **(6 marks)**

(ii) Critically explain the policies and procedures that a firm of Chartered Certified Accountants should establish in order to meet its responsibilities in relation to money laundering. **(6 marks)**

**Total 30 marks**

**End of question 2**

**END OF SECTION A**

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**SECTION B: TWO Questions ONLY to be attempted**

**Question 3**

**Required:**

Critically evaluate the importance of big data and data analytics together with the benefits and risks associated with data analytics. Illustrate your answer using examples and critically evaluate the impact on the auditing profession globally.

**Total 20 marks**

**Question 4**

The Peter Group Ltd is an international business, comprising 10 subsidiaries with a head office in a central European country. You are undertaking the Group audit, but there are separate auditors for the Carl Ltd subsidiary in the Uganda, Harry Ltd in Morocco and Henry Ltd in Cameroon. You are aware of the following information:

Henry is a loss-making subsidiary, with losses at the current year end totalling £2.7m. There are significant control problems, high levels of bad debts and 25% staff turnover. The local auditors have already stated their intention to provide a qualified opinion for the year just ended because of the material issues found.

Carl is operating to a different financial year to that of the Group as a whole, being October 2018 rather than December 2018.

Shortly after year-end, in January 2019, the Peter Group announced the sale of Harry for £25m and this disposal is currently under way.

The Peter Group is guaranteeing loans of approximately £10m for four of its subsidiaries.

**Required:**

- (a) Explain how you would approach the audit of the Peter Group, in particular how you would plan and control the audit. **(8 marks)**
- (b) Critically evaluate the impact of each of the issues shown on the audit of the Group, explaining any further checks required and how the issues should be reflected in the financial statements. **(8 marks)**

**Question 4 continued over the page**

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**Question 4 continued**

(c) Critically evaluate the nature of the relationship between your firm and the auditors of the subsidiaries, making particular reference to the extent to which your firm may rely on the other auditors' work and to the considerations involved where joint audits are conducted. **(4 marks)**

**Total 20 marks**

**Question 5**

Shamim Ltd have a marina on the South Coast and a large sales operation dealing in yachts and speedboats. You are responsible for the audit of Shamim Ltd and have found some potential causes of concern that could indicate fraudulent activity or financial misconduct within the company. In particular:

- 30% of the yachts on sale by Shamim are supplied through one of the major international boating companies with a special finance arrangement deal. However, Shamim Ltd have also obtained separate finance on these yachts, which are therefore in effect being 'double financed'.
- Ten yachts shown as assets by Shamim Ltd cannot be located, with no explanation other than that they have not been sold. These yachts together are worth approximately £5m.
- Long delays have occurred in performing reconciliations with the last four months of reconciliations still not completed. At the time of the last reconciliation, material differences had been identified upon which no action appears to have been undertaken.
- Revenue has been overstated by £10m in the current financial statements.

The finance director has been off sick for the last five months and therefore has not been available to discuss any of the issues identified.

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**Question 5 continued**

**Required:**

- (a) Critically evaluate whether the issues referred to above should be categorised as fraud or error. **(4 marks)**
- (b) Critically discuss the role of management and the role of the auditor in the prevention and detection of fraud and error. **(6 marks)**
- (c) Critically describe what steps you would take to further investigate and then report on the matters referred to above. **(10 marks)**

**Total 20 marks**

**END OF QUESTIONS**

**END OF EXAM**