UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

MSC ACCOUNTANCY AND FINANCIAL MANAGEMENT

SEMESTER ONE EXAMINATIONS 2023/2024

ADVANCED AUDIT AND ASSURANCE

MODULE NO: ACC7507

Date: Monday 8th January 2024 **Time: 2.00pm – 5.00pm**

INSTRUCTIONS TO CANDIDATES: **There are THREE questions on this paper.**

SECTION A consists of ONE question which is COMPULSORY

SECTION B consists of TWO questions, both are COMPULSORY

This is a closed book exam.

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

SECTION A

Question 1

You are an audit manager in Aamir & Co, a firm of chartered, certified accountants, responsible for the audit of Asda Co. Asda Co is a limited liability company which manufactures computer-controlled equipment for production-line industries such as cars, washing machines, cookers, etc.

The following exhibits, available below, provide information relevant to the question:

- Exhibit 1 – Email from the audit engagement partner.
- Exhibit 2 – Notes of meeting with the finance director of Asda Co.

This information should be used to answer the question requirements within the response option(s) provided.

Required:

Respond to the email from the audit engagement partner. (40 marks)

Note: The split of marks is shown within the partner's email.

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, professional scepticism and judgement and commercial acumen in your answer.

(10 marks)

(Total: 50 marks)

Question 1 continues over the page

Please turn the page

Question 1 continued

Exhibit 1 – Email from the audit engagement partner

To: **Audit manager**
From: **Audit engagement partner**
Subject: **Audit planning – Asda Co**

Hello

I have provided you with some information in the form of a few exhibits which you should use to help you with planning the audit of Asda Co for the year ended 30 June 20X5.

Using the information provided, I require you to prepare briefing notes for my use in which you:

(a) **Evaluate the audit risks to be considered in planning the audit of Asda Co. Identify and explain any additional information which would be relevant to your evaluation.** **(21 marks)**

(b) **Explain how the extent of the reliance to be placed on:**

(i) **analytical procedures, and** **(4 marks)**

(ii) **written representations** **(4 marks)**

should compare with that for the prior year audit.

(c) **Design the principal audit procedures to be used in the audit of amounts due from distributors.** **(5 marks)**

(d) **Discuss the role of management and the role of the auditor in the prevention and detection of fraud and error.** **(6 marks)**

Thank you.

Exhibit 2 – Notes of meeting with the finance director of Asda Co

On 1 March 20X5 the shareholder-managers decided, unanimously, to accept a lucrative offer from a multi-national corporation to buy the company's patented technology and manufacturing equipment.

By 10 March 20X5 management had notified all the employees, suppliers, and customers that Asda Co would cease all manufacturing activities on 30 April 20X5. The 200-strong factory workforce and the majority of the accounts department and support staff will be made redundant with effect from that date, when the sale was completed.

Question 1 continues over the page

Please turn the page

Question 1 continued

The marketing, human resources and production managers ceased to be employed by the company at 30 June 20X5. However, the chief executive, sales manager, finance manager, accountant and a small number of accounting and other support staff expect to be employed until the company is wound down completely.

Asda Co's operations extend to fourteen premises, nine of which were put on the market on 30 April 20X5. Asda Co accounts for all tangible, non-current assets under the cost model (i.e., at depreciated cost). Four premises are held on leases that expire in the next two to seven years and cannot be sold or sub-let under the lease terms. The small head office premises will continue to be occupied until the lease expires in 20X8. No new lease agreements were entered into during 20X5.

All Asda Co's computer-controlled products carry a one-year warranty. Extended warranties of three and five years, previously available at the time of purchase, have not been offered on sales of remaining inventory from 30 April 20X5 onwards.

Asda Co has three-year agreements with its national and international distributors for the sale of equipment. It also has annual contracts with its major suppliers for the purchase of components. So far, none of these parties have lodged any legal claim against Asda Co. However, the distributors are withholding payment of their account balances pending settlement of the significant penalties which are now due to them.

End of Question 1

Questions continue over the page

Please turn the page

SECTION B

Question 2

You are a manager in Bridge & Co, a firm of Chartered Certified Accountants, responsible for the audit of Emaar Co for the year ended 31 March 20X5.

The following exhibits, available below, provide information relevant to the question:

1. Completion matters – details regarding issues you have discovered during your review of the audit working papers.
2. Update on completion matters – provides an update on the outcome of initial discussions with the client.

This information should be used to answer the question requirements within the response option provided.

Required:

a) **Using the information in Exhibit 1, explain the matters which should be discussed with management in relation to each of the issues.**

(15 marks)

b) **Using the information contained in Exhibit 2, discuss the implications for the auditor's report on the basis that no further adjustments have been made by management.**

(5 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation and professional scepticism and judgement in your answer.

(5 marks)

(Total: 25 marks)

Question 2 continues over the page

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Question 2 continued

Exhibit 1 – Completion matters
Emaar Co is a listed construction company with annual revenue of $350 million and profit before tax for the year ended 31 March 20X5 of $40 million. This is the first audit by your audit firm. Enquiry of the previous auditor revealed no reasons for concern. The audit is nearly complete and the following issues have been left for your attention.

Inventory valuation
Inventories include scrap rubber at a cost of $7 million. This material is widely used as a road surface in other countries. Currently, the Land Transport Authority (LTA) does not permit the use of this material for road building. However, the matter was known to be under review by the LTA and, on being offered a special purchase of this material, Emaar Co speculated on a favourable outcome of the review and purchased the material. In June 20X5, the LTA reported that it would not accept the use of this material. If used on overseas contracts the material's net realisable value would not exceed $2 million. The finance director maintains that, as the LTA report was issued after the reporting date, the write down of the inventory should be reflected in the next period's financial statements.

Depreciation
Three years ago, the company purchased two computer-controlled earth movers at a cost of $2.5 million each. Depreciation has been provided at 10% straight line. At the start of the financial year, the company purchased two new earth movers, which are much more technologically advanced, at a cost of $4 million each. The company's chief engineer tells you that technology is developing so rapidly it appears likely they will continue to replace these machines every five years.
The finance director claims that the depreciation rate of 10% is in line with industry standard therefore must be reasonable and there is no need to change the depreciation rate.

Question 2 continues over the page

Please turn the page

Question 2 continued

Contingent liability

The company is being sued by the LTA for $50 million for defective work on a recently completed road. The company maintains that it met LTA's specification and that it is the LTA's engineers who are at fault in drawing up the specification. Emaar Co's lawyers believe the claim is only possible to succeed. A contingent liability disclosure has been included in the financial statements detailing the circumstances of the case and the possible financial effect if the decision goes against Emaar Co.

Exhibit 2 – Update on completion matters following discussions with management

It is now 1 September 20X5 and the auditor's report on Emaar Co's financial statements for the year ended 31 March 20X5 is due to be issued in the next few days. You have discussed the three completion matters with management and they have indicated that they are not willing to make any further adjustments to the financial statements. You are now considering the form and content of the auditor's report in relation to these matters.

End of Question 2

Questions continue over the page

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Question 3
It is 1 July 20X5. You are a manager in the business advisory department of Sadiq & Co. Your firm has been approached by the directors of Bolton Co, an audit client of your firm, to provide a due diligence review in respect of a potential acquisition, Oldham Co.

The following exhibits, available below, provide information relevant to the question:

1. Bolton Co – background information on Bolton Co and the due diligence engagement your firm is invited to provide.
2. Oldham Co – information on potential acquisition target, Oldham Co.
3. Request to provide advice – request from Bolton Co's management to provide advice on a tender for subcontracting services to Rochdale Co.

This information should be used to answer the question requirements within the response option provided.

Exhibit 1 – Bolton Co

Bolton Co, an audit client of your firm, is a large privately owned company whose operations involve a repair and maintenance service for domestic customers. The company offers a range of services, such as plumbing and electrical repairs and maintenance, and the repair of domestic appliances such as washing machines and cookers, as well as dealing with emergencies such as damage caused by flooding. All work is covered by a two-year warranty.

The directors of Bolton Co have been seeking to acquire expertise in the repair and maintenance of swimming pools and hot tubs as this is a service increasingly requested, but not offered by the company. They have recently identified Oldham Co as a potential acquisition. Preliminary discussions have been held between the directors of the two companies with a view to the acquisition of Oldham Co by Bolton Co. This will be the first acquisition performed by the current management team of Bolton Co.

Exhibit 2 – Oldham Co
Oldham Co is owner-managed, with three of the five board members being the original founders of the company, which was incorporated thirty years ago. The head office is located in a prestigious building, which is owned by the founders' family estate. The company recently acquired a separate piece of land on which a new head office is to be built.

Question 3 continues over the page

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Question 3 continued

The company has grown rapidly in the last three years as more affluent customers can afford the cost of installing and maintaining swimming pools and hot tubs. The expansion was funded by a significant bank loan. The company relies on an overdraft facility in the winter months when less operating cash inflows arise from maintenance work.

Oldham Co enjoys a good reputation, though this was tarnished last year by a complaint by a famous actor who claimed that, following maintenance of his swimming pool by Oldham Co's employees, the water contained a chemical which damaged his skin. A court case is ongoing and is attracting media attention.
The company's financial year end is 31 March. Its accounting function is outsourced to Austin Co, a local provider of accounting and tax services.

Exhibit 3 – Request to provide advice on a tender

Bolton Co is tendering for an important contract to provide subcontracting services to Rochdale Co. Rochdale Co is also an audit client of your firm and Bolton Co's management has asked your firm to provide advice on the tender it is preparing.

Required:

(a) Using the information in Exhibits 1 and 2:

(i) Discuss the potential benefits to Bolton Co of having an externally provided due diligence review.

(6 marks)

(ii) Recommend additional information which should be made available for your firm's due diligence review, and explain the need for the information.

(9 marks)

(b) Using the information in Exhibit 3, explain the ethical and professional matters your firm should consider in deciding whether to provide advice to Bolton Co on the tender.

(5 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, professional scepticism and judgement and commercial acumen in your answer.

(5 marks)
(Total: 25 marks)

END OF QUESTIONS