

UNIVERSITY OF BOLTON
GREATER MANCHESTER BUSINESS SCHOOL
MSC ACCOUNTANCY AND FINANCIAL
MANAGEMENT
SEMESTER ONE EXAMINATIONS 2024/25
ADVANCED AUDIT AND ASSURANCE
MODULE NO: ACC7507

Date: Tuesday 7th January 2025

Time: 10.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES:
paper.

There are **THREE** questions on this

SECTION A consists of ONE question
which is COMPULSORY

SECTION B consists of TWO
questions, both are COMPULSORY

This is a 3-hour closed book exam.

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

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Semester One Examination 2024/25
Advanced Audit and Assurance
Module No. ACC7507

SECTION A

Question 1

You are an audit manager at Apex & Co, a firm of chartered accountants, tasked with auditing Meadow Co, a national leisure group with sixteen centres across the country and a head office. Meadow Co has been a client of your firm for the past three years, and the expected profit before tax for the year is £300,000.

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

Exhibit 1 – Email from the audit engagement partner.

Exhibit 2 – Background information on Meadow Co.

Exhibit 3 – Notes from meeting with the finance director.

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)

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Question 1 continued

Exhibit 1 – Email from the audit engagement partner

To: Audit manager

From: Audit engagement partner

Subject: Audit planning – Meadow Co

Hello

I have provided you with some information in the form of a number of exhibits which you should use to help you with planning the audit of Meadow Co for the year ending 30 September 20X5.

Based on the analysis I have done on this industry; it is appropriate for overall materiality to be based on the profitability of the company.

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

- (a) Evaluate the business risks facing Meadow Co. (10 marks)**
- (b) Evaluate and prioritise the risks of material misstatement to be taken into consideration when planning the audit of Meadow Co. (14 marks)**
- (c) Design the principal audit procedures to be used in the audit of:**
 - (i) deferred income/contract liabilities (3 marks)**
 - (ii) hydrotherapy pool. (4 marks)**
- (d) Suggest performance indicators that could be set to increase the centre managers' awareness of Meadow Co's social, environmental and sustainability responsibilities and the evidence which should be available to provide assurance on their accuracy. (9 marks)**

Thank you.

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Question 1 continued

Exhibit 2 – Background information on Meadow Co

Each leisure centre in the group has a heated swimming pool, sauna, air-conditioned gym, fitness studio, and provides supervised childcare. Each centre is managed daily by a centre manager who follows company policies and is responsible for preparing and sending monthly financial reports to the head office. To operate, each centre must have a license from the local authority, which is valid for two to five years and can be renewed if the centre receives a good report from inspectors. The average cost of a license is £900 per year. Members pay a £100 joining fee and then either £50 per month for 'peak' membership or £30 per month for 'off-peak' membership, with payments made quarterly in advance. All fees are non-refundable.

Staff lateness is a recurring problem and a major cause of 'early bird' customer dissatisfaction with sessions which are scheduled to start at 07.00. New employees are generally attracted to the industry in the short-term for its non-cash benefits, including free use of the facilities, but leave when they require increased financial rewards. Training staff to become qualified lifeguards is costly and time-consuming and retention rates are poor. Turnover of centre managers is also high, due to the constraints imposed on them by company policy.

Exhibit 3 – Notes from meeting with the finance director

The centre at Bolton was closed from April to June 20X5 after a chemical spill in the sauna caused a serious accident. Although the centre was re-opened, Meadow Co has recommended to all centre managers that sauna facilities be suspended until further notice.

In response to complaints about childcare facilities to the local authorities, Meadow Co has issued centre managers with revised guidelines for minimum levels of supervision. Centre managers are finding it difficult to meet the new guidelines and have suggested that childcare facilities should be withdrawn.

Three of the centres are expected to have run at a loss for the year to 30 September 20X5 due to falling membership. Meadow Co has invested heavily in a hydrotherapy pool at one of these centres, with the aim of attracting retired members with more leisure time. The building contractor has already billed twice as much and taken three times as long as budgeted for the work. The pool is now expected to open in November 20X5. Cash flow difficulties in the current year have put back the planned replacement of gym equipment for most of the centres. Insurance premiums for liability to employees and the public have increased by nearly 45%. Meadow Co has met the additional expense by reducing its insurance cover on its plant and equipment from a replacement cost basis to a net realisable value basis.

End of question 1

Questions continue over the page

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SECTION B

Question 2

It is 1 July 20X5. You are the audit manager responsible for the audit of Hussain Co, a listed company operating in the retail sector. You are in the process of completing the audit for the financial statements for the year ended 31 March 20X5. The audit supervisor has highlighted several key audit matters that require your attention. These details are outlined in the following exhibit and should be used to address the question requirements within the response option provided.

Exhibit 1 – Audit matters

The draft financial statements recognise total assets of \$118 million and profit before tax of \$11.5 million. Materiality has been set for the audit at \$1.1 million.

New property lease

Hussain Co expanded operations during the year, and as part of this process, arranged a new property lease on 1 April 20X4. The lease contract is for seven years with a rent-free period of 12 months followed by six annual rental payments. The contract meets the IFRS 16 Leases criteria to be classified as a lease. The financial statements recognise a right-of-use asset of \$28.9 million and a corresponding liability of the same amount which has been correctly calculated at the effective interest rate implicit in the lease agreement.

Management has not charged any depreciation on the right-of-use asset, stating that the rent-free period should not result in an expense being included in the statement of profit or loss. Management proposes to begin depreciating the right-of-use asset in the next financial period and will depreciate the asset over the six years for which they make payments. The finance cost in relation to the lease liability has been correctly accounted for in the financial statements.

Inventory

Hussain Co has recently negotiated arrangements with a new supplier. Included in the contract is a clause which allows the supplier to require return of the products at any time. Hussain Co can also return the products within a set period of time if they remain unsold. Inventory purchased from the new supplier with a value of \$8.1 million is included in the company's financial statements as inventory at 31 March 20X5. These amounts are recognised at cost which is lower than the net realisable value of the products.

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Question 2 continued

Required:

- a) Evaluate the matters to be considered on the completion of the audit and the audit evidence you should expect to find during your review of the relevant audit working papers.

Note: The following mark allocation is provided as guidance for this question:

(i) Lease (9 marks)

(ii) Inventory (7 marks)
(16 marks)

- b) Evaluate the implications for the auditor's report of Hussain Co, assuming that the inventory matter has been satisfactorily resolved but that no further adjustments or disclosures are made to the financial statements with respect to the new property lease.

(4 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)

End of question 2

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Question 3

It is 1 July 20X5. You are the manager responsible for the audit of Bolton Hospital Co, for the year ended 31 March 20X5, working in the audit department of Fern & Co. Bolton Hospital Co is a private sector medical facility, where patients undergo minor surgical procedures and receive treatments such as physiotherapy.

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

1. Valuation of medical inventories – provides details of an issue identified during the audit of inventory.
2. Key performance indicators – details of the key performance indicators to be included in Bolton Co's integrated report.

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

Exhibit 1 – Valuation of medical inventories You have recently visited the audit team, who are currently on site performing the fieldwork, to review the work performed to date and to discuss their progress. During your visit the audit senior informed you of the following matter.

During a review of the valuation of medical inventories, including medicines used in a variety of treatments at the hospital, it was noted that a number of items had passed their recommended use by dates. These were recorded on an inventory spreadsheet maintained by the financial controller and were easy to spot because they were highlighted in red. One of the audit team inspected a sample of the inventories in question and confirmed that their use by dates had expired. When asked about this, the financial controller stated that the audit team must be mistaken. The audit team requested to look at the spreadsheet again but he refused. The next day the finance director confronted the audit team accusing them of extending their investigations 'beyond their remit'. He also threatened to remove them from the premises if they continued to ask questions which were not relevant to the audit of the hospital's financial statements. Since then, the audit team has been unable to complete the audit of medical inventories. They have also noted that the room where the inventories were previously kept has been emptied.

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Question 3 continued

Exhibit 2 – Key performance indicators Fern & Co is also engaged to produce an assurance report on the performance information of Bolton Hospital Co which is included in the company's integrated report. The integrated report will be published on the company's website later in the year, and is not part of the information published with the financial statements.

Fern & Co has a specialist team, independent from the audit department, which provides assurance on key performance indicators. Under the terms of the engagement, this team is required to provide assurance with regard to both the accuracy and completeness of the key performance indicators which are used to monitor the hospital's efficiency and effectiveness. Several of the key performance indicators included in the draft integrated report, all of which the Hospital claims to have met, are shown below:

1. To maintain an average patient to nurse ratio of no more than 6:1.
2. To achieve a minimum 75% annual usage of surgical rooms.
3. To ensure that the rate of admissions within 28 days for previously treated conditions does not exceed 3%.

Required:

- (a) Using the information in Exhibit 1, identify and explain the ethical and professional issues raised and recommend any actions which should be taken in respect of the matter described by the audit senior.**

(8 marks)

Using the information in Exhibit 2:

- (b) (i) Discuss the benefits of independent assurance being provided on the key performance indicators included in the integrated report of Bolton Hospital Co to the company's management and to external users of the report.**

(4 marks)

- (ii) Recommend the examination procedures which should be used in obtaining assurance relating to the key performance indicators of Bolton Hospital Co.**

(8 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 question 3
END OF QUESTION PAPER**