

UNIVERSITY OF GREATER MANCHESTER

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA (HONS) ACCOUNTANCY

SEMESTER TWO EXAMINATION 2024/2025

ADVANCED AUDITING IN PRACTICE

MODULE NO: ACC6006

Date: Thursday, 15 May 2025

Time: 1:00 pm – 4:00 pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR (4)** questions on this paper.

Answer **ALL** questions.

All questions carry equal marks.

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QUESTION 1

You are an audit manager of Pink Partners & Co (Pink) and are planning the audit of Golden Finance Co (Golden), a banking institution which provides a range of financial services including loans. Your firm has audited Golden for four years and the company's year-end is 30th April 2025.

At the end of August, Golden's financial controller left and the new replacement is not due to start until approximately two months after the year end. The finance director, who is the sister-in-law of the audit engagement partner, has asked if a member of the audit team can be seconded to Golden for three months to act as the temporary financial controller.

You are aware that a number of the audit team members currently bank with Golden and two team members have significant loans owing to the company.

Pink's taxation department also provides services to Golden. They have been approached by Golden to represent them in negotiations to resolve some outstanding issues with the taxation authorities, for which the fees quoted are substantial.

The finance director has informed the audit engagement partner that when the audit is complete, she would like the whole team to attend an evening watching the national football team play a match followed by a luxury meal.

Required:

- a) Identify and evaluate FIVE ethical threats which may affect the independence of Pink Partners & Co's audit of Golden Finance Co; and for each threat, suggest how it might be reduced to an acceptable level.

(20 marks)

- b) Discuss the concept of engagement Quality Review (EQR) and what are the key requirements for an Engagement Quality Reviewer (EQR) in an audit engagement?

(5 marks)

[TOTAL 25 MARKS]

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QUESTION 2

Part A

MonteHodge Co has a sales income of \$253 million and employs 1,200 people in 15 different locations. MonteHodge Co provides various financial services from pension and investment advice to individuals, to maintaining cash books and cash forecasting in small to medium-sized companies.

The company is owned by six shareholders, who belong to the same family; it is not listed on any stock-exchange and the shareholders have no intention of applying for a listing. However, an annual audit is required by statute and additional regulation of the financial services sector is expected in the near future.

Most employees are provided with on-line, real-time computer systems, which present financial and stock market information to enable the employees to provide up-to-date advice to their clients. Accounting systems record income, which is based on fees generated from investment advice.

Expenditure is mainly fixed, being salaries, office rent, lighting and heating, etc. Internal control systems are limited; the directors tending to trust staff and being more concerned with making profits than implementing detailed controls.

Four of the shareholders are board members, with one member being the chairman and chief executive officer. The financial accountant is not qualified, although has many years experience in preparing financial statements.

Required:

Critically evaluate the reasons for and against having an internal audit department in MonteHodge Co.

(16 marks)

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Question 2 continued...

Part B

The directors of Fettuccine Co are paid a substantial fixed salary plus an annual profit-related bonus. Fixed salaries are decided by the chief executive following an annual appraisal of each director's performance.

All directors have been in their roles for over five years and have contractual notice periods of two years. The company is planning to list on a stock exchange in the next six months.

Required:

Formulate the actions Fettuccine Co will need to take once listed to become compliant with corporate governance regulations.

(9 marks)

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QUESTION 3

Allen Ltd is a UK-based manufacturing company that has been facing financial difficulties over the past two years due to supply chain disruptions and declining customer demand. The company's latest draft financial statements show a net loss of £3.5 million and a significant decline in cash reserves.

The directors have prepared cash flow forecasts for the next 12 months, which indicate that additional funding of at least £5 million will be required to meet liabilities as they fall due. The directors are currently negotiating a bank loan to cover this shortfall, but no formal agreement has been reached yet.

Additionally, Allen Ltd. has significant trade payables overdue, and some key suppliers have started demanding cash-on-delivery instead of credit terms. The company's auditors are assessing whether the financial statements should be prepared on a going concern basis and what audit procedures should be carried out in light of these uncertainties.

Required:

- a) Compose the responsibilities of the directors regarding the assessment of Allen Ltd's ability to continue as a going concern.
(5 marks)
- b) Compose the responsibilities of the auditors in relation to going concern when conducting the audit of Allen Ltd.
(5 marks)
- c) Identify and develop five audit procedures that the auditor should perform to assess whether Allen Ltd is a going concern.
(10 marks)
- d) Discuss the possible implications for the auditor's report if the auditors determine that there is a material uncertainty related to going concern but the directors adequately disclose this uncertainty in the financial statements.
(5 marks)

[TOTAL 25 MARKS]

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QUESTION 4

Part A

You work as an audit manager in a firm of chartered certified accountants and part of your role is taking on responsibility for training of audit juniors within your department. The audit juniors are unsure about what constitutes fraud and who is responsible for the detection and prevention of fraud.

Required:

- a) Critically evaluate the different types of fraud that can take place within organisations, providing relevant examples.

(6 marks)

- b) Suggest the responsibilities of auditors in relation to the detection and prevention of fraud.

(6 marks)

Part B

You are the audit senior in charge of the audit of Swandive Co (Swandive), and have been informed by your audit manager that during the year a fraud occurred at the client. A payroll clerk set up fictitious employees and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional frauds have taken place in the wages department.

Required:

Propose the procedures which should be undertaken during the audit of wages as a result of the manager's assessment of the increased risk of fraud.

(7 marks)

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Part C

In recent times, there has been increased scrutiny of the audit profession and the role of the auditors, especially in relation to major corporate scandals and failure of companies. Pressure groups and stakeholders have lost trust in the audit profession as a result of this increased criticism. There has been an increased focus on the issue of professional scepticism exercised by auditors during the audit process.

Required:

Evaluate the concept of professional scepticism and pressure to exercise increased levels of professional scepticism throughout the audit process. You should use examples to illustrate your answer.

(6 marks)

[TOTAL 25 MARKS]

END OF QUESTIONS