

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
BA (HONS) ACCOUNTANCY
SEMESTER 1 (RESIT) EXAMINATION 2022/2023
ADVANCED AUDITING PRACTICE
MODULE NO: ACC6006

Date: Wednesday 11 January 2023

Time: 10.00 – 1.00

INSTRUCTIONS TO CANDIDATES:

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

All questions are compulsory.

This is a closed book exam.

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

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Question 1

Today's date is 1 July 2015. Red and Co, Chartered Accountants, are the external auditors of Drum, a listed company. On completing the audit for the year ended 31 March 2015 the following list of matters was prepared for the partner's attention.

- (a) On 25 April 2015 Drum agreed to a pay rise of 5% for all of its employees backdated to 1 January 2015. No provision for this has been made in the financial statements. **(5 marks)**
- (b) The draft Chair's Statement, to be included in the Annual Report, states that profit before tax has increased by 25%. It is true that operating profit has increased by 25% but, after deducting reorganisation costs and losses on disposals of property, plant and equipment profit before tax has increased by only 4% compared with the previous year. **(5 marks)**
- (c) The audit revealed a major control deficiency in the management of investments. The company recently recruited a financial analyst to manage the investment of surplus funds. Company policy is to invest in the shares of large quoted companies. The audit discovered a number of situations where the financial analyst had made substantial profits for the company by speculating in risky investments such as derivatives. Such investments could result in massive losses. The matter was reported verbally to the chief financial officer four months ago but no action has yet been taken. **(4 marks)**
- (d) One of the company's oil tankers has just run aground off the coast of California. There is a risk of a serious oil spill which could cost a significant amount to clear up as is required by local legislation. This could have a significant effect on the future of the company. Further information will not be available until after the auditors' report has been signed. **(6 marks)**

Assume that each of these matters is potentially material and is to be considered independently of each other.

Required:

Consider what further actions Red and Co should take with respect to each of the matters listed including the potential impact on the auditor's report.

(Total 20 marks)

Please turn the page

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Question 2

Required:

Critically evaluate the external auditors' responsibilities in relation to fraud and how this contrast to the directors' responsibilities. In your answer you should give examples of the different types of fraud and the procedures the external auditors should carry out in relation to their responsibilities towards fraud.

(Total 25 marks)

Question 3

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:

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

(Total 25 marks)

Question 4

Required:

- (a) Critically evaluate the definition of Going Concern. Additionally, critically evaluate indicators of going concern problems and the audit procedures you would expect the auditor to carry out.

(16 marks)

Question 4 continues over the page

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Question 4 continued

(b) Critically evaluate the need for Audit firms to have quality control procedures and the various elements of quality control in audit firms.

(14 marks)

(Total 30 marks)

END OF QUESTIONS

END OF EXAM