

UNIVERSITY OF BOLTON
GREATER MANCHESTER BUSINESS SCHOOL
BA(HONS) ACCOUNTANCY
SEMESTER TWO REFER EXAMINATIONS 2022/2023
ADVANCED AUDITING PRACTICE
MODULE NO: ACC6006

Date: Thursday 20 July 2023

Time: 2pm – 5pm

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.

Use of calculators is allowed

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Advanced Auditing Practice
Module No. ACC6006

Question 1

a) It is 1 June 2023. Ted and Co, Chartered Certified Accountants, are the external auditors of Yur, a listed company. On completing the audit for the year ended 31 March 2023 the following list of matters was prepared for the partner's attention.

i) On 25 April 2023 Yur agreed to a pay rise of 5% for all of its employees backdated to 1 January 2023. No provision for this has been made in the financial statements.

(5 Marks)

ii) 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.

(5 Marks)

iii) The draft Chair's Statement, to be included in the Annual Report, states that profit before tax has increased by 30%. It is true that operating profit has increased by 30% but, after deducting reorganisation costs and losses on disposals of property, plant and equipment profit before tax has increased by only 8% compared with the previous year.

(5 Marks)

Required for (i) – (iii):

Assume that each of the above matters are potentially material and are to be considered independently of each other.

Evaluate what further actions are required to be taken with respect of each of the matters listed including the potential impact on the auditor's report.

**Question 1 continued over...
Please turn the page**

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Question 1 continued...

- b) **Critically evaluate the extent of reliance to be placed on component auditors in group audit engagements, and provide examples of factors that the group auditor should consider in evaluating the quality of work performed by the component auditors.**

(10 Marks)

(Total 25 Marks)

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)

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Question 4

Anderson Co is a publicly listed company that specializes in freight and cargo services. The company has been in business for 15 years and has recently experienced significant growth, resulting in its IPO. The board of directors comprises six members, with the CEO also serving as the chairman. The board is dominated by executive directors, with only one non-executive director. The company's remuneration policies are heavily based on short-term financial performance, with the CFO having sole discretion in setting executive directors' bonuses. There is no formal process for selecting board members, and there is no diversity on the board. The company has not established an audit committee, and the internal audit function reports directly to the CFO. Additionally, the company has not provided any training to its new marketing director.

Required:

- a) **Critically evaluate the FIVE corporate governance deficiencies present at Anderson Co and provide recommendations to address each deficiency to ensure compliance with corporate governance principles. You may wish to use a two-column format in your answer.**

(10 Marks)

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

(15 marks)

(Total 25 marks)

End of questions