

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2009/2010
ADVANCED AUDITING PRACTICE
MODULE NO: ACC3010

Date: Tuesday 1st June 2010

Time: 10:00 – 13:00

INSTRUCTIONS TO CANDIDATES:

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

Answer **ANY FOUR** questions.

This is a closed book examination.

All questions carry equal marks.

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Answer ANY FOUR questions

1. You are the audit manager in charge of the audit of Gaskills Limited and are reviewing the audit plan produced by the audit senior. The plan states that the company has invested a significant amount in listed shares and securities, all of which are held as current asset investments. The audit senior has indicated that, he does not intend to carry out a full risk assessment in this area as he believes that the audit risk associated with current asset investments is generally low. He intends to utilise a predominantly substantive strategy in this area.

Required:

- (a) Evaluate the validity of the claim made that “the audit risk associated with current asset investments is generally low” and discuss the factors that should be considered when assessing the level of risk associated with this type of balance.

(15 marks)

- (b) Produce an audit programme of substantive procedures to be carried out to test the existence, ownership, valuation, presentation and disclosure of current asset investments

(10 marks)

TOTAL 25 MARKS

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2. You have been the auditor of Deuteronomy Limited, a soft furnishings manufacturer, for four years. During that time the company has experienced a period of expansion and in early 2009 it borrowed a substantial sum from its bank in order to finance the purchase of a further factory and warehouse in anticipation of future growth. The new premises were up and running by May 2008 however shortly afterwards the Production Director left to set up his own rival company and took with him a number of skilled staff. You are about to start planning the audit of the company for the year ended 31 December 2009 when you hear on the grapevine that the company is experiencing financial difficulties – the effects of the economic downturn have been compounded by long established customers defecting to the new company set up by the ex Production Director. You raise these issues with the Finance Director at a preliminary meeting. He admits that the company has seen a downturn in trade and as a result has exceeded its overdraft limit however he states that the bank is happy to continue to support the company and that, as a result of recent sales promotions offering considerable discounts on list prices, the order book is now filling up. The financial statements have therefore been prepared on the going concern basis.

Required:

- (a) Outline the audit work your firm will undertake to assess the validity of the use of the going concern basis. **(15 marks)**
- (b) Identify and discuss the key contents of the range of audit reports that may be appropriate in the above scenario. **(10 marks)**

TOTAL 25 MARKS

3. You are an audit supervisor working for a medium sized firm of certified accountants and are currently engaged in planning the audit of Larkspur Limited for the year ended 28 February 2010. Larkspur Limited is a new client and is a timber importer. The company's accounting system is fully computerised, and your firm has a policy of using Computer Assisted Audit Techniques to test the accounting records where this is deemed to be appropriate. Larkspur Limited has recently expanded the internal audit department and the Finance Director has contacted you for guidance on the ways in which the internal audit function might contribute to corporate governance.

**Question 3 continued over
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Question 3 continued

Required:

- (a) Critically evaluate the advantages and disadvantages of using Computer Assisted Audit Techniques and explain, using appropriate examples, how such techniques could be used to carry out both compliance and substantive testing of Larkspur Limited year end stock balance.
- (13 marks)**

- (b) Discuss and critically evaluate the role that the internal audit function in corporate governance.
- (12 marks)**

TOTAL 25 MARKS

4. You are the audit manager of Rowred Limited, a company which retails kitchen utensils. The draft accounts for the year ended 31 December 2009 show turnover of £64.3 million (2008: £63.4m), Profit before tax of £4.1 million (2008: £8.5m) and total assets of £35.2 million (2008: £26.7m).

You are currently reviewing the matters which have been left for your attention on Rowred's audit working paper file for the year ended 31 December 2009:

- i. The management board decided to revalue properties which had previously been held in the accounts at depreciated cost. At the end of the accounting period, four properties had been revalued by £2.4million and another eight have since been revalued by £7.2million. The remaining three properties are to be revalued later in 2010.
- ii. The stock take took place on the company's year end date and a representative of your firm attended and carried out test counts in line with your firm's policy. At the final audit the audit senior was unable to match up the quantities noted in the test counts to the quantities of these stock lines on the final stock sheets. The directors of the company are unable to explain these discrepancies, further inspection reveals that the final stock sheets are not all numbered and that inadequate stock records are kept.

**Question 4 continued over
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Question 4 continued

Required:

- a) Critically evaluate the impact of these two matters for your audit report on Rowred's financial statements for the year ended 31 December 2009 and identify any additional audit work which should be carried out. **(15 marks)**
- b) Evaluate the implications for the auditor-client relationship if a client disagrees with a qualified audit opinion. Your answer does not need to make reference to the above scenario but should include analysis of the courses of action open to the auditor. **(10 marks)**

TOTAL 25 MARKS

5. Your firm has been the auditor of TotalFit plc for many years and has not yet provided anything other than an unmodified audit report. TotalFit plc recently expanded its overseas operations by the acquisition of RightSport Inc. RightSport Inc. is based in the US and was seen to complement the group activities, most importantly by the ability of its directors to source gym equipment at lower prices than TotalFit. The company intends to appoint you as auditor of RightSport in due course, However, for this financial year the subsidiary is to be audited by another firm of auditors. You will be responsible for the audit of the group financial statements.

Required:

- a) Assess the impact that the acquisition of the subsidiary undertaking will have on the audit work undertaken by your firm. You should provide details of any extra audit work to be undertaken as a result of the acquisition. **(15 marks)**
- b) Evaluate the procedures and potential risks associated with reliance on third party auditors who have responsibility for overseas subsidiary companies. **(10 marks)**

TOTAL 25 MARKS

END OF QUESTIONS