

UNIVERSITY OF BOLTON

**SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES**

**ACCOUNTANCY PATHWAY BY DISTANCE
LEARNING**

SEMESTER 2 EXAMINATIONS 2009/2010

HONG KONG - CED (INTAKE 36 & 38)

ADVANCED AUDITING PRACTICE

MODULE NO: ACC3010

Date: 25th September 2010

Time: 3 hours

INSTRUCTIONS TO CANDIDATES:

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

Answer **ANY FOUR** questions.

All questions carry equal marks.

This is an open book exam.

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Advanced Auditing Practice
Module No. ACC3010

Answer ANY FOUR questions

1. Discuss and critically evaluate the respective roles played in corporate governance by the Board of Directors, the Shareholders, the Audit Committee and the External Auditors.

TOTAL 25 MARKS

2. You are an audit supervisor, the audit of one of your clients, Geotech plc, a large pharmaceutical manufacturer, is about to commence. You receive a phone call from the audit senior, this is the first time that he has been in charge of an on site audit and he is struggling with one of the more difficult aspects of this client, research and development. He asks you for advice on the nature of the audit tests that should be carried out in this area. He also asks for advice on whether statistical or judgemental sampling would be most appropriate in this area and on how you think the sample should be selected for testing.

Required:

- (a) Prepare an audit programme identifying the audit procedures to be carried out in respect of research and development.

(10 marks)

- (b) Produce a memo which evaluates the two types of sampling identified above and which discusses and evaluates sample selection techniques with reference to the case study above.

(15 marks)

TOTAL 25 MARKS

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3. You are the auditor of MuscleMan Limited, a manufacturer of sports equipment, and are planning the audit of the company for the year ended 30 June 2010. At an initial meeting with the Finance Director you ask if there are any contingencies, including any outstanding legal claims, that you should be made aware of. The Finance Director replies “not really” and quickly changes the subject. A review of the draft financial statements does not reveal any items relating to an outstanding legal claim however, whilst having lunch at the client’s canteen, you overhear two middle managers discussing the possible effects of a customer successfully suing MuscleMan Limited for supply of faulty goods which it is alleged led to the serious injury of a member of the customer’s gym. The managers are concerned that, if rumours are correct, a successful outcome for the customer could lead to job losses at Musclemans Limited.

Required:

- (a) Based on an evaluation of the above scenario, identify and discuss the action to be taken by the auditor. **(13 marks)**
- (b) Identify and discuss the contents of the range of audit reports that may be appropriate should the rumours of outstanding litigation prove to be correct. **(12 marks)**

TOTAL 25 MARKS

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4.

(a) Your firm is the external auditor of Loire Limited, a book wholesaler and distributor. The company has operated a computerised accounting system for many years and two years ago your firm began to utilise computer assisted audit techniques in the audit of this company. To date your firm has used test data to carry out compliance testing however it is considering utilising the following embedded audit facilities:

- i. Integrated Test Facility
- ii. Systems Control and Review File

in future audits.

Required:

Evaluate the advantages and disadvantages of using each of the computer assisted audit techniques identified above when carrying out compliance testing.

(17 marks)

(b) Loire Limited is increasingly operating in an e-Commerce environment. The Managing Director has contacted you to ask about the possibility of your firm undertaking continuous auditing in order to ensure that more timely assurance is provided.

Required:

Discuss and evaluate the issues to be taken into account when considering the above request.

(8 marks)

TOTAL 25 MARKS

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5. You are the auditor of Tundra plc, an engineering company. Tundra plc has three wholly owned subsidiaries, two of which have been owned for a number of years and of which your firm is the auditor. The third subsidiary Julip Limited was purchased part way through the current accounting period and there was a lengthy discussion about whether your firm should replace the previous auditors. It was eventually decided on May 19 2010 that your firm would act as auditor to Julip however as you were not appointed until after the year end date your firm did not attend the year end stocktake. All companies within the group have an accounting reference date of 30 April. You are currently planning the audit of the group in respect of the year ended 30 April 2010 and have made the following notes:

- (i) there is significant intercompany trading within the group
- (ii) the group has a tight reporting deadline – the audited accounts must be presented to the shareholders within six weeks of the year end date
- (iii) the group policy is to value stocks using the weighted average method however Julip Ltd values its stock using LIFO

Required:

(a) Discuss your firm's responsibility in respect of the comparatives of Julip Limited when carrying out the audit of the company for the year ended 30 April 2010.

(8 marks)

(b) Based on an evaluation of the above scenario produce relevant extracts from the group planning memorandum which clearly sets out the key issues and provides details of the audit approach required in respect of each issue

(13 marks)

(c) Evaluate the impact that failure to attend the year end stock take will have on the company and group audit reports

(4 marks)

TOTAL 25 MARKS

END OF QUESTIONS