

FINAL ASSESSMENT SCRIPT SUBMISSION FORM

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ACCA – Paper P7 Advanced Audit and Assurance September and December 2015 Final Assessment

Instructions

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Marking Report

Notice to Markers

- 1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

<ul style="list-style-type: none">• Time management	<ul style="list-style-type: none">• Handwriting	<ul style="list-style-type: none">• Presentation and layout	<ul style="list-style-type: none">• Use of English
<ul style="list-style-type: none">• Points clearly and concisely made	<ul style="list-style-type: none">• Relevance of answers to question	<ul style="list-style-type: none">• Coverage and depth of answer	<ul style="list-style-type: none">• Accuracy of calculations
<ul style="list-style-type: none">• Calculations cross-referenced to workings	<ul style="list-style-type: none">• All parts of the requirement attempted	<ul style="list-style-type: none">• Length of answers equates to marks available	<ul style="list-style-type: none">• Read the question carefully

- 2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA FINAL ASSESSMENT

Advanced Audit and Assurance

September and December
2015

Time allowed

Reading and planning: **15 minutes**

Writing: **3 hours**

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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Paper P7 (INT-UK)

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SECTION A

BOTH questions are compulsory and MUST be attempted

1 INT syllabus only

You are a manager in Fairview & Co, an audit and accountancy firm with 22 offices in the country of Bree. Your firm has been recently appointed as auditor of Wisteria Co, a listed company which provides home emergency cover and domestic repairs to households across Bree.

You have received an email from the audit engagement partner, Mike Solice.

I'm out of the office for the next few days and I'd like you to takeover some important work that is outstanding. I would appreciate it if you could prepare briefing notes in time for my return next week.

- (i) There are a number of new members in our department and I would like to provide them with some initial training. I have asked them to provide me with a list of questions that I will answer in a team briefing next week. One of the new recruits has asked me to explain why we need to perform a risk assessment. They have started their exam training and so they should know that the auditor needs to identify and evaluate the risk of material misstatement in the financial statements and design and implement appropriate responses to the risks identified. However, they may not have been told about the importance of business risk to the auditor.

Please explain why the auditor needs to obtain an understanding of business risk.

(5 marks)

- (ii) I have been preparing the current file for the audit of Wisteria Co. I've left the files in the office. Please evaluate the business risks facing Wisteria Co to be considered when planning the final audit for the year ended 31 May 2015.

(8 marks)

- (iii) Could you also identify and explain the audit risks in relation to the audit of the financial statements of Wisteria Co for the year ended 31 May 2015.

(8 marks)

Notes from meeting held 15 May 2015:

On 15 April 2015, Wisteria Co received notice from a government body that it is under investigation, for alleged mis-selling. If it is found guilty, significant financial penalties will be imposed. The company is vigorously defending its case. Wisteria Co's share price dropped by 50% after admitting it was being investigated.

A number of buyout groups have approached the board of Wisteria Co with an offer to purchase the entire share capital of the company. The Chief Executive of Wisteria Co, Carlos Scarvo owns 15% of the company. The offers have been rejected as they were not believed to be in the shareholders' best interests. The share price has recovered slightly since the attempted takeovers became public knowledge.

In January 2015, the government of Bree paid a grant to Wisteria Co, to assist with costs associated with the installation of devices in customer boilers to improve their energy efficiency. Wisteria Co is required to install 100,000 of these devices by 30 June 2015 at no charge to eligible customers.

Although profits have improved over the last two years, Wisteria Co is planning to shrink its business, creating a smaller more focused and sustainable business from which to grow. The directors plan to downsize the business by about 20%. Wisteria cut 200 jobs last year, and said it would cut further jobs in line with the fall in the number of customers in Bree.

All 200 employees who lost their jobs last year have received all redundancy payments to which they are entitled.

As part of this downsizing, Wisteria Co has sold a number of plots of land. Significant losses were made on the sale of these plots of land which were originally acquired for development potential. Some plots of land have not yet been sold, although Wisteria Co intends to divest more of the land acquired that has not yet been developed.

Required:

- (a) Respond to the partner's email. (21 marks)

Professional marks will be awarded for the presentation, logical flow and clarity of explanation of the briefing notes. (4 marks)

- (b) Recommend the principal audit procedures that should be performed on:

- (i) the condition attached to the grant received by Wisteria Co (3 marks)
(ii) the land held for sale by Wisteria Co. (3 marks)

- (c) Discuss the reasons why entities change their auditors/professional accountants. (4 marks)

(Total: 35 marks)

1 UK syllabus only

You are a manager in Fairview & Co, an audit and accountancy firm with 22 offices in the country of Bree. Your firm has been recently appointed as auditor of Wisteria Co, a listed company which provides home emergency cover and domestic repairs to households across Bree.

You have received an email from the audit engagement partner, Mike Solice.

I'm out of the office for the next few days and I'd like you to takeover some important work that is outstanding. I would appreciate it if you could prepare briefing notes covering the following in time for my return next week.

- (i) There are a number of new members in our department and I would like to provide them with some initial training. I have asked them to provide me with a list of questions that I will answer in a team briefing next week. One of the new recruits has asked me to explain why we need to perform a risk assessment. They have started their exam training and so they should know that the auditor needs to identify and evaluate the risk of material misstatement in the financial statements and design and implement appropriate responses to the risks identified. However, they may not have been told about the importance of business risk to the auditor. Please explain why the auditor needs to obtain an understanding of business risk.
- (ii) I have been preparing the current file for the audit of Wisteria Co. I've left the files in the office. Please evaluate the business risks facing Wisteria Co to be considered when planning the final audit for the year ended 31 May 2015.
- (iii) Could you also identify and explain the audit risks in relation to the audit of the financial statements of Wisteria Co for the year ended 31 May 2015.

(21 marks)

Notes from meeting held 15 May 2015:

On 15 April 2015, Wisteria Co received notice from a government body that it is under investigation, for alleged mis-selling. If it is found guilty, significant financial penalties will be imposed. The company is vigorously defending its case. Wisteria Co's share price dropped by 50% after admitting it was being investigated.

A number of buyout groups have approached the board of Wisteria Co with an offer to purchase the entire share capital of the company. The Chief Executive of Wisteria Co, Carlos Scarvo owns 15% of the company. The offers have been rejected as they were not believed to be in the shareholders' best interests. The share price has recovered slightly since the attempted takeovers became public knowledge.

In January 2015, the government of Bree paid a grant to Wisteria Co, to assist with costs associated with the installation of devices in customer boilers to improve their energy efficiency. Wisteria Co is required to install 100,000 of these devices by 30 June 2015 at no charge to eligible customers.

Although profits have improved over the last two years, Wisteria Co is planning to shrink its business, creating a smaller more focussed and sustainable business from which to grow. The directors plan to downsize the business by about 20%. Wisteria cut 200 jobs last year, and said it would cut further jobs in line with the fall in the number of customers in Bree. All 200 employees who lost their jobs last year have received all redundancy payments to which they are entitled.

As part of this downsizing, Wisteria Co has sold a number of plots of land. Significant losses were made on the sale of these plots of land which were originally acquired for development potential. Some plots of land have not yet been sold, although Wisteria Co intends to divest more of the land acquired that has not yet been developed.

Required:

- (a) Respond to the partner's email. (21 marks)

Professional marks will be awarded for the presentation, logical flow and clarity of explanation of the briefing notes. (4 marks)

- (b) Recommend the principal audit procedures that should be performed on:

(i) the condition attached to the grant received by Wisteria Co (3 marks)

(ii) the land held for sale by Wisteria Co. (3 marks)

- (c) You have been asked to provide some training for the new intake of trainees in the insolvency department at Verdana Accountants Co, on the different offences under the Insolvency Act 1986.

Required:

Explain and compare fraudulent and wrongful trading as defined by the Insolvency Act 1986. (4 marks)

(Total: 35 marks)

- 2** You are the audit manager in Fallon & Co, with responsibility for quality control reviews in your firm. The following matters have been brought to your attention for the audit of Roots Co:
- (i) There is no signed written representation on the audit file. The audit senior in charge of the audit has documented on file that as there are no specific matters to include in the representation, it is not worth bothering the client to obtain one to put on file.
 - (ii) Included in the financial statements of Roots Co is a provision of \$1m which represents 10% of the company's assets. The provision is in relation to restoring land back to its original state when the lease agreement for the land expires. The audit of this balance has been performed by an audit junior who has recently joined the firm. The audit file shows that the work performed on this balance comprises obtaining a copy of the surveyor's report which contains the estimate used by management in the financial statements and agreeing the figure to the financial statements. On enquiry with the junior you are told that no further work was considered necessary as the audit evidence has been provided by an expert and is therefore reliable on its own.
 - (iii) Due to various difficulties encountered during the audit, work towards the end of the audit had to be rushed to get finished on time for signing the report by the agreed deadline. The in-charge instructed the audit team to scale down sample sizes that had been decided at the planning stage to save time on sections where the prior year file showed no problems had arisen.

Required:

- (a) **Using the above information, explain the quality control and other professional issues arising.** (9 marks)
- (b) **Explain the potential consequences to the audit firm of conducting an audit that does not comply with professional standards.** (3 marks)
- (c) **Describe the actions an audit firm should take to ensure that the firm complies with the requirements of ISQC 1.** (13 marks)

(Total: 25 marks)

SECTION B**Two questions only to be attempted**

- 3** (a) You are the manager responsible for the audit of Grendel, a long-established private company. Grendel sells furniture and home furnishings through retail stores and home catalogues (i.e. mail order). The draft accounts for the year ended 31 March 2015 show revenue of \$72.4m (2014: \$68.9m), profit before taxation of \$7.3m (2014: \$6.7m) and total assets of \$18.6m (2014: \$17.5m).

You are currently reviewing the audit working papers for the audit of the year ended 31 March 2015 and have identified the following issues:

In March 2015 the management board announced plans to cease offering 'home delivery' services from the end of the month. These sales amounted to \$1.6m for the year to 31 March 2015 (2014: \$1.8m). Since the announcements, all activity related to the delivery service has stopped. Delivery vehicles have been classified as non-current assets held for sale as at 31 March 2015 and measured at fair value less costs to sell, which amounted to \$1m (carrying value \$0.5m). **(8 marks)**

In May 2015 Grendel announced the recall and discontinuation of a range of soft furnishing products. The recall was prompted by the high level of customer returns due to claims of poor quality. For the year to 31 March 2015, the product range represented \$8.1m of revenue (2014 \$10.6m) and \$1.5m loss before tax (2014: \$0.7m profit before tax). The results of the discontinued operation are disclosed separately on the face of the statement of profit or loss. **(8 marks)**

Required:

Comment on the matters to be considered and explain the audit evidence you should expect to find during your review of the audit working papers in respect of each of the issues described above.

Note: the split of the mark allocation is shown against each of the issues.

- (b) **Explain the actions the auditor should take regarding uncorrected misstatements prior to signing their audit report.** **(4 marks)**

(Total: 20 marks)

- 4** You are an audit manager at Bartolome, a firm of Chartered Certified Accountants. The following matters have arisen in connection with recent audit engagements:
- (a) Leon Dormido is the senior in charge of the audit of the financial statements of Moreno Co for the year ending 31 March 2015 which is approaching completion. Moreno's Chief Executive Officer, James Bay, has just sent you an e-mail to advise you that Leon has been short-listed for the position of Finance Director. You were not previously aware that Leon had applied for the position. **(4 marks)**
 - (b) Chatam Co is a long-standing client. One of its subsidiaries, Ayora, has made losses for several years. At your firm's request, Chatam's management has made a written representation that goodwill arising on the acquisition of Ayora is not impaired. Your firm's auditors' report on the consolidated financial statements of Chatam for the year ended 31 March 2015 has just been signed and is unmodified. Your firm's auditors' report on the financial statements of Ayora is similarly unmodified. Chatam's Chief Executive, Charles Barrington, is due to retire in 2016 when his share options mature. **(7 marks)**
 - (c) Pinzon Co is threatening to sue your firm in respect of audit fees charged for the year ended 31 December 2014. Pinzon is alleging that Bartolome billed the full rate on air fares for audit staff when substantial discounts had been obtained by Bartolome. **(5 marks)**
 - (d) Matisse Co has a short term staffing issue in their finance department and has asked your firm if you can provide one of your employees on a 3 month secondment. They have asked that the audit senior from the audit team is assigned as he has knowledge of the client's systems and will therefore be able to get up to speed with the work more quickly. **(4 marks)**

Required:

Assess the ethical and professional issues raised and recommend any actions necessary in response to the above matters.

Note: The mark allocation is shown against each of the three issues.

(Total: 20 marks)

- 5 (a) ISA 705 *Modifications to The Opinion in the Independent Auditor's Report* and ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* include suggested wordings of modifying phrases for use when issuing modified reports.

Required:

Explain and distinguish between each of the following terms:

(i) **qualified opinion**

(ii) **disclaimer of opinion**

(iii) **emphasis of matter paragraph.** (5 marks)

- (b) You are the audit manager of Mouse Co, a private company that retails sports equipment. The draft financial statements for the year ended 31 March 2015 show revenue \$21.1m (2014: \$20.9m), profit before taxation of \$0.9m (2014: \$1.1m) and total assets of \$15.4m (2014: \$11.7m).

You are currently reviewing two matters that have been left for your attention on Mouse's audit working paper file for the year ended 31 March 2015:

Mouse's management board decided to revalue properties for the year ended 31 March 2015 that had previously all been measured at depreciated cost. At the year-end three properties had been revalued by a total of \$1m. Another nine properties have since been revalued by \$2.7m. The remaining three properties are expected to be revalued later in 2015.

On 1 April 2014 Mouse introduced a 10-year warranty on all sales of its entire range of golf equipment. Sales of golf equipment for the year ended 31 March 2015 totalled \$9.1m. The notes to the financial statements disclose the following:

'Since 1 April 2014, the company's range of golf equipment is guaranteed to be free from defects in materials and workmanship under normal use within a 10-year guarantee period. No provision has been recognised as the amount of the obligation cannot be measured with sufficient reliability.'

Required:

Identify and comment on the implications of these two matters for your auditor's report on the financial statements of Mouse Co for the year ended 31 March 2015.

(15 marks)

(Total: 20 marks)

