SEMESTER TWO 2026

ABERYSTWYTH BUSINESS SCHOOL

AB21620 – THE ROLE AND PRACTICE OF AUDITING

Time allowed: **THREE HOURS (3 Hours)**

Answer any FOUR questions

Show all workings

Total **100** marks available

This paper contributes **60%** of the overall module mark

CALCULATORS ARE PERMITTED (Casio FX99-1, FX83, or FX85 models only)

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STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH

Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

QUESTION 1 (answer all parts)

An assurance engagement is a professional service provided by an independent practitioner, an Auditor or an Accountant, designed to enhance the degree of confidence placed on a subject matter by its intended users. The elements of an assurance engagement provide a framework that enables the practitioner to form a reasoned and credible conclusion, thereby enhancing the confidence of intended users about the outcome of a measurement or evaluation against a set of criteria.

Required:

a) Discuss the FIVE elements of an assurance engagement.

(10 marks)

b) Write briefing notes on the following types of modified audit opinions:

i. Qualified opinion

ii. Adverse opinion

iii. Disclaimer of opinion

(15 marks)

END OF QUESTION 1

PLEASE TURN OVER

QUESTION 2 (answer all parts)

Assume the date is 12 March 2026.

You are an audit senior at Nordham & Co LLP, a UK-based audit firm that undertakes statutory audits. The following situations have arisen at three unrelated audit clients of your firm. In each case, the issues relate to the audits of the financial statements for the year ended 31 December 2025.

Greenridge Renewables Ltd (Greenridge)

Greenridge Renewables Ltd is a UK-based private company operating in the renewable energy sector. It develops and manages onshore wind and solar installations across England and Wales. For the year ended 31 December 2025, Greenridge is required to undergo a statutory audit for the first time, having exceeded the Companies Act size thresholds.

On 1 July 2025, Greenridge upgraded its fixed asset register from a manually maintained spreadsheet system to a cloud-based enterprise resource planning (ERP) system integrated with its general ledger and procurement modules. During audit testing, the following control deficiency was identified in the new system:

- All site managers and members of the finance team are able to amend the asset register. Company policy states that amendments to the asset register should be restricted to the finance director or the financial controller.

As a result of this control weakness, you have been unable to conclude on the completeness and accuracy of plant and equipment.

PLEASE TURN OVER

QUESTION 2 CONTINUED

Heliox Biotechnologies plc (Heliox)

Heliox Biotechnologies plc is a UK-headquartered, multinational pharmaceutical manufacturer listed on the London Stock Exchange. The company produces specialist biological compounds used in medical treatments and research. Its operations are subject to strict regulatory oversight under both UK Medicines and Healthcare products Regulatory Agency (MHRA) requirements and European Medicines Agency (EMA) standards.

In October 2025, the European Medicines Agency commenced a formal investigation into alleged significant breaches of manufacturing compliance at one of Heliox's facilities in Germany. There are significant uncertainties regarding the outcome of this investigation, including potential financial penalties and operational restrictions.

You are satisfied that management has appropriately disclosed the investigation in the notes to the financial statements and that the matter does not cast significant doubt on Heliox's ability to continue as a going concern. However, you consider the investigation to be fundamental to users' understanding of the financial statements.

Northport Estates Ltd (Northport)

Northport Estates Ltd is a UK property investment company with commercial real estate assets located in the UK, Ireland, and the Netherlands. The company prepares its financial statements in accordance with UK-adopted IFRS and applies the revaluation model under IAS 16 to its land and buildings.

PLEASE TURN OVER

An independent RICS-qualified valuer carried out a full portfolio valuation at 31 December 2025. However, management has concluded that a revaluation of two individual properties is unnecessary on the basis that the difference between each property's carrying amount and fair value is individually immaterial.

Further details of the two properties are provided below:

As at 31 December 2025	Carrying amount	Expert valuation
	£m	£m
Properties	102.8	106.3
Land	15.4	16.2

Northport's draft profit before tax for the year ended 31 December 2025 is £24 million.

Required:

a) For each of the three cases set out above, explain the implications for the auditor's report on the financial statements for the year ended 31 December 2025, assuming management does not make any further amendments to the financial statements.

(20 marks)

b) For Greenridge, outline the possible consequences of the identified control deficiency, and provide recommendations to address it, suitable for inclusion in your report to those charged with governance of Greenridge.

(5 marks)

END OF QUESTION 2

PLEASE TURN OVER

QUESTION 3 (answer all parts)

Assume the date is 4 March 2026.

You are the audit manager at Hudson & Partners LLP, a UK-based audit firm. You are completing the final stage of the audit of AberGlow Ltd, a company that develops and manufactures premium skincare and wellness products and distributes them to both wholesale and retail customers across the UK. AberGlow has been operating for the past 12 years and has achieved steady revenue growth averaging 10% per annum, broadly consistent with the industry average. Revenue for the year ended 31 December 2025 was £42.7 million (2024: £38.1 million), with total assets of £275 million (2024: £240 million) at the year-end.

During the year under audit, AberGlow has experienced several operational and financial difficulties. The company has consistently delayed payments to key suppliers, and some have withdrawn credit terms, requiring cash-on-delivery payments. Its main supplier, which accounted for approximately 55% of specialist raw materials, ceased trading during the year.

The head of sales resigned in October 2025 and has yet to be replaced. The former sales director has initiated legal proceedings against the company for constructive dismissal. In early January 2024, one of AberGlow's largest customers, Clarach Spa Ltd, entered administration, leaving the company exposed to a receivable of £5.1 million.

Monthly cashflow forecasts, which are produced and updated regularly, indicate negative net cash outflows for the next 12 months.

PLEASE TURN OVER

QUESTION 3 CONTINUED

AberGlow is currently seeking additional funding via a proposed private placement of shares. If this fundraising does not proceed, the company will need to renegotiate existing bank facilities and secure additional funding from investors. The production facility was upgraded during the year at a cost of £2.5 million. Part of the additional £5 million bank facility provided to finance this upgrade is secured on the production line. However, the upgraded equipment broke down in February 2025 and remains non-operational.

The directors have prepared the financial statements for the year ended 31 December 2025 on a going concern basis and state that they believe the company will continue in operation for the foreseeable future.

Required:

a) Explain the going concern assumption and the auditor's responsibilities for going concern.

(8 marks)

b) Using the information provided, identify and explain any FIVE potential indicators that AberGlow Ltd is not a going concern.

(10 marks)

c) Describe the audit procedures you would perform in assessing whether or not the company is a going concern.

(7 marks)

END OF QUESTION 3

PLEASE TURN OVER

QUESTION 4 (answer all parts)

It is February 1, 2026.

Aber Express is listed on a London Stock Exchange and sells consumer goods to wholesale customers. The company has a large head office and 18 warehouses. You are an audit supervisor at Dudley & Co and the final audit for the year ended 31 December 2025 is due to commence shortly. The draft financial statements show total assets of £202.5 million and profit before tax is £72 million. The following matters have been brought to your attention.

Land and Buildings

Aber Express historically recorded property, plant and equipment (PPE) at cost less accumulated depreciation. However, during the year, management decided to change the accounting policy for land and buildings from the cost model to revaluation model. The finance director hired an external independent valuer to undertake the revaluation of all land and buildings, and this took place in September 2025. Depreciation is calculated monthly on a pro-rata basis. Aber Express year-end balance for PPE includes land and buildings of £84.3 million (2024: £69.2 million).

Vehicle additions and disposals

On September 1, 2025, Aber Express replaced 10 of its delivery lorries. The old lorries had a carrying amount of £1.5 million, as recorded in the non-current asset register and were given part-exchange against new lorries costing £3.2 million. Cash consideration of £2 million was also paid.

PLEASE TURN OVER

QUESTION 4 CONTINUED

Required:

a) Describe **FIVE** substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Aber Express Ltd's land and buildings.

(7 marks)

b) In relation to Aber Express Ltd's vehicle additions and disposals, describe **FIVE** substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence.

(7 marks)

c) Explain the nature of subsequent events and clearly distinguish between adjusting events and non-adjusting events.

(11 marks)

END OF QUESTION 4

PLEASE TURN OVER

QUESTION 5 (answer all parts)

It is 1 February 2026. Vintage Aber Ltd (Vintage) distributes vintage clothing to retail stores. Its year end was 31 December 2025. You are the audit manager and the following matter has been brought to your attention.

Trade receivables

Vintage's list of individual customers comprises a large number of customers. In previous years, the audit team has undertaken a positive trade receivables circularisation to confirm year-end balances. However, the customer response rate has historically been low and so alternative audit procedures have been undertaken. A decision has been made that for the current year audit a circularisation will not be performed.

The following information has been extracted from the draft statements of ABS for the year ended 31 December 2025.

	2025 £' m	**2024 £' m**
Current assets		
Trade receivables	3.9	2.7
Revenue – retail customers	45.3	39.8
– wholesale customers	17.5	15.2
	62.8	**55**

Required:

a) Explain the nature of positive trade receivables circularisation, highlighting the steps an auditor should take in undertaking a positive trade receivables circularisation.

(10 marks)

PLEASE TURN OVER

b) Review Vintage Aber Ltd's revenue and trade receivable, highlighting the key risk areas to aide your discussions with management.

(7 marks)

c) Describe FIVE substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Vintage Aber Ltd's trade receivables.

(8 marks)

END OF QUESTION 5

END OF PAPER