PRIFYSGOL ABERYSTWYTH UNIVERSITY

ARHOLIADAU EXAMINATIONS

SEMESTER TWO 2026

ABERYSTWYTH BUSINESS SCHOOL

AB31620 – 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.

Answer any **FOUR** questions, each question carries **25 marks.**

QUESTION 1

Assume the date is 5 March 2026.

You are the audit manager at Harding & Vale LLP, a firm of Chartered Accountants. You are in the final stages of the audit of United Grid plc (United Grid) and described below is an issue related to the financial statements for the year ended 31 December 2025. United Grid operates large-scale battery storage facilities and renewable energy infrastructure across the UK. During the year, the company significantly expanded its operations following the acquisition of three battery storage sites in Germany and Spain.

As part of the acquisition accounting under IFRS 3 Business Combinations, management recognised goodwill of £48 million and identified several separately recognisable intangible assets, including grid connection rights and long-term energy optimisation contracts. The valuation of these assets involved significant management judgement, including forecast energy price assumptions, discount rates, and regulatory stability assessments.

In addition, due to volatility in energy markets during 2025, United Grid performed an impairment review of its cash-generating units in accordance with IAS 36 Impairment of Assets. The impairment assessment relies heavily on forward-looking cash flow projections and long-term energy pricing assumptions extending over 20 years.

PLEASE TURN OVER

QUESTION 1 CONTINUED

The engagement partner has determined that the following areas constitute Key Audit Matters (KAMs) under ISA (UK) 701, Communicating Key Audit Matters in the Independent Auditor's Report:

- Valuation of goodwill and identifiable intangible assets arising on acquisition
- Impairment assessment of battery storage cash-generating units

During your audit work, you identified that management's base-case impairment model assumes energy price growth significantly above independent market forecasts. A sensitivity analysis performed by the audit team indicates that a reasonably possible change in assumptions would result in an impairment of £4.5 million. Management has disclosed estimation uncertainty in the notes but has not recognised an impairment charge. Draft profit before tax for the year is £62 million.

Required:

a) Explain what a key audit matter is and state the benefits of Key Audit Matters section in the auditor's report to the users of financial statements.

(7 marks)

b) Explain why the valuation of goodwill and identifiable intangible assets arising on acquisition, and the impairment assessment of battery storage cash-generating units, are likely to be determined as Key Audit Matters (KAMs).

(8 marks)

c) Discuss the implications for the auditor's report on the financial statements for the year ended 31 December 2025, if management does not make any further amendments in respect of the impairment assessment. **(10 marks)**

END OF QUESTION 1

PLEASE TURN OVER

QUESTION 2 – 25 MARKS

EDC plc is a UK-headquartered telecommunications provider listed on the London Stock Exchange, with significant operations across several EU Member States. You are an audit associate on the statutory audit for the year ended 31 March 2026, conducted in accordance with UK International Standards on Auditing (UK ISAs) and relevant EU regulatory requirements.

One of EDC's material revenue streams, cross-border mobile roaming and wholesale inter-operator charges, represents approximately 48% of total group revenue. This revenue depends on a complex, automated billing and data processing system that interfaces with multiple European network operators and clearing houses. During the audit, inconsistencies were identified in the timing and recognition of roaming revenue, raising concerns about compliance with IFRS 15 and the accuracy of accrued income and cut-off procedures. Materiality was determined using 5% of profit before tax.

The audit team planned additional substantive procedures, including detailed testing of billing system outputs, review of inter-operator roaming agreements, reconciliation of clearing house statements, and extended cut-off testing at year-end. However, due to delays within the company's IT function and restrictions on access to system-generated reports, the audit team was unable to complete the planned procedures. Efforts to obtain alternative audit evidence, including inspection of post year-end cash receipts and independent usage data reconciliations, were unsuccessful because the data provided was incomplete and could not be reliably validated. Management maintains that the revenue figures are fairly stated and argues that the audit should proceed.

PLEASE TURN OVER

QUESTION 2 CONTINUED

Required:

a) Identify and discuss the type of audit issue that has arisen and evaluate whether the issue is material and/or pervasive.

(10 marks)

b) Recommend TWO additional actions or communications the auditor should undertake before finalising the audit report

(5 marks)

c) Discuss the implications of the issue on the auditor's opinion, justifying the appropriate type of opinion to be issued.

(10 marks)

END OF QUESTION 2

PLEASE TURN OVER

QUESTION 3 – 25 MARKS

Assume the date is 4 May 2026.

You are an Audit Senior at Harrington & Co LLP, a UK-registered audit firm. You are beginning the audit planning for BritCo Paints Ltd (BritCo), a new client, for the year ending 31 March 2026.

BritCo is a well-established UK manufacturer of decorative and industrial paints, having operated for over 45 years. The company operates from a single industrial site in West Midlands, which houses its production plant, distribution warehouse, and corporate head office.

BritCo distributes its products nationwide, primarily through bulk sales to major home improvement retailers. Approximately 60% of sales are to a leading UK retail chain, HomeMax plc, under a one-year exclusive supply agreement. To secure this deal, BritCo significantly reduced its prices and extended its credit terms from the usual 30 days to 120 days, placing pressure on the company's working capital.

Due to rising production costs, volatile energy prices, and UK-wide inflationary pressures, BritCo now imports around 65% of its paint products in semi-finished form from Singapore and Vietnam. The remaining 35% is locally manufactured. Imports are ordered six months in advance, and shipments typically take 6–8 weeks via the Port of Liverpool. Inventory is only recorded upon receipt at the company's warehouse.

PLEASE TURN OVER

QUESTION 3 CONTINUED

This year, BritCo introduced a perpetual inventory counting system to reduce the cost and disruption of a full year-end stocktake. The warehouse is divided into 12 zones, each scheduled for a physical count once per year. Each count team comprises one Internal Auditor and one Warehouse Supervisor. The counting process includes:

- Printing system-reported inventory data before each count.
- Physically comparing quantities and descriptions to system records.
- Recording discrepancies and identifying obsolete or damaged stock.
- Submitting findings to the finance department for system updates.
- Continuing normal warehouse operations during counts, without halting movements.

Historically, BritCo applied a 1% inventory provision for obsolescence but is now planning to eliminate this provision due to perceived improvements in inventory monitoring.

In February 2026, the company's Finance Director resigned abruptly following a disagreement with the CEO over financial reporting disclosures. The former Finance Director has since filed a legal complaint alleging wrongful dismissal. Management has refused to make any provision or note disclosure, asserting the claim lacks merit. The Finance Manager has temporarily assumed the former Finance Director's responsibilities pending recruitment of a new director. This has weakened financial oversight during a crucial reporting period.

PLEASE TURN OVER

QUESTION 3 CONTINUED

Required:

a) Explain the concept of audit risk, highlighting the components of audit risk and why risk assessment is important at the planning stage of an audit.

(10 marks)

b) Identify and explain FIVE audit risks relevant to BritCo. For each risk, suggest appropriate audit response to guide your planning.

(10 marks)

c) Suggest sufficient and appropriate evidence to verify the valuation of inventory and completeness of provisions and contingent liabilities, including the legal case.

(5 marks)

END OF QUESTION 3

PLEASE TURN OVER

QUESTION 4 – 25 MARKS

Assume the date is February 2026.

You are an audit manager at Taylor & Co. The following situations have arisen at two 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.

Greenbury Ltd (Greenbury)

Greenbury launched a significant new product during the financial year, which turned out to have a major deficiency. The reputational damage caused a large fall in Greenbury's revenue from all products. A legal action was brought against Greenbury by customers who had purchased the faulty product. Greenbury lost this case in October 2025 resulting in a highly material settlement, which the company is unable to pay with its current resources. Management has decided not to appeal the judgement. The company has attempted to obtain additional finance from shareholders, financial institutions and other investors, but without success. Given Greenbury's cash situation, you have concluded that Greenbury's use of the going concern basis of accounting is inappropriate. However, Greenbury's management does not accept this, and have included a note to the financial statements explaining the need for additional finance. No other adjustments have been made to the financial statements.

Eco Energy plc (Eco Energy)

Eco Energy, a listed company, has included a material provision for clean-up of environmental damage in its financial statements. You are in agreement with management over the measurement of the provision.

PLEASE TURN OVER

QUESTION 4 CONTINUED

You consider the measurement of the provision to be a Key Audit Matter. However, management has failed to disclose the description, timing of outflows and uncertainties relating to the provision for clean-up of environmental damage. You have concluded that these are all required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets as the provision is material.

Eco Energy's management has refused to include the disclosures and has suggested that it may put the audit up for tender if you include any reference to the provision in your auditor's report as management does not want attention drawn to it.

Required:

a) For each of the two 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.

(12 marks)

b) Explain the professional and ethical matters your firm should consider in relation to Eco Energy plc. State the actions your firm should take in response to these matters.

(8 marks)

c) Discuss briefly the elements of an assurance engagement.

(5 marks)

END OF QUESTION 4

PLEASE TURN OVER

QUESTION 5 – 25 MARKS

It is 1 May 2026.

Greenridge Ltd (Greenridge) develops and manufactures computer components, and its year end was 31 March 2026. The company has two large production facilities, one of which is off-site. Draft financial statements show total assets of £180 million and profit before tax of £45 million. You are the audit manager at Hudson & Partners LLP in charge of the 2026 audit of Greenridge. The audit is now almost complete and the auditor's report is due to be signed shortly. The following matter has been brought to your attention:

On 3 April 2026, there was a fire incident at the off-site production facility. This resulted in some damage to inventory and property, plant and equipment. However, there have been no significant delays to customer deliveries or complaints from customers. Greenridge's management has investigated the cause of the fire incident and believes that the company is unlikely to be able to claim on its insurance. The finance director has estimated that the value of damaged inventory and property, plant and equipment was £5.3 million and that it now has no scrap value.

Required:

a) Explain the issue at audit issue that has arisen and discuss whether the 2026 financial statements of Greenridge Ltd require an amendment in relation to the fire incident.

(15 marks)

b) Discuss the implications of the issue on the auditor's opinion, justifying the appropriate type of opinion to be issued if management does not make any further amendments in respect of the fire incident.

(10 marks)

END OF QUESTION 5

END OF PAPER