

UNIVERSITY OF GREATER MANCHESTER
GREATER MANCHESTER BUSINESS SCHOOL
MSC ACCOUNTANCY AND FINANCIAL
MANAGEMENT
SEMESTER ONE EXAMINATIONS 2025/2026
ADVANCED AUDIT AND ASSURANCE
MODULE NO: ACC7507

Date: Friday 16th January 2026

Time: 10.00 – 1.00pm

INSTRUCTIONS TO CANDIDATES:

There are THREE questions on this paper.

SECTION A consists of ONE question which is COMPULSORY

SECTION B consists of TWO questions, both are COMPULSORY

This is a closed book exam.

You must hand in the exam paper with your answer booklet.

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SECTION A

Question 1

It is 1 July 2025. You are a manager in the audit department of Davis & Co, responsible for the audit of the Nova Group for the year ending 30 September 2025. The Group, a non-listed entity, owns and operates venues across the UK which host third-party live productions (concerts, musicals and theatre).

The following exhibits provide information relevant to the question:

1. Partner's email – instructions from the Group audit engagement partner.
2. Background information – Group structure, operations, financing and covenants.
3. Meeting notes – events during the year discussed with the finance director.
4. Goodwill calculation – goodwill arising on the acquisition of BrightStage Ltd.

Use the information to answer the requirements in Exhibit 1.

Exhibit 1 – Partner's email (instructions and mark split)

To: Audit manager

From: Emma Cole, Group audit engagement partner

Subject: Nova Group – Audit planning (y/e 30 Sep 2025)

Date: 1 July 2025

Please prepare briefing notes covering:

- (a) Evaluate the significant business risks to consider in planning the Group audit.

(8 marks)

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Question 1 continues

(b) Using Exhibits 2 and 3, evaluate and prioritise the significant risks of material misstatement (RoMM) at the financial statement and assertion levels. Determine and apply an appropriate materiality benchmark in your analysis.

Note: Do not include RoMM relating to the acquisition of BrightStage Ltd here; that is addressed in part (c).

(12 marks)

(c) Using Exhibit 4:

(i) Justify why the acquisition of BrightStage Ltd and the goodwill arising have been identified as significant RoMM; and

(ii) Design the principal audit procedures to include in the audit plan for goodwill.

Note: Consider all components of management's goodwill calculation in Exhibit 4.

(12 marks)

(d) Using Exhibit 3, discuss Davis & Co's responsibilities regarding the Group's potential non-compliance with laws and regulations (NOCLAR) arising from refurbishment works undertaken without the required consents.

(8 marks)

Professional skills: Awarded for communication, analysis & evaluation, professional scepticism & judgement, and commercial acumen throughout your answer.

(10 marks)

(Total 50 marks)

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Exhibit 2 – Background information

Operations

- a) Nova Ltd is the parent company. The Group operates 48 venues nationwide. Third-party promoters/producers hire the venues for fixed periods and may purchase additional services (marketing, technical support, and centralised ticketing).
- b) Many venues are listed/historic buildings with protected status; refurbishment requires consent retaining heritage features. Local regulators have historically enforced compliance.

Financing and covenants

- The Group is owned by private investors and financed mainly through secured bank debt.
- Total facilities: £420m; drawn: £385m. Gearing is high; interest is significant.
- Covenants include liquidity thresholds, revenue growth, and an operating margin $\geq 6\%$. A breach must be remedied within 24 months or debt becomes repayable on demand. (Pattern consistent with original structure)

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Exhibit 3 – Meeting notes (finance director)

Projected financial results and KPIs

	Projected to 30 Sep 2025	Actual to 30 Sep 2024
Revenue	£468m	£421m
Operating profit	£30m	£27m
(Loss) before tax	£(12)m	£(16)m
Total assets	£970m	£900m
Venues at year end	48	46

Selected matters discussed

- Ticket sales guarantee – Lyric Hall: To secure a flagship show, Nova guaranteed a minimum gross ticket take of £20m for the 12-month run to 31 Dec 2025. Based on current booking curves, management estimates a £5m shortfall may crystallise. No provision has been recorded; a contingent liability note is drafted referencing “uncertain audience trends”.
- Refurbishment: Several urgent safety and accessibility works were completed at two listed venues. Management proceeded without formal written consent due to time pressures but claims verbal “in-principle” approval. Potential regulatory fines and remedial costs are possible.
- Pricing/discounting: Aggressive multi-venue discounting introduced mid-year to drive occupancy.
- IT/ticketing: Continuous upgrades to the central ticketing platform; deferred revenue balances increased materially.

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Exhibit 4 – BrightStage Ltd (acquired 1 Oct 2024) – Goodwill calculation (£m)

	Note	£m
Cash consideration (paid 1 Oct 2024)		62
Contingent/deferred consideration	(1)	22
Total consideration		84
Fair value of non-controlling interest (NCI)	(2)	10
Total		94
Less: Fair value of identifiable net assets	(3)	(72)
Goodwill		22

Notes:

1. Contingent consideration: Payable 31 Oct 2026 based on BrightStage venue-hire revenue and margin targets. Management has assumed full payout and discounted at 9%.
2. NCI: Measured at fair value using a market multiple on BrightStage's equity.
3. FV adjustments include: Customer database £6m (internally unrecognised by BrightStage); plant uplift £4m; no amount recognised for the BrightStage brand (judged internally generated).

End of question 1
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SECTION B

Question 2

You are the audit manager of Falcon Group, an engineering company that designs and manufactures wind-turbine components and provides after-sales maintenance services. The audit for the year ended 30 June 2025 is nearing completion, and you are reviewing several matters before finalising the auditor's report.

The audit senior has provided you with the following summary of outstanding issues:

1. Impairment of property, plant and equipment (PPE)

The Group has invested heavily in automated machinery for its turbine-blade production line. Due to reduced demand in the European market, utilisation of the new plant has fallen to 55%.

Management's impairment review (in accordance with IAS 36) shows a recoverable amount of £42 million compared with a carrying value of £49 million, but they argue that the decline is temporary and no impairment is required.

2. Fire at the logistics warehouse (subsequent event)

On 15 July 2025, after the year end, a fire destroyed a large warehouse containing finished goods costing approximately £6 million. The facility is insured, but the insurer is disputing the claim because fire-safety checks were overdue.

The financial statements have not been amended. Management believes the event is non-adjusting and have not disclosed it, as "insurance proceeds are expected to cover most losses."

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3. Loan covenant and going-concern assessment

The company has a long-term loan of £40 million with a major bank. One covenant requires an interest-cover ratio of at least 3 times. Draft figures show that the ratio has fallen to 2.6 times.

Management have received a verbal assurance from the bank that a waiver will be granted, but no written confirmation was available at the date of review.

The financial statements include a going-concern disclosure referring briefly to “possible renegotiation of terms.”

4. Disagreement with finance director

The finance director objects to including an emphasis-of-matter (EoM) paragraph in the auditor’s report relating to the warehouse fire. The partner believes it is necessary to highlight the event’s significance.

Required

a) Evaluate the issues to be considered at the completion stage of the audit for Falcon Group and recommend any further audit evidence required.

(13 marks)

b) Describe the impact on the auditor’s report, if any, for each issue.

(7 marks)

Professional marks will be awarded for structure, clarity, and professional judgement in your discussion.

(5 marks)

(Total 25 marks)

**End of question 2
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Question 3

Trinity Holdings plc is a UK-listed conglomerate operating in the construction and property-development sector.

The company has recently published a detailed ESG report setting out its performance against the Task Force on Climate-related Financial Disclosures (TCFD) and Global Reporting Initiative (GRI) frameworks.

Management wishes to obtain an independent assurance report from Harper & Co to enhance stakeholder confidence before including the ESG report within the upcoming annual report.

Scope 1 emissions are the organisation's *direct* greenhouse-gas emissions from sources it owns or controls (e.g., on-site fuel combustion, company vehicles), while Scope 2 emissions are *indirect* emissions from the generation of purchased electricity, steam, or heat consumed by the entity.

The following information has been provided by the finance director:

1. Scope and level of assurance

Trinity Holdings wants a limited (moderate) assurance engagement covering:

- greenhouse-gas emissions (Scope 1 & 2).
- energy-use intensity; and
- waste-management KPIs.

Management expects the engagement to be completed within four weeks.

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Question 3 continues

2. Internal data systems

- Environmental data are compiled by site managers using spreadsheets.
- there is no formal internal audit review of the ESG data.
- some subsidiaries use different measurement bases for carbon offsets.

3. Prior relationship with the client

Harper & Co currently provides tax-compliance and payroll services for Trinity Holdings.

The assurance engagement would therefore represent non-audit work for an existing client.

4. Management expectations

The CEO has stated in preliminary meetings that “we need an unqualified assurance statement confirming we are carbon neutral.”

Required

a) Explain the matters to consider before accepting this engagement and the procedures necessary to obtain sufficient appropriate evidence for a limited-assurance ESG engagement.

(20 marks)

b) Discuss the ethical and professional issues arising from the engagement and how they should be managed.

(5 marks)

(Total 25 marks)

**END OF QUESTIONS
END OF EXAM PAPER**