
ePMA Partial Exam Financial Auditing module Regulatory framework

Date:	2 July 2021
Start time:	15:00 AM
Duration:	120 minutes
Open book:	Allowed are only the International Standards on Auditing and/or the HRA Handboek Regelgeving Accountants. Not allowed are textbooks and other study material.

Instructions:

- Document your response to the questions in a word document. Use the template!!
Name convention for this document:
Module RF-[your last name] – 2 July 2021
- Read the questions carefully!!
- When answering questions it is not allowed to copy paragraphs from the standards, the textbook or other study material used.
- Use your own words! If not the exam will not be passed.
- Put your full name in the header of the document!
- Put the following text in the footer of the document:
“Hereby, I declare that I have written the solution by myself, and that I did not use or copy from the textbook and other study material; I only used as a reference the HRA or the Standards.”

<p>At the end of this exam upload this document in Canvas. If you cannot upload the document, you can send it to EPMA@tilburguniversity.edu</p>

This document consists out of 4 pages including the front page.

Good luck with the exam!

Question 1 (10 points)

Describe the structure of the laws and regulations for accountants in the Netherlands.

Question 2 (10 points)

Describe the process in which the various regulations are being prepared and issued within the NBA.

Question 3 (10 points)

Several years ago Dutch registered accountant John de Cloe and tax adviser Janet Smits left a big 4 firm and started their own partnership Quick Audit and Tax. Over the years their audit and tax practice has grown considerably, particularly the audit practice as several former colleagues amongst which two registered accountants of De Cloe have joined Quick Audit & Tax as audit managers and audit and accounting staff in the firm. As the partners De Cloe and Smits anticipate that some of their clients will meet the criteria for a mandatory (statutory) audit of their financial statements in the coming years, they decide to apply for an AFM license. A former study friend of Smits named Jim Bakker who is a management consultant, is about to join the partnership and will be responsible for starting-up a successful consultancy practice within the firm, building on the client base of Quick Audit & Tax. De Cloe, Smits and the new incoming third partner Bakker decide to change the name of the partnership into Quick Audit & Advisory to better reflect the wide range of services that they will provide going forward. The three partners agree on equal voting rights and share in the profit of the partnership going forward. Together they form the Management Board with De Cloe being the managing partner.

- a) Describe and motivate whether the legal structure and roles in the partnership Quick Audit & Advisory meet the legal requirements for obtaining an AFM license for performing mandatory (statutory) audits and if deemed necessary, which changes are needed. Refer to the applicable legislation.

Question 4 (10 points)

A recently promoted partner of Quick Audit & Advisory who is the external auditor on a mandatory audit engagement instructs the manager after the closing meeting with the CEO and CFO to remove supporting documentation on material audit differences from the audit file as he has agreed with the client to issue an unqualified audit opinion as he does not want to lose this client. During the closing meeting the CFO had put a lot of pressure on the partner as the company may have a going concern issue if they have to process the audit differences identified by the audit team as they will no longer meet the bank covenants and will have to renegotiate funding with the bank. The manager objects but the partner is very clear and assures the manager that there will be no promotion to senior manager if he will not handle this issue as instructed. The manager is ambitious and does not want to harm his career. On the other hand he also wants to comply with the VGBA as he is a registered accountant. He thinks the partner is too close with the CFO of the client as he heard 'through the grapevine' that the partner often plays golf with the CFO and acquired the client some years ago for Quick Audit & Advisory.

- a. Describe how the manager should apply the framework that is embedded in the VGBA (Dutch Code of Ethics) based on the dilemma that he is facing given the situation.
- b. What steps should the manager take? Refer to applicable legislation.

Question 5 (10 points)

A statutory audit client of Quick Audit & Advisory considers to acquire another large company to gain market share. This is the first time that they will acquire another company and as such they are in need for solid advice on such important transaction. The audit partner arranges for a meeting between the client and Jim Bakker, who has done M&A advisory work in the past, including negotiating the terms and conditions of the purchase price agreement for clients. The audit client is impressed by the experience of Bakker in this field and wants him to be their M&A adviser and purchase agreement negotiator on their behalf during this acquisition process. Bakker indicates that he is happy to provide these services to the client. As Quick Audit & Advisory is the auditor, Bakker advises the client that due diligence work could be best carried out by another party as to avoid conflicts of interest after acquiring such company.

- a. Provide a flow chart that explains the decision making process in terms of the acceptance and delivery of multiple services to an audit client, not being a public interest entity.
- b. Describe how the flow chart should be applied in this case and indicate whether you agree with Bakker's point of view.

Question 6 (10 points)

- a. What is meant by the "fraud triangle"? Provide an example in which the application of the fraud triangle is being illustrated.
- b. In the IFAC standard 240 (fraud) an escalation process is included. Describe how this escalation process works in the case of a mandatory financial statement audit.

Question 7 (20 points)

Over the years Quick Audit & Advisory has further grown, in particular after it obtained a license from the AFM for statutory audits. De Cloe together with 2 other audit partners (Ms Snel and Mr Goedgelovig) manage the audit practice. The AFM has recently inspected the Audit practice of Quick Audit & Advisory as the AFM received whistle blowing signals from possible non-compliance by the firm. The AFM has issued its draft inspection report and is meeting the managing partner De Cloe to discuss their findings. The AFM has significant findings in two audits from two of the most senior and highly esteemed partners (partner Goedgelovig and partner De Groot) in the firm, as they serve the most important clients and account for the highest revenues per partner in the firm. Their performance ratings were accordingly high, ensuring them the highest level of remuneration based on the partner profit sharing arrangements. The AFM introduces the most significant findings during the meeting:

1. The audit file of partner Goedgelovig has not sufficient appropriate audit evidence related to the completeness of the revenues to support the unqualified opinion. Besides there was no supporting evidence in the file about material facilitation payments made to agents in Nigeria, Oman and Indonesia.
2. The audit file of partner De Groot did not include sufficient appropriate audit evidence about estimates and underlying assumptions in the financial forecasts for appropriately testing of the going concern which is a high risk given the losses made and the bank covenants. Additionally, the unqualified audit report was issued before the Engagement Quality Control Review (EQCR(OKB)) was finalized.
3. Because of the high risk profile of the engagements of partner Goedgelovig and partner De Groot, an EQCR was applicable based on risk criteria set in the firm's EQCR procedure. The AFM noted that the assigned Engagement Quality Reviewer (EQR), which was the same reviewer for both engagements, did not detect the significant findings which the AFM identified through its inspection. It turned out that one senior manager in the firm does all EQCRs. He told the AFM that this is not easy as he has also his own clients to serve and is more experienced in the not for profit sector.
4. One file inspected from partner Goedgelovig contained additional documents after the 60 day term of closing the file had passed. It turned out that documents were backdated and added by the staff to the file as if they were prepared and signed off before issuing of the audit opinion. The staff acted upon instructions of partner Goedgelovig after having received notice from the AFM that the file would be selected for review by the AFM.
5. The AFM explains that it has learned through discussions with engagement team members that many clients have limited fee budgets causing them to struggle finishing the planned audits within the budgeted time based on the negotiated fixed fees. The managers tell the staff on the engagements that they need to work harder to meet the planning and not to record the overtime on the clients to avoid budget overruns as overruns are not good for the career within the firm.

The AFM concludes that Quick Audit should develop and implement a remediation plan. The AFM requests to receive this within 4 weeks time. The managing partner starts to worry about the consequences of this inspection for the firm.....

- a) What should Quick Audit include in their remediation plan to address the outcome of the inspection adequately? Make reference to relevant laws and regulations.
- b) What follow-up actions could the AFM take?

Question 8 (10 points)

What are the additional requirements for Quick Audit if they would like to obtain a PIE-license from the AFM? Refer to applicable laws and regulation in your answer.

Question 9 (10 points)

Audit firm Quick audits the financial statements of Interior BV, a producer of business furniture. For redecoration of the new office Quick Audit & Advisory needs business furniture. A large share of the furniture is bought by Interior BV, with whom a discount is negotiated.

Evaluate the situation that is described above based on applicable laws and regulations for accountants. Describe your argumentation while referring to the laws and regulations. What is your conclusion about this situation and which actions are needed?