

COURSE CODE: AC404/IDE AC404-1&2 (M) 2006

UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION QUESTION PAPER, 2006

DEGREE/YEAR OF STUDY	:	B. COM IV
TITLE OF PAPER	:	AUDITING
COURSE CODE	:	AC404/IDE-AC404-1&2
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1.	TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)
	2.	ANSWER ALL QUESTIONS.
	3.	WHERE APPLICABLE ALL WORKINGS SHOULD BE SHOWN.
	4.	ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENT: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

COURSE CODE: AC404/IDE AC404-1&2 (M) 2006**QUESTION 1**

Fraud and error presents risks to an entity. Both internal and external auditors are required to deal with risks to the entity. However, the responsibilities of internal and external auditors in relation to the risk of fraud and error differ.

Required:

- (a) Explain how the internal audit function helps an entity deal with the risk of fraud and error. [7 marks]
 - (b) Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements. [7 marks]
- ISA 500 audit evidence (revised) states that the management implicitly or explicitly makes assertions relating to the various elements of financial statements including related disclosures. Auditors may use three categories of assertions to form a basis for risk assessments and the design and performance of further audit procedures. The three categories suggested by ISA 500 relate to (i) classes of transactions, (ii) presentation and disclosure. One assertion applicable to all three categories is completeness: that all transactions, events, assets, liabilities, equity interests and disclosures that should be included, are in the financial statements.
- (c) List and describe financial statements assertions, other than completeness, used by auditors in the audit of financial statements. [6 marks]
 - (d) What is materiality in auditing? [5 marks]

[TOTAL MARKS = 25]

QUESTION 2

Client confidentiality underpins the relationship between Chartered Accountants and their clients.

Required:

- (a) Explain the circumstances in which rules of professional conduct permit or require external auditors to disclose information relating to their clients to third parties without the knowledge or consent of the client. [8 marks]

COURSE CODE: AC404/IDE AC404-1&2 (M) 2006

- (b) A waste disposal company has breached tax regulations, environmental regulations and health and safety regulations. The auditor has been approached by the tax authorities, the government body supervising the award of licences to such companies and a trade union representative. All of them have asked the auditor to provide them with information about the company. The auditor has also been approached by the police. They are investigating a suspected fraud perpetrated by the managing director of the company and they wish to ask the auditor certain questions about him.

Required:

Describe how the auditor should respond to these types of request. [12 marks]

- (c) Describe two threats to independence and objectivity of external auditors. [5 marks]
[TOTAL MARKS: 25]

QUESTION 3

ISA 2 "*Inventories*" requires that inventories be measured at the lower of cost or net realisable value.

- (a) Explain why the audit of inventory is important to auditors. [5 marks]
- (b) As the Audit Senior of Nadex Limited a company that sells car spare parts to the public that are purchased from various suppliers in South Africa, the Partner of the audit firm you work for has asked you to write up an audit program for the audit of inventory in this company during *the final audit* detailing your cut off procedures as well. [20 marks]

[TOTAL MARKS: 25]

QUESTION 4

You are the assistant assigned to the audit of Boogie Manufacturing. The audit senior has asked you to plan the audit of non current assets. He has provisionally assessed materiality at E72,000.

Boogie manufacturing maintains a register of non current assets. The management accountant reconciles a sample of entries to physical assets and vice versa on a three monthly basis. Authorisation is required for all capital purchases. Items valued less than E10,000 can be authorised by the production manager, items costing more than E10,000 must be authorised by the Managing Director. The purchasing department will not place an order for capital goods unless it has been duly signed.

The company has invested in a large amount of new plant this year in connection with an 8 year project for a government department. The management accountant has provided you with the following schedule of non current assets:

COURSE CODE: AC404/IDE AC404-1&2 (M) 2006

	Land and Buildings E	Plant and equipment E	Computers E	Motor Vehicles E	Total E
Cost					
At 31 March 2004	500,000	75,034	30,207	54,723	659,964
Additions		250,729	1,154		251,883
At 31 March 2005	500,000	325,763	31,361	54,723	911,848
Accumulated depreciation:					
At 31 March 2004	128,000	43,354	21,893	25,937	221,184
Charge for the year	8,000	28,340	2,367	13,081	51,788
At 31 March 2005	136,000	73,694	24,260	39,018	272,972
Net book value:					
At 31 March 2005	364,000	252,069	7,101	15,705	638,875
At 31 March 2004	372,000	29,680	8,314	28,786	438,780

* Of which, E100,000 related to land.

Required:

- (a) Without undertaking any calculations, assess the risk of the tangible non current assets audit, drawing reasoned conclusions. [7 marks]
- (b) Outline the audit procedures you would undertake on non current assets in respect of the following assertions:
- (i) Existence. [4 marks]
 - (ii) Valuation (excluding depreciation) [5 marks]
 - (iii) Completeness [4 marks]
- (c) Describe how you would assess the appropriateness of the depreciation rates. [5 marks]

[TOTAL MARKS = 25]