

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION PAPER, MAY 2005**

**DEGREE/DIPLOMA AND YEAR STUDY** : B. COM IV

**TITLE OF PAPER** : AUDITING

**COURSE CODE** : AC 404 (M) 2005

**TIME ALLOWED** : THREE (3) HOURS

- INSTRUCTIONS**
1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE 6.
  2. ANSWER QUESTION ONE (1), IT IS COMPULSORY, AND ANY OTHER THREE QUESTIONS. THE TOTAL NUMBER OF QUESTIONS TO BE ANSWERED ARE FOUR (4).
  3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.
  4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

**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 REQUIREMENTS:** AUDITING SAMPLING TABLES ARE ATTACHED

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

**QUESTION 1:**

A. The following are 6 situations that involve the audit risk model as it is used in planning audit evidence (PDR).

	1	2	3	4	5	6
Acceptable Audit Risk	5%	5%	5%	5%	5%	5%
Inherent Risk	100%	40%	60%	60%	100%	40%
Control Risk	100%	60%	40%	90%	100%	60%
Planned Detection Risk	?	?	?	?	?	?

**REQUIRED:**

Calculate the PDR, and interpret the results. (10 marks)

**B: REQUIRED:** Calculate the Sample Exception Rate (SER) and the Computed Upper Exception Rate (CUER) of the following situations.

(10 marks)

	1	2	3	4	5	6
EPER	2%	0	3	1	1	8
TER	6%	3	8	5	20	15
Sample size	100	100	60	100	25	60
Exceptions	2	0	1	4	1	7
ARACR	5%	5%	10%	5%	10%	10%

C: The following data represents various populations.

	1	2	3	4	5	6	7
ARACR	10	5	5	5	10	10	5
TER	6	6	5	6	20	20	2
EPER	2	2	2	2	8	2	0
Population	1,000	100,000	6,000	1,000	500	500	1,000,000

REQUIRED: Calculate the sample ( 5 marks )

Total for the question (25 marks )

**QUESTION 2:**

**REQUIRED :**

**What does the term persuasiveness of evidence mean? Explain how competence and sufficiency affect persuasiveness of evidence? (25 marks)**

**QUESTION 3:**

**REQUIRED :**

**What are the components of internal control? (25 marks)**

**QUESTION 4:**

**REQUIRED :**

**What is acceptable Audit Risk? What are the factors that affect Acceptable Audit Risk? (25 marks)**

**QUESTION 5:**

**What is quality control in auditing, and what are the best auditing practices that would enhance quality control in auditing? (25 marks )**

**QUESTION 6:**

**REQUIRED :**

**A. How does information technology enhance internal control? ( 5 marks)**

**B. What are the risks that arise from using an IT based accounting system? (20 marks)**

**Total for the question (25 marks)**

**TOTAL MARKS (100 marks)**

column and read down to where the column intersects with 2% EPER row. The initial sample size is 127. Tests have to be performed. If the actual exception rate in the sample turns out to be greater than 2% the auditor will not be sure of the effectiveness of internal control.

**Exhibit 11.10 Determining the sample size for attributes sampling  
5 % ARACR**

Estimated Population Exception Rate(in %) (EPER)	Tolerable Exception Rate in % (TER)										
	2	3	4	5	6	7	8	9	10	15	20
0.00	149	99	74	59	49	42	36	32	29	19	14
0.25	236	157	117	93	78	66	58	51	46	30	22
0.50		157	117	93	78	66	58	51	46	30	22
0.75		208	117	93	78	66	58	51	46	30	22
1.00			156	93	78	66	58	51	46	30	22
1.25			156	124	78	66	58	51	46	30	22
1.50			192	124	103	66	58	51	46	30	22
1.75			227	153	103	88	77	51	46	30	22
2.00				181	127	88	77	68	46	30	22
2.25				208	127	88	77	68	61	30	22
2.50					150	109	77	68	61	30	22
2.75					173	109	95	68	61	30	22
3.00					195	129	95	84	61	30	22
3.25						148	112	84	61	30	22
3.50						167	112	84	76	40	22
3.75						185	129	100	76	40	22
4.00							146	100	89	40	22
5.00								158	116	40	30
6.00									179	50	30
7.00										68	37

**Exhibit 11.10 Determining the sample size for attributes sampling  
10 % ARACR**

(EPER)	Tolerable Exception Rate in % (TER)										
	2	3	4	5	6	7	8	9	10	15	20
0.00	114	76	57	45	38	32	28	25	22	15	11
0.25	194	129	96	77	64	55	48	42	38	25	18
0.50	194	129	96	77	64	55	48	42	38	25	18
0.75	265	129	96	77	64	55	48	42	38	25	18
1.00		176	96	77	64	55	48	42	38	25	18
1.25		221	132	77	64	55	48	42	38	25	18
1.50			132	105	64	55	48	42	38	25	18
1.75			166	105	88	55	48	42	38	25	18
2.00			198	132	88	75	48	42	38	25	18
2.25				132	88	75	65	42	38	25	18
2.50				158	110	75	65	58	38	25	18
2.75				209	132	94	65	58	52	25	18
3.00					132	94	65	58	52	25	18
3.25					153	113	82	58	52	25	18
3.50					194	113	82	73	52	25	18
3.75						131	98	73	52	25	18
4.00						149	98	73	65	25	18
4.50						218	130	87	65	34	18
5.00							160	115	78	34	18
5.50								142	103	34	18
6.00								182	116	45	25
7.00									199	52	25
7.50										52	25
8.00										60	25
8.50										68	32

**Exhibit 11.11 Evaluating sample results using attributes sampling**

**5 % ARACR**

Sample size	Actual Number of Exceptions										
	0	1	2	3	4	5	6	7	8	9	10
25	11.3	17.6									
30	9.5	14.9	19.5								
35	8.2	12.9	16.9								
40	7.2	11.3	14.9	18.3							
45	6.4	10.1	13.3	16.3	19.2						
50	5.8	9.1	12.1	14.8	17.4	19.9					
55	5.3	8.3	11.0	13.5	15.9	18.1					
60	4.9	7.7	10.1	12.4	14.6	16.7	18.8				
65	4.5	7.1	9.4	11.5	13.5	15.5	17.4	19.3			
70	4.2	6.6	8.7	10.7	12.6	14.4	16.2	18.0	19.7		
75	3.9	6.2	8.2	10.0	11.8	13.5	15.2	16.9	18.4	20.0	
80	3.7	5.8	7.7	9.4	11.1	12.7	14.3	15.8	17.3	18.8	
90	3.3	5.2	6.8	8.4	9.9	11.3	12.7	14.1	15.5	16.8	18.1
100	3.0	4.7	6.2	7.6	8.9	10.2	11.5	12.7	14.0	15.2	16.4
125	2.4	3.7	4.9	6.1	7.2	8.2	9.3	10.3	11.3	12.2	13.2
150	2.0	3.1	4.1	5.1	6.0	6.9	7.7	8.6	9.4	10.2	11.0
200	1.5	2.3	3.1	3.8	4.5	5.2	5.8	6.5	7.1	7.7	8.3

Exhibit 11.11 Evaluating sample results using attributes sampling

10 % ARACR

Sample size	Actual Number of Exceptions										
	0	1	2	3	4	5	6	7	8	9	10
20	10.9	18.1									
25	8.8	14.7	19.9								
30	7.4	12.4	16.8								
35	6.4	10.7	14.5	18.1							
40	5.6	9.4	12.8	15.9	19.0						
45	5.0	8.4	11.4	14.2	17.0	19.6					
50	4.5	7.6	10.3	12.9	15.4	17.8					
55	4.1	6.9	9.4	11.7	14.0	16.2	18.4				
60	3.8	6.3	8.6	10.8	12.9	14.9	16.9	18.8			
70	3.2	5.4	7.4	9.3	11.1	12.8	14.6	16.2	17.9	19.5	
80	2.8	4.8	6.5	8.3	9.7	11.3	12.8	14.3	15.7	17.2	18.6
90	2.5	4.3	5.8	7.3	8.7	10.1	11.4	12.7	14.0	15.3	16.6
100	2.3	3.8	5.2	6.6	7.8	9.1	10.3	11.5	12.7	13.8	15.0
120	1.9	3.2	4.4	5.5	6.6	7.6	8.6	9.6	10.6	11.6	12.5
160	1.4	2.4	3.3	4.1	4.9	5.7	6.5	7.2	8.0	8.7	9.5
200	1.1	1.9	2.6	3.3	4.0	4.6	5.2	5.8	6.4	7.0	7.6