UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY PAPER,JULY 2005

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

TITLE OF PAPER   :   **AUDITING**

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

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

INSTRUCTIONS   1.   THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE 6.

2. ANSWER QUESTION ONE (1),AND 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. Sibusiso Motsa,CA is using 5% of net profit before taxes as his major guide in evaluating materiality.

REQUIRED:

What qualitative factors should he also consider in evaluating materiality?

(5 marks)

B. **REQUIRED:**

What is Planned Detection Risk (PDR)?

Compute PDR under the following situations.

Situation	1	2	3	4	5
AAR	10%	10%	10%	10%	10%
IR	80%	90%	100%	70%	85%
CR	100%	90%	95%	80%	90%

(5 marks)

C. **REQUIRED:**

Assuming ARACR of 10%,calculate the sample sizes relating to the following particulars.

	1	2	3	4	5	6	7	8	9	10
TER	15	10	20	9	8	7	7	8	4	3
EPER	1.5	0	1.5	1	2.5	4	3.5	3.25	2	1.25

(5marks)

D. The sample exception rate for various situations was as follows.

	1	2	3	4	5	6	7	8	9	10
Exceptions	0	4	2	4	3	1	1	5	3	2
Sample size	200	100	90	80	45	30	25	50	55	100

REQUIRED :

Calculate the CUER at the ARACR of 5%.

If TER was 10%,what should be the decision about the results?   (5marks)

E. The following are 6 situations that involve the audit risk model as used in planning audit evidence.

Situation	1	2	3	4	5	6
AAR	High	High	Low	Low	High	Medium
IR	Low	High	High	Low	Medium	Medium
CR	Low	Low	High	High	Medium	Medium
PDR	?	?	?	?	?	?
Planned evidence	?	?	?	?	?	?

REQUIRED:Fill in the blanks.   (5 marks)

Total for the question   (25 marks)

QUESTION 2:
REQUIRED :

A. In auditing,what is Inherent Risk? (5 marks)

B. What are the factors that affect Inherent Risk? (20 marks)

Total for the question (25 marks)

QUESTION 3:
In auditing through the computer there are three categories of testing.These are:
the test data approach;
the parallel simulation approach,and
the embedded audit module approach.
REQUIRED :What is your understanding of these computer audit test approaches?

(25 marks)

QUESTION 4:
REQUIRED :Explain the non statistical sample selection methods. (25 marks)

QUESTION 5:
REQUIRED:

A. How has the auditing profession responded to the legal liability?
(10 marks)
B. How can an individual auditor protect himself from legal liability?
(15 marks)
Total for the question (25 marks)

QUESTION 6 :
REQUIRED :

A. What is a standard unqualified (clean)audit report? (5 marks)
B. What are the parts of a standard unqualified audit report?
(10 marks)
C. What are the conditions when a standard unqualified report is issued?
(10 marks)
Total for the question (25 marks)

Total for the paper (100 marks)

column and read down to where the column interests 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)

EPER	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

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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