

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION QUESTION PAPER

DEGREE/YEAR OF STUDY : B COM IV
TITLE OF PAPER : AUDITING
COURSE CODE : AC 404
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 UNTILL PERMISSION HAS BEEN GRANTED BY THE INVIGILATER.

QUESTION 1

- (a) Describe external auditor's responsibilities and the work that the auditor should perform in relation to the going concern status of companies. (8 marks)
- (b) One of the main audit objectives of verifying liabilities is to ensure that all existing liabilities have been recorded, *i.e. to ensure completeness of liabilities.*

Required:

- (i) List SIX examples of liabilities that might remain unrecorded. (3 marks)
- (ii) Explain the procedures for uncovering unrecorded liabilities. (4 marks)
- (iii) Describe the controls expected in the processing of trade creditors. (4 marks)
- (c) Some organisations conduct inventory counts once a year and auditors attend those counts. Other organisations have perpetual systems (*i.e.* they conduct continuous inventory counting) and do not conduct a year-end count.

Required:

Describe audit procedures you would perform in order to rely on a perpetual inventory system in a large, dispersed organisation.

(6marks)

(25 marks)

QUESTION 2

- (a) ISA 505. *External Confirmations*, states that 'the auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level'.

Required:

- (i) List **FOUR** examples of external confirmations. (2 marks)

- (ii) For **EACH** of the examples in (i) above explain:

ONE audit assertion that the external confirmation supports, and
ONE audit assertion that the external confirmation does **NOT**
support. (8 marks)

- (b) Jacaranda (Pty) Ltd has a significant number of cash transactions and recent non-current asset purchases have been financed by a bank loan. This loan is repayable in equal annual instalments for the next five years.

Required:

- (i) Explain the procedures to obtain a bank report for audit purposes from Jacaranda (Pty) Ltd bank and the substantive procedures that should be carried out on that report. (5 marks)

- (ii) List the further substantive procedures that should be carried out on the bank balances in Jacaranda (Pty) Ltd financial statements. (5 marks)

- (c) For many companies investments in shares represent a substantial portion of total assets, for others investments are only temporary assets, or merely reflect incidental aspects of company operations. For the auditors, investments in shares can represent assets with high inherent risk.

Required:

Describe the audit procedures which would verify the existence and rights and obligations of investment in shares. (5 marks)

(25 marks)

QUESTION 3

ISA 400 Risk Assessments and Internal Control deals with internal control objectives and internal controls. ISA 500 Audit Evidence deals with audit objectives and audit procedures. A proper understanding of internal controls is essential to auditors in order that they understand the business and are able to effectively plan and execute tests of controls and an appropriate level of substantive procedures.

You are the auditor of a small manufacturing company, Dinko, that pays its staff in cash and by bank transfer and maintains its payroll on a small stand-alone computer.

Required:

- (a) For the payroll department at Dinko, describe the:
- (i) internal control objectives that should be in place; (4 marks)
 - (ii) internal control environment and internal control procedures that should be in place to achieve the internal control objectives. (6 marks)
- (b) For the payroll charges and payroll balances (including cash) in the financial statements of Dinko:
- (i) describe the external auditor audit objectives; (4 marks)
 - (ii) list the tests of control and substantive procedures that will be applied in order to achieve the audit objectives identified in (b) (i) above. (6 marks)
- (c) Explain the role of professional bodies in the regulation of auditors. (5 marks)
- (25 marks)**

QUESTION 4

- (a) Arno Ltd is a small company which manufactures high quality shoes and sells them to small retailers. This is your first year as auditor. Arno Ltd has a receivables ledger with approximately 750 accounts. A number of the receivables accounts are old, some have nil or credit balances and some should be probably written-off. The company's client base is mixed. Bad debts have generally represented about 2% of the total receivables figure and a general provision of 1.5% has been made in the past and in addition to any specific provisions. Most of the bad debts relate to smaller customers but there are some very slow moving larger accounts in the current year. The total value of receivables is E750,000, 60% of which comprises some thirty large accounts, and 40% of which comprises a large number of small accounts.

You have tested the system of internal controls over receivables and it appears to be working adequately. In your experience external confirmation of receivables in this sector generally have a response rate of over 50%.

Required:

Describe the audit work you will perform on accounts receivable and bad debts at Arno Ltd. (8 marks)

Note: *you are not required to perform numerical calculations in this question.*

- (b) The objectivity of the external auditor may be threatened or appear to be threatened where:
- (i) There is undue dependence on an audit client or group of clients;
 - (ii) The firm, its partners or staff have any financial interest in the audit client;
 - (iii) There are family or other close personal or business relationships between the firm, its partners or staff and the audit client;
 - (iv) The firm provides other services to audit clients.

Required:

For each of the four examples given above, explain why the independence of the external auditor may be threatened, or appear to be threatened, and why the threat is important to consider. (12 marks)

- (c) International Standard on Auditing 560 – *Subsequent Events* explains the audit work required in connection with subsequent events.

Required:

List the procedures that can be used prior to the auditor's report being signed to identify events that may require adjustment or disclosure in the financial statements. (5 marks)

(25 marks)

End of Question Paper