

**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**

- (1) Internal Auditors often assist management in performing internal review assignments covering, for example, human resources, procurement (purchasing), marketing and treasury activities. Such reviews involve;
- (i) the identification of risks;
  - (ii) the identification of control systems and procedures implemented to manage those risks;
  - (iii) tests of controls to ensure that internal controls are operating effectively;
  - (iv) an evaluation of the overall effectiveness of the design and operation of controls in managing the risks identified.

You are the internal auditor for a private company, Cleanco. Cleanco provides cleaning services to shops and offices and has a reputation for high quality work. You have been asked to review the human resources, procurement and marketing functions within the company.

Cleanco employs about 500 cleaning staff, all of whom are on the payroll, and most of whom work part-time. Cleanco does not employ sub-contractors. Cleanco has a high turnover of staff.

The company buys its computers, office stationery and furniture, cleaning materials, equipment and work clothes for staff, from a variety of different suppliers. It processes its payroll in-house.

The company has recently decided to out-source its marketing to a large, aggressive, third party company that will advertise Cleanco's services by means of direct mail, sometimes by offering discounts; this company has been criticised in the past for breaching advertising regulations. There is growing price competition in Cleanco's market. Cleanco is struggling to maintain its profitability and would like to expand its client base.

Cleanco has three main functions:

- (i) human resources;
- (ii) procurement;
- (iii) marketing;

**Required:**

For each of the three main functions at Cleanco describe the:

- (a) risks that you expect the company to face;
- (b) controls you expect to be in place to manage the risks you have identified in (a) above;
- (c) tests of control you should perform to check that the controls you have identified in (b) above are operating properly.

Marks will be awarded as follows:

- (i) Human resources. *(7 marks)*
- (ii) Procurement. *(6 marks)*
- (iii) Marketing. *(6 marks)*

**You may present your answer in tabular format, if you wish.**

- (2) Internal controls over non-current assets are designed to ensure the orderly and efficient running of the business, adherence to management policies, safeguarding of assets, the prevention of fraud and error and the completeness and accuracy of the accounting records.

**Required:**

List the internal controls that a small printing company with office equipment, motor vehicles and plant and machinery should have in place to achieve the objectives described above. *(6 marks)*

*(Total 25 marks)*

**QUESTION 2**

- (a) Audit sampling is a technique for drawing conclusions about the characteristics of a population by testing a sample drawn therefrom. Internal and external auditors use it for both tests of controls, and substantive testing.

**Required:**

Describe the following:

- (i) Judgement sampling and statistical sampling;
- (ii) A representative sample;
- (iii) Tolerable error;
- (iv) Two different methods of selecting a representative sample;

**NB: Parts (i) to (iv) carry equal marks.**

**(11 marks)**

- (b) ISA 400 *Risk Assessment and Internal Control* defines the terms of 'audit risk', 'inherent risk', 'control risk', and 'detection risk'.

It also states that:

*When developing the audit approach, the auditor considers the preliminary assessment of control risk (in conjunction with the assessment of inherent risk) to determine the appropriate detection risk to accept for the financial statement assertions.....*

**Required**

- (i) Distinguish between inherent risk at the **entity level** and at the **account balance and class of transactions level**. Identify factors, at each level, that will be considered by the auditors in arriving at their assessment of inherent risk. **(6 marks)**

- (ii) 1 Explain how the preliminary assessment of control risk affects:
- The mix of tests of control and substantive procedures,
  - The design of substantive procedures. *(5 marks)*
- 2 Identify other factors that affect the auditors' decision as to the extent of substantive procedures. *(3 marks)*

*(Total 25 marks)*

**QUESTION 3**

List and explain the two major verification procedures and the respective stages that might reasonably be applied by an auditor to determine that all property, plant, and equipment have been recorded in the books of accounts. Your explanation must include the information provided and the verification procedures in each case. *(25 marks)*

**QUESTION 4**

Elizabeth is auditing creditors and other liabilities for Valley Electrical Services. After the liabilities she will then finalise the audit.

Required:

- (a) Distinguish between contingent liabilities and commitments and explain why both are important in an audit. *(5marks)*
- (b) Identify five useful audit procedures for uncovering unrecorded liabilities that Elizabeth would likely perform in the normal conduct of the audit. *(10marks)*
- (c) Distinguish between subsequent events occurring between the balance sheet date and the date of the auditors report and subsequent discovery of facts existing at the date of the auditors report. *(5marks)*
- (d) Explain important aspects when reviewing financial statements at the end of the audit. *(5marks)*

*(Total 25 marks)*

**End of Question Paper**