

**UNIVERSITY OF SWAZILAND**

**DEPARTMENT OF ACCOUNTING**

**SUPPLEMENTARY EXAMINATION QUESTION PAPER**

**DEGREE/YEAR OF STUDY : B COM IV (IDE)**

**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**

Your firm is the external auditor of Impala Engineering, a privately owned incorporated business, which manufactures components for motor vehicles and sells them to motor vehicle manufacturers and wholesalers. It has sales of E40 million and profit before tax of E1.6 million.

The company has a new financial officer who has asked your advice on controls in the company's purchases and accounts payable system.

Impala Engineering has separate accounts, purchasing and goods received departments. Most purchases are required by the production department, but other departments are able to raise requisitions for goods and services. The purchasing department is responsible for obtaining goods and services for the company at the lowest price which is consistent with the required delivery date and quality, and for ensuring their prompt delivery.

The accounts department is responsible for obtaining authorization of purchase invoices before they are input into the computer system which posts them to the accounts payable ledger and general ledger. The accounting records are kept on a microcomputer and the standard accounting software was obtained from an independent vendor. The accounting software maintains the accounts payable ledger, accounts receivable ledger, general ledger and the payroll. The company does not maintain inventory records, as it believes the costs for maintaining these records outweigh the benefits.

The chief financial officer has explained that services include gas, electricity, telephone, repairs and short-term rental (hire) of equipment and vehicles.

**Required**

- (a) Describe the procedures which should be in operation in the purchasing department to control the purchase and receipt of goods. (9 marks)**
  
- (b) Describe the controls the accounts department should exercise over obtaining authorization of purchase invoices before posting them to the accounts payable ledger. (8 marks)**
  
- (c) Explain how controls over the purchase of services, from raising the purchase requisition to posting the invoice to the accounts payable ledger, might differ from the procedures for the purchase of goods, as described in your answers to parts (a) and (b) above. (8 marks)**

**(25 marks)**

**QUESTION 2**

Your firm is the external auditor of Mlangeni Trading, a privately owned incorporated business, and you are auditing the financial statements for the year ended 30 November 2008. Mlangeni Trading has sales of E11 million and trade receivables at 30 November 2008 were E2.1 million.

The engagement partner has asked you to consider the relative reliability and independence of evidence from third parties and certain matters relating to the circularization of receivables.

In relation to part (b) (ii) of the question, the partner has explained that judgment would be used to select receivables which appear to be doubtful and those which would be selected using the monetary unit sampling (Emalangen unit sampling) technique describe in part (b) (i).

**Required**

- (a) Consider the relative reliability and independence of the following types of evidence from third parties.**
- (i) Replies to a circularization of receivables to confirm trade receivables.**
  - (ii) Vendor's statements to confirm accounts payable balances. ( 8 marks)**
- (b) In relation to selecting customers for circularization of receivables:**
- (i) Explain how you would use monetary unit sampling to select the customers to circularize**
  - (ii) Consider the criteria you would use to select individual customers for circularization using judgment.**
  - (iii) Discuss the advantages and disadvantages of using monetary unit sampling ( in (i) above) as compared with the judgment (in (ii) above) to select the customers to circularize. Your answer should consider the reasons why it is undesirable only to use judgment to select the customers for circularization. (9 marks)**
- (c) Describe the audit work you would carryout in following up the responses to the circularization of receivables where:**
- (i) The customer disagrees with the balance and provides a different balance.**
  - (ii) No reply to the circularization has been received from the customer and all attempts of obtaining reply have failed. (8 marks)**

**(25 marks)**

**QUESTION 3**

The Director of Hlelani Manufacturing Company, a limited liability company, have asked your firm to act as their auditors for the year ended 30 September 2008. They will be asking their auditors to resign, as they say they do not provide a cost effective service.

**Required**

**(a) Describe the investigations you would carryout and the statutory and ethical matters you would consider before you can:**

- (i) Accept the nomination as the company's auditor, and**
- (ii) Be appointed the company's auditor** (13 marks)

**(b) Describe the work you will perform planning the audit before detailed audit work starts.** (12 marks)

**(25 marks)**

**QUESTION 4**

**(a) The new audit trainee of your firm of registered auditors has asked you to advise him on the reliability of the following types of third party evidence.**

- Valuation of land and buildings by a valuer.
- The replies to a receivables' circularisation.
- The letter received from the bank.

**Required:**

**(i) Discuss the reliability of each of the three types of third party evidence listed above, and consider the accuracy of the valuations they provide.** (9 marks)

**(ii) For valuations provided by a valuer, describe the work you would carry out to check the independence, qualifications and experience of the valuer and the accuracy of the valuation.** (5 marks)

**(iii) Define the control environment, discuss the factors that auditors take into account when assessing the control environment, and describe how the auditors' assessment of control environment affects their assessment of control risk.** (6 marks)

- (b) Describe the matters you should consider at the planning stage to assess the effectiveness of the internal audit department. (5 marks)**

**(25 marks)**

**End of Question Paper**