

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM III/ DIPLOMA IN COMMERCE IV

TITLE OF PAPER : INTRODUCTION TO AUDITING/PRINCIPLES OF
AUDITING

COURSE CODE : AC316/ IDE AC316 (M) MAY 2014

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are **three (3)** questions, answer all.
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show the necessary working.
 - 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

CASE STUDY

Sibongile Msimango is the audit Manager of M&S, an audit firm in Swaziland. She has been assigned to the audit of Options Unlimited, a public company, listed with the Swaziland Stock Exchange. Options Unlimited is a airways company and provides air-transport services. The partner-in-charge of the engagement, Mr. Sibanyoni, has forwarded her the following electronic mail message (e-mail) that has been sent to the managing director of Options unlimited.

From: Sibanyoni.Phumlani@M&S.co.sz
Sent: Tuesday, 18 November 2013, 4:45 PM
To: Sibonelo @options unlimited.co.sz
Subject: Recruitment of staff

Dear Sibonelo,

This email serves as a confirmation of details discussed over our telecom.

The Chief Financial Officer (CFO) of Options Unlimited, Zodwa Dlamini, will be joining M&S on a full time employment basis as a senior audit manager with the prospect of making her a partner within two years. Zodwa will commence her employment with M&S on 01 January 2014. On her commencement with M&S she will be the senior manager in charge of the audit of Options Unlimited for the year ended 30 June 2014. Options Unlimited will be the main audit client of Zodwa for the time being until she becomes the partner in charge of the audit. Between January 2014 and June 2014, I will allow Zodwa to work on a contract basis as the Company Secretary for Options unlimited while she holds her employment at M&S.

Zodwa' s duties as the Company Secretary will include amongst others, providing guidance to the board on their duties, responsibilities and powers, ensuring that the company complies with the relevant laws including the applicable financial reporting framework and ensuring that the minutes of shareholders and board meetings are properly recorded.

Fundile Dlamini, whom I have head-hunted because of my confidence in her competency, will be taking up Zodwa's position as the CFO of Options as from 1 January 2014. I will be paid 10% of Karabo's cost to company, as agreed, for recruiting her to your well-established company.

Thank you so much for your willingness in helping our firm during these challenging times. I truly appreciate it.

PS: My daughter has been receiving a number of offers for a modeling contract. Thank you for allowing her to be the face of your products without an audition.

Regards,

Phumlani Sibanyoni CA (SD),
Registered Auditor
Director

QUESTION 1

- i) With reference to the email contained in **Annexure A**, discuss any concerns and considerations in terms of the Code of Professional Conduct for accountants, in detail. [25 marks]
- ii) Briefly discuss a reportable irregularity and the procedures that an auditor is required to undertake when he identifies one in accordance with the Audit Profession Act of 2005. [13 marks]
- iii) Briefly discuss the recommended practices of the King III report on corporate governance on the composition of the board. [12 marks]

Total:

50 Marks**QUESTION 2**

Auditors provide “reasonable assurance” that the financial statements are “fairly stated, in all material respects”. Questions are often raised on the responsibility of the auditor to detect material misstatements, including misappropriation of assets and fraudulent financial reporting.

- i) Discuss the concept of “reasonable assurance” and the degree of confidence that financial statement users should have in the financial statements. [5 Marks]
- ii) What are the responsibilities of the independent auditor in the audit of financial statements? Discuss fully, but do not include fraud in the discussion. [7 Marks]
- iii) What are the responsibilities of the independent auditor for the detection of fraud involving misappropriation of assets and fraudulent financial reporting? Discuss fully, including your assessment of whether the auditor’s responsibility for the detection of fraud is appropriate [8 Marks]
- iv) Discuss the concept of “professional skepticism” per auditing standards. [5 Marks]

Total:

25 Marks

QUESTION 3**A)**

- i) Explain why confirmations are normally more reliable evidence than inquiries of the client.
- ii) Describe a situation in which confirmation will be considered highly reliable and another in which it will not be reliable.
- iii) Under what circumstances is the physical observation of inventory considered relatively unreliable evidence?
- iv) Explain why recalculation tests are highly reliable but of relatively limited use.
- v) Give three examples of relatively reliable documentation and three examples of less reliable documentation. What characteristics distinguish the two?
- vi) Give at least three examples in which the qualification of the respondent or the qualifications of the auditor affect the reliability of the evidence.
- vii) Explain why analytical procedures are important evidence even though they are relatively unreliable by themselves.

[21 Marks]

B) Distinguish between audit risk, audit failure and business failure

[4 Marks]

Total:**25 Marks**