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UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

MAY 2015

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DEGREE/YEAR OF STUDY:	BACHELOR OF- COMMERCE YEAR III/DIPLOMA IN COMMERCE YEAR IV
TITLE OF PAPER	: INTRODUCTION TO AUDITING/PRINCIPLES OF AUDITING
COURSE CODE	: AC316/ IDE AC 316 (M) MAY 2015
TOTAL MARKS	: 100 MARKS
TIME ALLOWED	: THREE (3) HOURS
INSTRUCTIONS	1 There are <b>four (4)</b> questions. Answer all. 2 Begin the solution to each question on a new page. 3 The marks awarded for each question are indicated at the end of the question.
RECOMMENDATION	1 Reading time should not exceed fifteen minutes

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.**

SPECIAL REQUIREMENTS: NONE

**QUESTION 1**

You are the partner at the audit firm of Mathonsa Inc. and you are approached by your colleagues for advice on topics of an ethical and statutory nature. The following unrelated matters have been referred for your attention:

**Matter 1**

**[9 Marks]**

You received a call from Dlamini Anele, a senior trainee assigned to the audit of Woodwork (Pty) Ltd. He has concerns about the recent behavior of the manager on the audit, Mazibuko Somabhizinisi CA (SA). According to Anele, Somabhizinisi was seldom accessible to the audit team. They awaited his guidance on several audit matters, but he always told them to put work they were unsure of on hold "so he can look at it later". Even towards the end of the audit, Somabhizinisi has not addressed the team's queries and had not reviewed any of their work. When confronted by the managing partner, Somabhizinisi initially accused the audit team of not informing him of any problem areas and saying that "most of the members of the team are too young to audit anyway and do not know the difference between a debit and a credit". Only afterwards did he admit that he knew about the team's queries.

**Matter 2**

**[12 Marks]**

Maziya Siphosethu, a registered auditor and partner at your firm, has approached you with the following dilemma. One of Siphosethu's current external audit clients, Lamawandla (Pty) Ltd, is experiencing financial difficulties due to the decrease in demand for second hand vehicles and its management has already indicated that the company might have difficulty in settling the upcoming year's audit fee. Since Lamawandla (Pty) Ltd is a large client of Mathonsa Inc., Siphosethu's has thought of an idea on how the firm can retain a continued professional relationship with Lamawandla (Pty) Ltd. She proposes that the firm charge Lamawandla (Pty) Ltd on half of the standard audit fee for the upcoming audit. In exchange, Lamawandla should pay Mathonsa an amount equal to 0.25% of its total audited revenue to "make up the shortfall in the audit fee".

Siphosethu's has also told you that, before conducting the previous audit, she recorded pertinent details of all Lamawandla (Pty) Ltd's suppliers [e.g. their contact details and total sales to Lamawandla (Pty) Ltd. Once the firm has no further professional responsibilities towards Lamawandla (Pty) Ltd, Mathonsa Inc. can then call those suppliers individually in the hope of securing additional clients, thereby making up the

“shortfall” in the firm’s revenue figure (i.e. following the loss of the fees from Lamawandla (Pty) Ltd)

**Matter 3**

**[9 Marks]**

A trainee accountant has been asked to write an advertisement to market the audit and accounting services of Mathonsa Inc. He has shown you the following draft copy of the advertisement:

**Mathonsi Inc: The best in the country!**

Mathonsi Inc. is still your one-stop shop for the lowest fees on audit and accounting services, no matter how big and small you are.

External audits now start from as little as E 500. Call us today for a free quote at 00268 7802 0097.

**Required:**

Discuss the concerns you would have regarding matters 1 to 3 in terms of the code of professional conduct for professional accountants. For the purposes of answering the questions exclude recommendations for safeguards or any other required courses of action.

**Total:**

**[30 Marks]**

**QUESTION 2**

- i) Discuss three reasons why auditors are responsible for "reasonable" but not "absolute" assurance.

**[6 Marks]**

- ii) The concept of professional skepticism has been a foundational element of auditing standards for years and continues to be difficult to implement in practice. Recent academic research on the topic of professional skepticism suggests that there are six characteristics to skepticism. List and briefly describe each of these characteristics.

**[14 Marks]**

- iii) Below are five audit procedures, all of which are tests of transactions associated with the audit of the sales and collection cycle. Also below are the six general transaction-related audit objectives and the five management assertions. For each audit procedure, indicate (1) its audit objective, and (2) the management assertion being tested.

<u>Audit Objectives</u>	<u>Assertions</u>
A. Occurrence	V. Occurrence
B. Completeness	W. Completeness
C. Accuracy	X. Accuracy
D. Posting and summarization	Y. Classification
E. Classification	Z. Cutoff
F. Timing	

1. Vouch recorded sales from the sales journal to the file of bills of lading.

(1) \_\_\_\_\_  
 (2) \_\_\_\_\_

2. Compare dates on the bill of lading, sales invoices, and sales journal to test for delays in recording sales transactions.

(1) \_\_\_\_\_  
 (2) \_\_\_\_\_

3. Account for the sequence of pre-numbered bills of lading and sales invoices.

(1) \_\_\_\_\_  
 (2) \_\_\_\_\_

4. Trace from a sample of pre-listings of cash receipts to the cash receipts journal, testing for names, amounts, and dates.

(1) \_\_\_\_\_  
 (2) \_\_\_\_\_

5. Examine customer order forms for credit approval by the credit manager.

(1) \_\_\_\_\_.

(2) \_\_\_\_\_.

**[10 Marks]**

**Total:**

**[30 Marks]**

**QUESTION 3**

A) Discuss the effect of the factors below on the persuasiveness of evidence.

1. Relevance
2. Independence of provider
3. Effectiveness of client's internal controls
4. Auditor's direct knowledge
5. Degree of objectivity
6. Timeliness

**[12 Marks]**

B) Why is the appropriateness of audit evidence obtained by the auditor important in forming an audit opinion? Describe the qualities information should have to be considered appropriate by the auditor.

**[4 Marks]**

C) One purpose of performing analytical procedures in the planning phase of an audit is to assess the client's financial condition. Explain how the assessment of a client's financial condition can affect the auditor's decisions concerning evidence accumulation in later phases of the audit.

**[4 Marks]**

**Total:**

**[20 Marks]**

**Question 4**

- i) Describe each of the three broad objectives management typically has for internal control. With which of these objectives is the auditor primarily concerned?

**[12 Marks]**

- ii) Discuss what is meant by the term "control environment" and identify four control environment subcomponents that the auditor should consider.

**[8 Marks]**

**Total:**

**[20 Marks]**