
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

SUPPLEMENTARY EXAMINATION PAPER

JULY 2015

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 (S) JULY 2015
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 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

Shiselweni Holdings Ltd is a wood processing firm incorporated in Swaziland. Paul Walker CA (SD) and registered auditor, worked as the group accountant for Shiselweni Holdings Ltd. On 1 April 2014 Paul Walker resigned and opened his own accounting and auditing practice. The following are extracts from Paul Walker's diary:

10 February 2014

A division of Shiselweni Holdings limited is to be sold to a listed company. The managing director asked me to "re-interpret this division's past results. He reasoned that certain provisions which were created are no longer required, which would substantially improve the past profit and the selling price of the division. In my professional opinion, however, these provisions are still needed. I reluctantly agreed to adjust the results, however, as I realised that I would receive a portion of the sales price.

18 April 2014

Received a telephone call from Fred Flintstone, the owner of the corner shop, a client for whom I (for many years) have prepared annual financial statements and tax returns based on the information provided by Fred. No audit is conducted. Fred informed me that an official from the Swaziland Revenue Authority would be visiting his office tomorrow to inspect his books. He wanted to know from me what he could do about the undeclared income. As I was totally unaware of this income I said: "Officially, I am unfortunately unable to assist you". However in an attempt to assist Fred I added: "Last week another client of mine, Dare talk hardware, had a similar problem-that night his accounting records were destroyed by a fire".

15 May 2014

Attended an urgent meeting with my brother-in-law, the managing director of Dire needs (Pty) Ltd, of which I am auditor. At this meeting he informed me that the company is experiencing temporary cash flow problems, and requested my assistance. On my wife's insistence, I deposited E 10 000 that I received this morning (as agent from the sale of Fred Flintstone's shares, who is currently on holiday overseas and will be returning in mid-July) plus E 2 500 from my personal bank account, into Dire needs (Pty) Ltd's bank account. This amount will be repayable on 10 July 2014 with interest at the prime overdraft rate. My wife and I decided to donate the approximately E 375 interest we would earn from this amount to charity.

10 June 2014

Whilst preparing the accounting records of Mafikitolo (a sole trader), I found that the sole trader had purchased E 75 000 worth of components from Micro comp (Pty) Ltd during May. These purchases were recorded on invoices in the handwriting of Andy Capp, the managing director of Micro comp (Pty) Ltd and the payment made by Mafikitolo was deposited into a bank account not reflected in the accounting records of Micro comp (Pty) Ltd. I requested my audit clerks, who are currently in the process of auditing the 2014 year end of Micro-Comp (Pty) Ltd, to investigate the matter, but they could find no evidence of such sales or receipts being recorded in the accounting records.

11 June 2014

I discussed the matter of the unrecorded sales and receipts with Andy Capp. He explained that as Micro comp (Pty) Ltd was his company (Since he held 99% of the issued share capital), he could do as he liked.

Required:

- a) Discuss Paul Walker's conduct, as described in the Diary up to 15 May 2014, in terms of the code of professional conduct for accountants. **[20 Marks]**
- b) Discuss whether based on the entries made in the diary for June 2014, Paul Walker has a duty to report a "reportable irregularity" in terms of section 45 of the audit profession act. **[10 Marks]**

Total:

[30 Marks]

QUESTION 2

a) Discuss the differences between errors, frauds, and illegal acts. Give an example of each.

[9 Marks]

b) Discuss the actions an auditor should take when an illegal act is identified or suspected.

[13 Marks]

c) Below are five audit procedures, all of which are tests of balances associated with the audit of accounts receivable. Also below are the eight general balance-related audit objectives and the four 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. Existence	V. Existence
B. Completeness	W. Completeness
C. Accuracy	X. Valuation and allocation
D. Classification	Y. Rights and obligations
E. Cutoff	
F. Detail tie-in	
G. Realizable value	
H. Rights and obligations	

1. Obtain an aged listing of accounts receivable. For a sample of individual customers on the listing, agree the customer's name, amount, and other information with the corresponding information in the accounts receivable master file.

(1) _____.

(2) _____.

2. Examine details of sales for five days before and five days after year-end to determine whether sales have been recorded in the proper period.

(1) _____.

(2) _____.

3. Assess the reasonableness of the balance in the allowance for doubtful accounts.

(1) _____.

(2) _____.

4. Inquire as to whether any accounts receivable have been factored or sold during the period.

- (1) _____.
- (2) _____.

5. Inquire as to whether there are any receivables from related parties.

- (1) _____.
- (2) _____.

[10 Marks]

Total:**[32 Marks]****QUESTION 3**

- a) Distinguish between internal documentation and external documentation as types of audit evidence. Give two examples of each. **[8 Marks]**
- b) Below are 12 audit procedures. Classify each procedure according to the following types of audit evidence: (1) physical examination, (2) confirmation, (3) documentation, (4) observation, (5) inquiry of the client, (6) re-performance, and (7) analytical procedure.

Type of Evidence	Audit Procedures
	1. Watch client employees count inventory to determine whether company procedures are being followed.
	2. Count inventory items and record the amount in the audit files.
	3. Trace postings from the sales journal to the general ledger accounts.
	4. Calculate the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding year.
	5. Obtain information about the client's internal controls by asking questions of client personnel.
	6. Trace column totals from the cash disbursements journal to the general ledger.
	7. Examine a piece of equipment to make sure a recent purchase of equipment was actually received and is in operation.
	8. Review the total of repairs and maintenance for each month to determine whether any month's total was unusually large.
	9. Compare vendor names and amounts on purchase invoices with entries in the purchases journal.
	10. Foot entries in the sales journal to determine whether they were correctly totaled by the client.
	11. Make a surprise count of petty cash to verify that the amount of the petty cash fund is intact.
	12. Obtain a written statement from the client's bank stating the client's year-end balance on deposit.

[12 Marks]

- c) Match five of the terms (a-h) with the definitions provided below (1-5):

- a. Audit documentation
- b. Audit procedures
- c. Audit objectives
- d. Analytical procedures
- e. Budgets

- f. Reliability of evidence
- g. Sufficiency of evidence
- h. Persuasiveness of evidence

_____ 1. Use of comparisons and relationships to assess the reasonableness of account balances.

_____ 2. Detailed instructions for the collection of a type of audit evidence.

_____ 3. The degree to which evidence can be considered believable or trustworthy.

_____ 4. Contains all the information that the auditor considers necessary to conduct an adequate audit and to provide support for the audit report.

_____ 5. This is determined by the amount of evidence obtained.

[10 Marks]

d) Define the following terms commonly used in audit procedures:

- 1. Inspect
- 2. Re-calculate
- 3. Observation
- 4. Inquiry

[8 Marks]

Total:

[38 Marks]