

UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION QUESTION PAPER

DEGREE/YEAR OF STUDY : B COM IV

TITLE OF PAPER : AUDITING II

COURSE CODE : ACF 416/AC 418

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

Auditors generally obtain several different confirmations from various sources during the course of their audit.

Required:

Describe the *audit evidence* provided by each of the confirmations listed below, the *practical difficulties* in obtaining them and the *alternative audit evidence* available when they are not provided:

- (a) Management representations. (6 marks)
- (b) Direct confirmation of receivables. (7 marks)
- (c) Confirmation of inventory held by third parties. (6 marks)
- (d) Reports provided by auditors of third party service organisations. (6 marks)

(25 marks)

QUESTION 2

IAS 2 'Inventories' requires that inventories are measured at the lower of cost and net realisable value.

Required:

- (a) Briefly explain FIVE reasons why the audit of inventory is important to auditors. (5 marks)
- (b) Define 'cost' and 'net realisable value' according to IAS 2 'Inventories'. (10 marks)
- (c) Describe FIVE types of audit evidence that you would obtain for the cost and net realisable value of finished inventory in a company that manufactures household furniture. (10 marks)

NB: You are not required to deal with inventory quantities.

(25 marks)

QUESTION 3

Towards the end of an audit, it is common for the external auditor to seek a letter of representation (written representations) from the management of the client company.

Required:

- (a) **State THREE reasons why auditors seek letters of representation from management.** (6 marks)
- (b) **List SIX matters commonly included in the letter of representation.** (6 marks)
- (c) **Explain THREE reasons why it is important to discuss the content of the letter of representation at an early stage during the audit.** (6 marks)
- (d) **Explain THREE reasons why management may be unwilling to sign a letter of representation and describe the actions an external auditor can take if management refuses to sign a letter of representation.** (7 marks)
- (25 marks)**

QUESTION 4

Assume you are an audit manager in an audit firm with ten offices and 250 staff. Your firm is the auditor of Mikro, a chain of supermarkets. Your firm has been the auditor of this client for many years. All of the planning work and tests of control have been completed for Mikro for the year ended 31 December 2020.

Staff is still working on substantive procedures. The company operates a continuous inventory checking system with good records and you have tested this system and will be relying on the records for the year-end figure. The company is intending to invest a substantial amount in opening new stores during the next year and it has been negotiating with both banks and property companies in relation to leases.

Required:

- (a) **Describe the objectives of the following and how these objectives will be met in the audit of Mikro:**
- (i) **Overall review of financial statements;** (6 marks)
- (ii) **Review of working papers.** (8 marks)

(b) Briefly describe the following:

(i) FOUR auditor's responsibilities with regard to subsequent events;
(8 marks)

(ii) THREE procedures that should be applied during the subsequent events review at Mikro.
(3 marks)

(25 marks)

End of Question Paper