

**UNIVERSITY ESWATINI**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**MAIN EXAMINATION PAPER ACADEMIC YEAR 2020/2021**

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<b>PROGRAMME OF STUDY</b>	<b>Bachelor of Commerce</b>
<b>YEAR OF STUDY</b>	<b>Year 4 (Full Time/ Part Time)</b>
<b>TITLE OF THE PAPER</b>	<b>Principles of Auditing</b>
<b>COURSE CODE</b>	<b>ACF 415/AC417</b>
<b>TIME ALLOWED</b>	<b>3 Hours</b>

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**INSTRUCTIONS**

- 1. There are four (4) questions, ANSWER ALL OF THEM**
- 2. Begin the solution of each question on a new page**
- 3. The marks awarded for a question are indicated at the end of each question.**

**NOTE:**

You are reminded that in assessing your work, account will be taken of accuracy of language and the 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/ SUPERVISOR.**

Question 1

- (a) Explain the components of audit risk and, for each component, state an example of a factor which can result in increased audit risk. [9 marks]

You are the audit senior at FWC Chartered Accountants and have recently been appointed external auditors of Eswatini Agricultural and Sugar Millers. FWC is currently planning the audit of this new audit client and has never audited them before. During the process of gaining an understanding of Eswatini Agricultural, it was reported that the Financial Director of this company resigned mid-year of the current financial year and has still not yet been replaced. The Senior Accountant currently performs both his duties and that of the Financial Director. The sugar produced by Eswatini Agricultural is exported to the European Union, and customers are required to pay 40% on ordering and the balance is paid once delivery of sugar is made.

In September a new accounting package was introduced. This is a bespoke system developed by the information technology (IT) manager. The old and new packages were not run in parallel as it was felt that this would be too onerous for the accounting team. Two months after the system changeover the IT manager left the company; a new manager has been recruited but is not due to start work until June 2021.

Due to tight deadlines agreed with the client, the assignment has been allocated two weeks which is the same as other engagements currently being audited. Your audit manager believes that this work can be completed within this period even though it means working extra hours. A new long-term bank loan of E16 million has been obtained three months before year-end. It was used to refurbish one of the boilers. Recent management accounts showed an increase in turnover from previous months, which is somewhat surprising in view of the drought conditions which have affected the region.

- (b) Describe FIVE audit risks, and explain the auditor's response to each risk, in planning the audit of Eswatini Agricultural and Sugar Millers. [15 marks]

Your answer may follow this format

Issue/ Factors	Audit Risk	Auditor's Response
e.g. Resignation of the Financial Director	Errors in different parts of the financial statements are not prevented due to the absence of the Finance Director who is to ensure the proper functioning controls.	During the audit, careful attention should be applied to the proper application of internal controls, as the control environment is now weaker without the FD. Or <i>Emphasis should be placed on inspecting documents to ensure that internal controls have been properly applied.</i>

- (c) The partner responsible for this audit engagement has asked you to tell him what level of assurance you believe FWC should provide, and also what type of opinion the firm should give.

**What is the level of assurance and type of opinion that can be provided on this engagement? (This is a multiple choice question)** [1 mark]

	<b>Level of assurance</b>	<b>Report wording</b>
A	Reasonable	Positive
B	Reasonable	Negative
C	Limited	Positive
D	Limited	Negative

[Total marks: 25]

### **Question 2**

You are a manager in the audit firm of PwCC; and this is your first time you have worked on one of the firm's established clients, JM Investment Consultants (JM). The main activity of JM is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. JM is regulated by the relevant financial services authority.

You have been asked to start the audit planning for JM, by Mr Son, a partner in PwCC. Mr Son has been the engagement partner for JM, for the previous nine years and so has excellent knowledge of the client.

Mr Son has informed you that he would like his daughter Zandi to be part of the audit team this year; Zandi is currently studying for her first set of fundamentals papers for her ACCA qualification. Mr Son also informs you that M. Nkosi, the audit senior, received investment advice from JM during the year and intends to do the same next year.

In an initial meeting with the finance director of JM, you learn that the audit team will not be entertained on JM's yacht this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the yacht and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing JM in a dispute regarding the amount of sales tax payable to the taxation authorities.

**Required:**

- (a) **Discuss the benefits of Stark Co establishing an internal audit department. (Any 4).**  
(8 marks)

(b)

- i. **Identify and explain six ethical threats which may affect the audit of JMI Investment Consultants.** (12marks)
  - ii. **For each ethical threat, discuss how the effect of the threat can be mitigated (safeguards).** (6 marks)
- (C) According to ISA 315, In order to achieve the overall objective, auditors also need to plan and perform the audit with **professional scepticism** and apply **their professional judgment**.
- i. **Define professional scepticism, and** (2 marks)
  - ii. **Give two examples of professional scepticism.** (2 marks)
- (Total marks 30)**

### Question 3

#### **Bronze**

You are an audit senior of KPMG and are in the process of reviewing the systems testing completed on the payroll cycle of Bronze Industries Co (Bronze), as well as preparing the audit programmes for the final audit.

Bronze operate several chemical processing factories across the country, it manufactures 24 hours a day, seven days a week and employees work a standard shift of eight hours and are paid for hours worked at an hourly rate. Factory employees are paid weekly, with approximately 80% being paid by bank transfer and 20% in cash; the different payment methods are due to employee preferences and Bronze has no plans to change these methods. The administration and sales teams are paid monthly by bank transfer.

Factory staff are each issued a sequentially numbered clock card which details their employee number and name. Employees swipe their cards at the beginning and end of the eight-hour shift and this process is not supervised. During the shift employees are entitled to a 30-minute paid break and employees do not need to clock out to access the dining area. Clock card data links into the payroll system, which automatically calculates gross and net pay along with any statutory deductions. The payroll supervisor for each payment run checks on a sample basis some of these calculations to ensure the system is operating effectively.

Bronze has a human resources department which is responsible for setting up new permanent employees and leavers. Appointments of temporary staff are made by factory production supervisors. Occasionally overtime is required of factory staff, usually to fill gaps caused by staff holidays. Overtime reports which detail the amount of overtime worked are sent out quarterly by the payroll department to production supervisors for their review.

To encourage staff to attend work on time for all shifts Bronze pays a discretionary bonus every six months to factory staff; the production supervisors determine the amounts to be paid. This is communicated in writing by the production supervisors to the payroll department and the bonus is input by a clerk into the system, which is then paid immediately.

For employees paid by bank transfer, the payroll manager reviews the list of the payments and agrees to the payroll records prior to authorising the bank payment. If any changes are required, the payroll manager amends the records. For employees paid in cash, the pay packets are prepared in the payroll department and a clerk distributes them to employees; as she knows most of these individuals she does not require proof of identity.

**Required:**

- (a) Identify and explain FIVE key controls in Bronze Industries Co's payroll system which the auditor may seek to place reliance on. (5 marks)
- (b) In respect of the payroll system:
- (i) Identify and explain FIVE internal control deficiencies
- (ii) Recommend a control to address each of these deficiencies, and
- (iii) Describe a test of control Scarlet & Co should perform to assess if each of these controls is operating effectively. (15 marks)

Note: The total marks will be split equally between each part.

Note: Prepare your answer using three columns headed Control deficiency, Control recommendation and Test of control respectively.

(Total marks:20)

**Question 4**

You are auditing the inventory of Super Spar, Matsapha.

- (a) For the audit of the inventory cycle and year-end inventory balance of Super Spar:
- (i) Describe FOUR audit procedures that could be carried out using computer-assisted audit techniques (CAATS);
- (ii) Explain the potential advantages of using CAATs; and
- (iii) Explain the potential disadvantages of using CAATs. (17 marks)
- (b) Contrast the role of internal and external auditors. (8 marks)

The total marks will be split equally between each part

[Total marks: 25]

\*\*\*\*\*END OF EXAMINATION PAPER\*\*\*\*\*