



**UNIVERSITY OF ESWATINI**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**SUPPLEMENTARY EXAMINATION**

**OCTOBER 2021**

- TITLE OF PAPER** : **AUDITING 11**
- COURSE CODE** : **ACF416**
- TOTAL MARKS** : **100 MARKS**
- TIME ALLOWED** : **THREE (3) HOURS**
- INSTRUCTIONS**
- 1 There are four (4) 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.

**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.

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## QUESTION 1

- a) List and explain *five (5)* factors that will influence the auditor's judgment regarding the sufficiency of the evidence obtained. **(15 marks)**
- b) ISA 700 Forming an opinion and reporting on financial statements indicates the basic elements that will ordinarily be included in the audit report. State and explain *five (5) basic elements* of an auditor's report. **(15 marks) [Total = 30 marks]**

## QUESTION 2

- a) *International Standard on Auditing 560: Subsequent Events* deals with auditor's responsibility towards events that occur after reporting date and especially before the auditor's report is issued. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in the financial statements have been identified. Explain *five (5)* audit procedures to test subsequent events. **(10 marks)**
- b) Briefly explain what is meant by the '*Going Concern Concept*' and describe the test and procedures that the auditor needs to perform to form an opinion on management's conclusion that the company is a going concern as specified by ISA 570 Going Concern. **(10 marks)**
- c) Explain the following types of modified opinions that the auditor may issue on financial statements audited by him.
- (i) Qualified Opinion **(2 marks)**
  - (ii) Adverse Opinion **(2 marks)**
  - (iii) Disclaimer of Opinion **(2 marks)**
- d) State with details *two (2)* circumstances under which an auditor may issue an unqualified opinion. **(4 marks) [Total = 30 marks]**

### QUESTION 3

a) Explain the purpose of *value for money* audit. (4 marks)

b) For All Hospital is located in a country where healthcare is free, as the taxpayers funds are used to finance state owned hospitals. Two years ago, management reviewed all aspects of the hospital's operations and instigated a number of measures aimed at improving overall '*value for money*' for the local community. Management has asked you, an audit manager in the hospital's internal audit department, to perform a review over the measures which have been implemented.

For All Hospital has one centralized procurement department through which all purchase requisition forms are forwarded to. Upon receipt, the procurement team embarks on market research for the lowest price from suppliers after which a purchase order is raised. The purchased order is then submitted to the procurement director, who authorises all orders. The small procurement team receives in excess of 200 forms a day. The human resource department has had difficulties with recruiting suitably trained staff. Overtime rates have been increased to incentivise permanent staff to fill staffing gaps, this has been popular, and reliance on expensive temporary staff has been reduced. Monitoring of staff hours had been difficult but the hospital has implemented time card clocking in and out procedures and these hours are used for overtime payments as well. The hospital has invested heavily in new surgical equipment, which although very expensive, has meant that more operations could be performed to ensure faster patient recovery. However, there is shortage of well-trained medical staff. A capital expenditure committee has been established, made up of senior managers, and they plan and authorise any significant capital expenditure items.

**Required:**

i) Identify and explain *four (4)* strengths within For All Hospital's operating environment (8 marks)

ii) For each strength identified in (i) above, describe how For All Hospital might make further improvements to provide best value for money. (8 marks) (Total = 20 marks)

#### QUESTION 4

ISA 315 requires the auditor to perform risk assessment procedures to provide a basis for identifying and assessing the risk of material misstatement. These risk assessment procedures should include appropriate analytical procedures. You are an audit team leader at an audit firm undertaking an external audit of the financial statements of a large public hospital. As part of your planning you are designing some analytical procedures to perform prior to the first visit to the hospital to begin the on-site audit. Public hospitals are subject to a funding system called "Income by Outcome" under which a set fee is paid for each procedure performed according to a nationally determined tariff. Currently your focus is on the revenue and costs from providing surgical services as this area is particularly closely regulated by central government and the focus of ever more stringent efficiency requirements. Your audit objectives in this area include the following;

- i) To verify that all the relevant costs of the provision of surgical procedures have been included in the financial statements;
- ii) To verify that the hospital's costs of providing surgical services are sustainable in the context of the fees received for providing the different types of surgical procedure; and
- iii) To verify that appropriate management control has been exercised over the costs of the provision of surgical procedures.

ISA 700, *Forming an Opinion and Reporting on Financial Statements*, contains a number of requirements that must be met before an unmodified opinion on the financial statements may be provided.

#### Required

- (a) Formulate and describe an appropriate analytical procedure to meet **each** of the audit objectives listed above, clearly explaining what further action you would take after undertaking procedure. **(10 marks)**
- b) Briefly describe the areas auditors are required to consider under ISA 700. **(6 marks)**
- (c) Explain why ISA 320, *Materiality in Planning and Performing an Audit*, makes a distinction between planning and performance materiality. **(4 marks) Total 20 marks)**