

Tutorial Letter 101/3/2018

Audit planning and tests of control

AUE3701

Semesters 1 and 2

Department of Auditing

This tutorial letter contains important information
about your module.

BARCODE

CONTENTS

	<i>Page</i>
1 INTRODUCTION	3
2 PURPOSE AND OUTCOMES	4
2.1 Purpose	4
2.2 Outcomes	4
3 LECTURER(S) AND CONTACT DETAILS.....	4
3.1 Lecturer(s)	4
3.2 Department.....	5
3.3 College	5
3.4 University	5
4 RESOURCES	7
4.1 Prescribed books	7
4.2 Recommended books	8
4.3 Electronic reserves (e-reserves)	8
4.4 Library services and resources information.....	8
5 STUDENT SUPPORT SERVICES.....	8
6 STUDY PLAN.....	9
7 PRACTICAL WORK AND WORK-INTEGRATED LEARNING.....	9
8 ASSESSMENT	9
8.1 Assessment criteria.....	9
8.2 Assessment plan	9
8.3 Assignment numbers	11
8.3.1 General assignment numbers	11
8.3.2 Unique assignment numbers	11
8.4 Assignment due dates	11
8.5 Submission of assignments	12
8.6 The assignments	13
8.7 Other assessment methods	35
8.8 The examination	40
9 FREQUENTLY ASKED QUESTIONS	41
10 SOURCES CONSULTED	41
11 IN CLOSING.....	41
12 ADDENDUM.....	41

Dear Student

1 INTRODUCTION

It gives us great pleasure to welcome you as an AUE3701 student in the Department of Auditing. We, as lecturers, are at your disposal and will gladly assist you in your studies. Be assured of our willingness to support you with advice during your studies.

You will receive a number of tutorial letters during the semester. A tutorial letter is one way of communicating with you about teaching, learning and assessment. Please read the **study @ Unisa** brochure in combination with this tutorial letter (Tutorial Letter 101) as it gives you an idea of generally important information when studying within our College.

Right from the start we would like to point out that you must read **all the tutorial letters** you receive during the semester **immediately and carefully**, as they always contain important and, sometimes, urgent information.

This tutorial letter contains important information that will assist you in your studies. Please read it carefully and keep it at hand when working through the study material, preparing the assignments, preparing for the examination and addressing questions to your lecturers. We trust that you will benefit from everything that this module has to offer.

Study material

You will be supplied with the following tutorial material for this module by the Despatch Department:

- Study guide (also available online through the learning units on *myUnisa*) and
- Tutorial Letters (note that some tutorial letters are only available online on *myUnisa*)

Some tutorial material will be mailed to you upon registration. Tutorial matter that is not available when you register will be posted to you as soon as possible, but is also available on *myUnisa*. Note that the University may choose not to post all of the tutorial letters to students and that it should only be downloaded from *myUnisa*.

Based on a Unisa decision, for this module you will only receive a printed study guide and some tutorial letters. The other tutorial letters of less than 20 pages are not printed and is electronically available on *myUnisa*.

To contact the Department of Despatch regarding tutorial material that you have not received, but should have, use the contact detail indicated in the booklet entitled **study @ Unisa** (which you received with your tutorial material).

You may access the tutorial letters for the modules for which you are registered on the University's online campus, *myUnisa*, at <http://my.unisa.ac.za>. You can also use *myUnisa* to confirm that you have received all the tutorial letters. Students must be registered for a *myLife* email address and must be able to access *myUnisa* to be able to access their study material **and important announcements**, submit assignments, gain access to the Library functions and various learning resources, download study material, "chat" to their lecturers and fellow students about their studies and the challenges they encounter, and participate in online discussion forums.

myUnisa and myLife email address

In addition to registering on *myUnisa*, it is crucial that you activate your *myLife* email address, as all your official correspondence regarding this module will be sent to your *myLife* address and not your private email address. Please consult with the **study @ Unisa** publication for more information on the activation of your *myLife* email address as well as obtaining access to the *myUnisa* module site.

Go to the website <https://my.unisa.ac.za> and login with your student number and password. Then you will see **AUE3701** in your row of modules, in the orange bar across the top of the webpage.

2 PURPOSE AND OUTCOMES

2.1 Purpose

The purpose of the module is for students to gain knowledge, skills and competence in preliminary audit engagement activities, planning an audit and formulating appropriate tests of controls. This module equips students with the knowledge to: (i) evaluate a client before accepting the audit engagement, (ii) evaluate an audit client to appropriately plan an audit, and (iii) formulate basic tests of controls to collect sufficient appropriate audit evidence for each of the four business cycles.

2.2 Outcomes

The outcomes of this module can be found in the beginning of each of the different study units in your study guide.

During the semester, you should:

- work through your study material, make summaries and complete the activities.
- read the announcements on *myUnisa*.
- answer the questions contained in Tutorial Letter 102 and compare your answers with the suggested solutions contained in Tutorial Letter 103.
- complete and submit assignment 01 (compulsory assignment for examination admission) and assignment 02 **before the due dates**. All the compulsory assignments are included in this tutorial letter.
- prepare yourself for the examination (for examination preparation and technique refer to the **study @ Unisa** brochure).

All students will receive access to the solutions of the assignments, even if they do not submit their assignments.

3 LECTURER(S) AND CONTACT DETAILS

3.1 Lecturer(s)

The lecturers responsible for this module, and to whom you should direct your enquiries, is:

Mrs E van Wyk

E-mail: aue3701@unisa.ac.za

Tel: 012 429 6489/ +27 12 429 6489

Mrs A Botha

E-mail: aue3701@unisa.ac.za

Tel: 012 429 6147/ +27 12 429 6147

PLEASE NOTE: Personal appointments should be arranged beforehand.

Always have your student number and module code ready when you contact the university!!!

3.2 Department

Department of Auditing:

If you wish to write to us, letters should be addressed to:

The Module leader: AUE3701

Department of Auditing

PO Box 392

UNISA

0003

Secretary:

Tel: 012 429 4707/ +27 12 429 4707

Departmental Webpage:

<http://www.unisa.ac.za/sites/corporate/default/Colleges/Accounting-Sciences/Schools,-departments-&-centre/School-of-Accountancy/Department-of-Auditing>

Prof B Ackers is the chair of the department.

3.3 College

College related undergraduate enquiries should be directed to: +2712 429 2233/2982 or CAEnquiries-undergraduate@unisa.ac.za

3.4 University

If you need to contact Unisa about matters not related to the content of this module, please consult the brochure **study @ Unisa**, which you should have received with your study material. In this document you will find the contact details of various administrative departments. If you did not receive this document and have access to the Internet, you can find it on *myUnisa* under the 'Resources' option. Remember to always have your student number ready when making an enquiry.

Please ensure that you contact the correct section or department for each enquiry as this will result in a speedy resolution of the enquiry.

The contact details are:

E-mail addresses:



- info@unisa.ac.za for general enquiries
- study-info@unisa.ac.za for application and registration related enquiries (prospective and registered students)

- international@unisa.ac.za for international students (registration-related enquiries)
- assign@unisa.ac.za for assignment enquiries
- exams@unisa.ac.za for examination enquiries
- despatch@unisa.ac.za for study material enquiries
- finan@unisa.ac.za for student account enquiries
- gaudeamus@unisa.ac.za for graduation enquiries
- myUnisaHelp@unisa.ac.za for assistance with myUnisa
- myLifeHelp@unisa.ac.za for assistance with myLife email accounts
- aegrotats@unisa.ac.za for aegrotat exams
- remark@unisa.ac.za for remarking of papers
- recheck@unisa.ac.za for rechecking of papers
- condiscipuli@unisa.ac.za for fellow student names
- counselling@unisa.ac.za for student counselling and career development
- vospresc@unisa.ac.za for enquiries about prescribed books
- purhasescript@unisa.ac.za for purchasing of papers

Library

The **study @ Unisa** booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries

bib-oasis@unisa.ac.za

Library Web co-coordinator

bib-web@unisa.ac.za

Inter-library loans enquiries

libr-ill@unisa.ac.za

Enquiries about subject databases

bib-dbase@unisa.ac.za

Library information desk

bib-help@unisa.ac.za

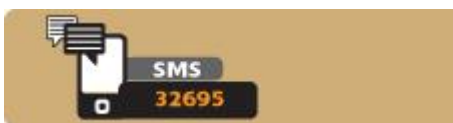
Enquiries about training presented by the library

bib-oplei@unisa.ac.za

Send a question to the library staff

bibrefq@unisa.ac.za

SMS numbers:



Send an SMS to 32695 for more information on how to contact Unisa via SMS (only for students within the borders of South Africa). Students will receive an auto response SMS with the various SMS options. Standard SMS rates apply.

Students can also SMS enquiries directly to:

43578 for Applications and registrations*

43584 for Assignments*

43584 for Examinations*

43579 for Study material*

31954 for Student accounts*

43582 for *myUnisa* and *myLife**

* The SMS number is only for students residing in South Africa. International students are urged to make use of the e-mail address info@unisa.ac.za.

Fax number:

Fax enquiries to +27 (0)12 429 4150

Online address <http://my.unisa.ac.za>

Unisa website <http://www.unisa.ac.za>

Other means of contacting the university are:

Physical address University of South Africa
 Preller Street
 Muckleneuk
 Pretoria
 City of Tshwane

Postal address University of South Africa
 PO Box 392
 UNISA
 0003

NB: Lecturers cannot assist you with registration, payments, module codes, examinations, etc. These are administrative issues which should be discussed with the relevant sections.

4 RESOURCES

The resources at your disposal are classified into the following categories:

4.1 Prescribed books

The following is a list of the prescribed books for this module. NB: all three books are essential to pass this module.

- Jackson RDC & Stent WJ. *Auditing notes for South African students*, latest edition. Durban: LexisNexis.
- South African Institute of Chartered Accountants (SAICA). *SAICA Student Handbook 2017/2018 – Volume 2*. Durban: LexisNexis.
- Gowar H & Jackson RDC. 2017. *Graded Questions on Auditing 2018*. Durban: LexisNexis.

Please consult the list of official booksellers and their addresses listed in the **study @ Unisa** brochure.

Prescribed books are available at the university's official booksellers. If you have any difficulties in obtaining books from these bookshops, please contact the Prescribed Book Section **as soon as possible** at telephone number +27 12 429 4152 or e-mail address: vospresc@unisa.ac.za.

Information on the use of and the sources of information available in the Unisa Library are detailed in the **study @ Unisa** brochure.

4.2 Recommended books

There are no recommended books prescribed for this module.

4.3 Electronic reserves (e-reserves)

Information contained in Volume 2 of the SAICA handbook can be downloaded from IRBA's website. Refer to the latest edition.

4.4 Library services and resources information

For brief information, go to www.unisa.ac.za/brochures/studies

For detailed information, go to <http://www.unisa.ac.za/library>. For research support and services of personal librarians, click on "Research support".

The library has compiled a number of library guides:

- finding recommended reading in the print collection and e-reserves – <http://libguides.unisa.ac.za/request/undergrad>
- requesting material – <http://libguides.unisa.ac.za/request/request>
- postgraduate information services – <http://libguides.unisa.ac.za/request/postgrad>
- finding, obtaining and using library resources and tools to assist in doing research – http://libguides.unisa.ac.za/Research_Skills
- how to contact the library/finding us on social media/frequently asked questions – <http://libguides.unisa.ac.za/ask>

5 STUDENT SUPPORT SERVICES

For student support services you are referred to the *study @ Unisa* brochure.

UNISA LIBRARY LOGIN

You will be required to provide your login details, i.e. your student number and your *myUnisa* password, in order to access the library's online resources and services.

This will enable you to:

- View or print your electronic course material
- Request library material
- View and renew your library material
- Use the library's e-resources

Requesting library books

Students are expected to purchase their own copies of the **prescribed books** listed in Tutorial Letter 101. A limited number of copies are housed in the Unisa Libraries, subject to each branch library's lending regulations. Problems experienced in obtaining copies from booksellers should be directed to the Prescribed Book Section at e-mail vospresc@unisa.ac.za or telephone +27 12 429 4152.

Electronic requests

The preferred way of requesting **recommended or additional** books is **online** via the library's catalogue.

Go to <http://oasis.unisa.ac.za>, or via *myUnisa*, go to <http://my.unisa.ac.za> > Login > Library > Library catalogue, or for mobile access, go to <http://oasis.unisa.ac.za/airpac> (AirPAC).

Telephonic book requests

This can be done on +27 (0)12 429 3133. Please supply the reservation order number (RON).

6 STUDY PLAN

You are responsible to pace yourself. The volume of work is enormous and therefore bear this in mind when planning your studies. Spread your studies evenly throughout the semester.

Also, use the *study @ Unisa* brochure for general time management and planning.

7 PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

8 ASSESSMENT

8.1 Assessment criteria

The assessment criteria are indicated at the beginning of each study unit in the Studyguide. Make sure you can achieve them before moving on to the next study unit.

8.2 Assessment plan

Assignments

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

You are required to **submit the compulsory assignment 01 before the due date** to obtain **admission to the examination**. Admission will be obtained by submitting compulsory assignment 01 and not by the marks you obtain for it.

The marks you obtain for assignment 01 and assignment 02 will contribute towards your year mark.

It is in your own interest to **retain a copy of proof that the compulsory assignments were submitted** so that you can produce this in the event that there should afterwards be any dispute concerning whether or not the assignment was received.

Plagiarism

Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft, which involves a number of dishonest academic activities. The *Disciplinary Code for Students* (latest version) is given to all students at registration. Students are advised to study the Code. Kindly read the University's *Policy on Copyright Infringement and Plagiarism* as well.

All your assignments must be your own work. You will receive 0% for your whole assignment if it's deemed that plagiarism was committed in any part of the assignment and you may also be subject to disciplinary proceedings by the University.

Everyone must obtain the required skills to ensure that you will be able to make a valuable contribution in the workplace.

PLAGIARISM DECLARATION:

By submitting any AUE3701 assignment, I declare that

- I have read the Unisa Students' Disciplinary Code
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used
- I have not allowed any other student to copy my work
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved

Please note: You do not have to submit the declaration. By submitting any AUE3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

Commentaries and feedback on assignments

The solution to assignment 01 will be provided to you in Tutorial Letter 201 which will only be available on *myUnisa* after the due date of assignment 01. The solution to assignment 02 will be provided to you in Tutorial Letter 202 which will only be available after the due date of assignment 02.

As soon as you have received the commentaries, please check your answers. The assignments and the commentaries on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

Year mark

The marks that you obtained for assignment 01 and assignment 02 will contribute towards your year mark for the module.

Your year mark contributes 20% towards your final examination mark. A student requires a final mark of 50% to pass a module. The final mark is calculated as follows:

5% x mark obtained for compulsory assignment 01 plus

15% x mark obtained for compulsory assignment 02 plus

80% x mark obtained in the examination (sub-minimum of 40%)

The sub-minimum of 40% implies that if you obtain a mark of less than 40% in the examination, your year mark will not be taken into account.

Please ensure that your assignment 01 and assignment 02 reach the University **before the due date – late submission of these assignments will result in you not receiving marks that count towards your year mark.**

THUS:

TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 BEFORE OR ON THE DUE DATE

YOUR MARKS FOR BOTH ASSIGNMENTS 01 AND 02 WILL BE USED TO DETERMINE YOUR YEAR MARK

8.3 Assignment numbers

8.3.1 General assignment numbers

Assignments are numbered consecutively per module, starting from 01. Only Arabic numerals are used, for example: Assignments 01, 02, 03, and so on.

8.3.2 Unique assignment numbers

In addition to the general assignment number (eg 01), each assignment has its **own unique assignment number** (eg 102717). This number must be written on the mark reading sheet or assignment cover page in the designated area.

8.4 Assignment due dates

Assignment	FIRST SEMESTER Due date if you are registered for the first semester	SECOND SEMESTER Due date if you are registered for the second semester
01 (Compulsory)	1 March 2018 Unique number: 884530	15 August 2018 Unique number: 800628
02	29 March 2018 Unique number: 761344	14 September 2018 Unique number: 805205

8.5 Submission of assignments

You may submit written assignments and assignments done on mark reading sheets either by post or electronically via *myUnisa*. Assignments may **not** be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure, ***study @ Unisa*** that you received with your study material.

Note: Assignment 02 can only be submitted in PDF format on *myUnisa*. PDF file should NOT be submit as “Read only”.

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with your student number and password.
- Select the module from the orange bar.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Please ensure that your assignment 01 reaches the University **before the due date – late submission of assignment 01 will result in you not being admitted to the examination.**

PLEASE NOTE: You must submit assignment 01 in order to be admitted to the examination while both assignments 01 and 02 must be submitted for purposes of determining your year mark. No extension of the due dates can be given by the lecturers for these assignments.

General remarks

For enquiries about assignments (eg whether or not the University has received your assignment or the date on which an assignment was returned to you) please refer to the contact information in 3.4 of this tutorial letter. You may also find this information on *myUnisa*. To go to the *myUnisa* website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “login to *myUnisa*” link under the *myUnisa* heading on the screen. This should take you to the *myUnisa* website. You can also go there directly by typing in <http://my.unisa.ac.za>.

If you are unable to submit your assignment online, assignments should be addressed to:

The Registrar
PO Box 392
UNISA
0003

Completion of assignment cover

PLEASE NOTE: Make sure that you read the instructions on the assignment cover carefully before completing it. Make sure that you complete the cover **correctly. Please make sure that the following information appears on the COVER of your assignment.**

Name.
 Address (and postal code).
 Student number.
 Subject code (e.g. AUE3701).
Correct assignment number.
 Correct unique assignment number (applicable only to assignments 01 and 02).
 Label with bar code.

8.6 The assignments

8.6.1 Semester 1: Compulsory assignment 01

Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.
- (3) Consult **study @ Unisa** for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: **study @ Unisa** when you answer multiple-choice assignments.

Special information regarding the answering of this assignment

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers topics 1-3 and 5 of the study guide.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:

884530

DATE OF SUBMISSION

First semester 1 March 2018

QUESTION 1

30 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1. 1
2. 3

(1½ marks per question)

1. Topic 1

Study **ISA 200**.

One of the ethical requirements relating to an audit of financial statements is that the auditor shall plan and perform an audit with professional scepticism. Which one of the following statements relating to professional scepticism of the auditor is **false**?

- 1 Professional scepticism includes being alert to audit evidence that contradicts other audit evidence obtained.
- 2 Maintaining professional scepticism throughout the audit is not necessary to reduce the risks of overlooking unusual circumstances.
- 3 Professional scepticism is necessary for the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.
- 4 The auditor cannot be expected to disregard past experience relating to the honesty and integrity of the entity's management and those charged with governance.

2. Topic 3

Study **ISA 315**.

Choose the **most correct** alternative that indicates the effect of the following scenario on the risk of material misstatement at the overall financial statement level:

Gugulethu Limited's management has to include the audited financial statements in the company's rural development road construction tender application. This is the biggest rural development road construction that the government has ever initiated and one of the criteria with which the applicants must comply is to have a current ratio of at least 2:1.

- 1 Inherent risk will increase.
- 2 Detection risk will increase.
- 3 Control risk will increase.
- 4 Detection risk will decrease.

3. Topic 3

Study **ISA 250** and then select the **most correct** alternative.

- 1 If the media provides an adverse comment regarding an audit client's non-compliance to certain health and safety regulations, the auditor should consider this as possible indication of non-compliance.
- 2 If an auditor becomes aware of instances where the audit client fails to comply with laws and regulations, the auditor may only consult his own legal counsel if the audit client has provided written approval.
- 3 An auditor may never withdraw from an engagement when cases of non-compliance to laws and regulations have been identified. Alternatively, the auditor should only describe the non-compliance in the auditor's report.
- 4 Due to the sensitivity of identified instances of non-compliance, the auditor is not allowed to keep copies of records or documents as evidence in his audit file.

4. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

The audit plan should include the ...

- 1 nature, timing and direction of planned risk assessment and audit procedures;
- 2 scope, timing and extent of planned risk assessment and audit procedures;
- 3 nature, timing and extent of planned risk assessment and audit procedures;
- 4 scope, timing and direction of planned risk assessment and audit procedures.

5. Topic 5

The purpose of input controls is to ensure the ...

- 1 authorisation of access to data files;
- 2 authorisation of access to programme files;
- 3 completeness, accuracy, occurrence and authorisation of processing;
- 4 completeness, accuracy, occurrence and authorisation of input.

6. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

Before an auditor commences with the fieldwork, he/she usually discusses the audit strategy with the client's management. Which one of the following matters do the auditor and management agree upon at this time?

- 1 The appropriateness of the entity's plans for dealing with adverse economic conditions.
- 2 The performance of tests of controls.
- 3 The control weaknesses to be included in the communication with those charged with governance.
- 4 The coordination of the assistance of the client's personnel in data preparation.

7. Topic 3

Study **ISA 315**.

Choose the **most correct** alternative to indicate to which audit risk component the following statement relates when identifying audit risk at the overall financial statement level:

The auditor of ABC (Pty) Limited will make use of a third party during the fieldwork phase of the audit.

- 1 Detection risk.
- 2 Inherent risk.
- 3 Control risk.
- 4 Business risk.

8. Topic 3

Study **ISA 230** and then select the **most incorrect** alternative.

Audit documentation should ...

- 1 indicate the names of the preparer and reviewer responsible for the audit work that was completed;
- 2 provide a detailed explanation of the audit procedures performed;
- 3 provide the results of the audit procedures performed;
- 4 indicate the names of the members in the audit team.

9. Topic 3

Study **ISA 315**.

Obtaining an understanding of the client's internal control **will not include**:

- 1 Evaluating the control environment.
- 2 Conducting extensive tests of controls.

- 3 Enquiring of the Information Technology (IT) manager as to the implementation of any new financial reporting applications during the year under audit.
- 4 Evaluating the control activities.

10. Topic 3

Select the **most correct** alternative to complete the following sentence:

A system based audit approach will most probably be followed by the auditor when ...

- 1 reliance cannot be placed on general controls or application controls;
- 2 reliance can be placed on application controls, but reliance cannot be placed on general controls;
- 3 reliance can be placed on general and application controls;
- 4 1 and 2.

11. Topic 3

Study **ISA 200**.

Inherent risk and control risk differ from detection risk in that they ...

- 1 arise from the misapplication of auditing;
- 2 may be assessed in either quantitative or qualitative terms;
- 3 exist independently of the financial statement audit;
- 4 can be changed at the auditor's discretion.

12. Topic 5

Study **ISA 315** and then select the **incorrect** alternative.

Internal control is defined by ISA 315.4(c) as the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about ...

- 1 the achievement of the entity's objectives with regard to the reliability of financial reporting;
- 2 the effectiveness and efficiency of its operations;
- 3 all the rules regulating the audit profession;
- 4 compliance with applicable laws and regulations.

13. Topic 1

Study **ISA 200** and then select the **most correct** alternative.

- 1 The purpose of an audit is to guarantee a high degree of confidence for intended users in the financial statements.
- 2 ISAs impose responsibilities on management or those charged with governance and override laws and regulations that govern their responsibilities.
- 3 Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.
- 4 Audit evidence includes only information contained in the accounting records underlying the financial statements.

14. Topic 2

Study **ISQC 1** and **ISA 210**.

Preliminary engagement activities **do not** include:

- 1 Assessing the integrity of the client.
- 2 Agreeing the exact fee to be charged for the audit.
- 3 Considering whether the audit firm has the necessary time and resources to conduct the audit properly.
- 4 Considering whether the engagement team can comply with relevant ethical requirements.

15. Topic 2

Study **ISQC 1** and **ISA 210**.

During the preliminary engagement stage of an audit, an auditor most likely **would not** do the following:

- 1 Investigate the client to determine whether the client should be accepted, or whether the firm should continue its relationship with an existing client.
- 2 Determine skills, competence and resources to determine whether the audit firm will be able to perform the audit in compliance with standards and can comply with ethical requirements.
- 3 Establish the terms of the engagement and formalise the agreement in an engagement letter.
- 4 Obtain a confirmation from the client's attorney as to whether there are any unrecorded legal claims.

16. Topic 2

Study **ISA 210** and then select the **most correct** alternative.

- 1 An engagement letter should be issued for each recurring audit.
- 2 The engagement letter sets out the financial reporting framework of the entity that the auditor is obliged to follow.
- 3 An audit appointment may not be accepted without the auditor formally agreeing on the terms of the engagement.
- 4 The engagement letter is usually addressed to the financial director of a company.

17. Topic 1

Study **ISA 200**.

ISA 200.16 stipulates that the auditor shall exercise professional judgment in planning and performing an audit of financial statements. Which one of the following particular statements regarding professional judgment is false?

- 1 Materiality and audit risk are not based on professional judgment.
- 2 The nature, timing and extent of audit procedures used to meet the requirements of the ISAs and gather audit evidence are based on professional judgment.
- 3 Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more evidence needs to be collected to achieve the objectives of the ISAs and thereby, the overall objectives of the auditor, is not dependent on professional judgment.
- 4 1 and 3 above.

18. Topic 3

Study **ISA 320** and then select the **most correct** alternative.

- 1 The objective of setting performance materiality is to facilitate the auditor in evaluating misstatements during the completion stage of the audit.
- 2 Materiality is a concept that is considered only during the planning and fieldwork stages of an audit.
- 3 The percentages applied to calculate the materiality of financial statements as a whole are set by the IRBA (Independent Regulatory Board for Auditors).
- 4 Setting of a lower materiality level for financial statements as a whole usually implies that the extent of audit procedures are increased in comparison with higher materiality levels for the same set of financial statements.

19. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

- 1 Only the partner and the audit manager are involved in the planning activities of the audit.
- 2 Planning is a discrete phase of the audit. Considering client continuance is therefore not addressed during this stage of an audit.
- 3 An audit strategy is usually developed first and then an audit plan can follow.
- 4 The audit strategy is usually more detailed than the audit plan.

20. Topic 3

Study **ISA 240** and then select the **most correct** alternative.

- 1 If the auditor has identified fraud, the auditor doesn't have an obligation to report the occurrence to a party outside the entity.
- 2 When an auditor suspects fraud, he/she may only direct inquiries about the suspicion to the client's in-house legal counsel.
- 3 If management has sufficient controls in place over the initiation and recording of journal entries, the auditor has no obligation to design and perform audit procedures to test the appropriateness of these journal entries.
- 4 Fraud may be committed by management by overriding controls or by misappropriation of the company's assets.

---X---

8.6.2 Semester 1: Compulsory assignment 02

Instructions:

- (1) Consult **study @ Unisa** for instructions on how to submit written or typed assignments.

Special instruction regarding the answering of this assignment

- (1) This assignment covers topics 3, 4 and 6 of the study guide.
- (2) All the questions should be completed.
- (3) Only selected questions will be marked.

Plagiarism:

- Please refer to Unisa's policy on plagiarism. You are reminded that your assignment must be your own work.
- By submitting your assignment, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:
 - If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
 - If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUE3701 Assignment 02, I declare that

- I have read the Unisa Students' Disciplinary Code
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used
- I have not allowed any other student to copy my work
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved

Please note: You do not have to submit the declaration. By submitting any AUE3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:

761344

DATE OF SUBMISSION

First semester: 29 March 2018

QUESTION

50 marks

You are an audit senior at ABC Incorporated. You are a member of the audit team performing the 28 February 2018 year end audit of the Publish 4 U Limited (Publish 4 U) group. The following information relating to the company is available to you:

BACKGROUND INFORMATION (requirements 1 and 2)

Publish 4 U is a magazine company that was founded 15 years ago by the chief executive officer (CEO), Alberta Einstein. The company's magazine, called *Marie*, covers the latest fashion trends. *Marie* is sold in South Africa, Botswana and Namibia. Magazines are printed at the head office of Publish 4 U in Cape Town from where it is distributed to retail outlets who sell the magazines on behalf of Publish 4 U to customers. Revenue from sales of magazines by the retail outlets is paid into the bank account of Publish 4 U at the end of each month.

Alberta Einstein is the only shareholder of Publish 4 U. During the 2018 financial year, shares were issued to the directors in terms of a share incentive scheme. The share options will only vest once the earnings per share yield at least 200 cents for the 28 February 2018 year end.

During the year under review, Publish 4 U created a website where customers can place orders electronically for clothes, shoes and accessories advertised in the *Marie* magazine. The magazine and online service became so popular that the company decided to expand its business by acquiring 70% of the shares in Home Decor (Pty) Limited, a company specialising in home decor. The transaction took place on 1 January 2018. The idea is to issue a magazine covering home decor trends and to sell home decor items online. Publish 4 U will apply for financing from the bank to assist Home Decor financially in their new business venture. The outcome of the finance application is dependent on the reported figures in the audited financial statements of Publish 4 U for the 2018 financial year end.

This is the first time that your audit firm is providing audit services to the Publish 4 U and its group.

Revenue of Publish 4 U comprises of sales of magazines and sales of goods on the internet. The accounting policy of Publish 4 U states that revenue is recognised at fair value to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue from sales of magazines and goods is recognised when risks are transferred to the customer.

INVENTORY (requirement 3)

On 28 February 2018 an inventory count was conducted at the head office of Publish 4 U situated in Cape Town. Major differences were identified between the inventory quantities on hand according to the automated inventory system and the actual inventory quantities in the warehouse.

Inventory adjustments on the automated inventory system are made as follows:

- After the inventory count, sequenced inventory adjustment forms are used to account for the differences in inventory.
- Inventory adjustment forms are prepared by Gavin Klein, one of the accounting clerks, and approved by the senior accountant, Henry Boss, both of whom sign the inventory adjustment form. After approval of the inventory adjustment form it is sent to the financial manager, Louise Vuitton, who is responsible for making the changes on the automated inventory system.
- Louise Vuitton gains access to the automated inventory system by entering her unique username and password. Once access is granted, she enters the inventory item code on the inventory adjustment form, which consists of six numeric digits. The inventory system then retrieves the details of the inventory item, such as the description and quantity on hand according to the inventory system, and displays it on the computer screen. Louise then clicks on the inventory adjustment tab and enters the date on which the adjustment should be made and the actual inventory quantity on hand, as indicated on the inventory adjustment form. Henry Boss approves all inventory adjustments electronically after comparing it with the adjustments on the inventory adjustment form. The system automatically calculates the inventory adjustment which is posted directly to the applicable general ledger accounts of Publish 4 U.
- When all of the inventory adjustments have been processed, a log which indicates the previous inventory quantities, the inventory adjustments and the current inventory quantities is printed and given to the chief financial officer, Jean-Pierre Gaultier. He signs the log after scrutinising and comparing a sample of inventory adjustments on it with the inventory adjustment forms and stock count sheets.
- The report is then filed in the inventory masterfile adjustment file, together with all of the other inventory adjustment forms.
- Activity reports of access gained and unsuccessful access attempts are generated on a daily basis and printed to a printer only accessible by the manager of the information technology department.

REQUIRED

Marks

1. With reference to the background information:
 - (a) Identify the risk indicators at the overall financial statement level; and
 - (b) For each identified risk indicator, describe the **risk of material misstatement at the overall financial statement level** for the 2018 financial year end of the Publish 4 U group.

Present your answer as follows:

(a) Risk indicators (1 mark each)	(b) Description of risk of material misstatement at the overall financial statement level (1½ marks each)
1.....	1.....

(16)

Communication skills – clarity of expression and layout

(2)

2. With reference to the background information:

(a) Describe the **risks of material misstatement at the assertion level** relating to revenue in the statement of comprehensive income for the year ended 28 February 2018 for Publish 4 U; and

(b) For each risk described, identify the applicable **audit assertion(s)**.

Present your answer as follows:

(a) Description of the risks of material misstatement at the assertion level relating to revenue (1½ marks each)	(b) Audit assertion(s) (1 mark each)
1.....	1.....

(12)

Communication skills –clarity of expression and layout

(2)

3. With reference to the information regarding inventory:

Formulate the **tests of controls** that you will perform to test the **manual and automated** internal controls when inventory adjustments are made on the automated inventory system. If you make use of audit procedures using test data to test the automated controls, limit your answer to invalid test data.

(18)

---x---

8.6.3 Semester 2: Compulsory assignment 01

Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.

- (3) Consult **study @ Unisa** for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: **study @ Unisa** when you answer multiple-choice assignments.

Special instruction regarding the answering of this assignment

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers topics 1-3 and 5 of the study guide.

**ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS
(compulsory)**

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:

800628

DATE OF SUBMISSION

Second semester: 15 August 2018

QUESTION 1

30 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follow:

1. 1
2. 3

(1½ marks per question)

1. Topic 3

Study **ISA 200**.

Select the **most correct** alternative to complete the following sentence:

When the accounting and internal control systems are functioning effectively, ...

- 1 the inherent risk will be assessed as low.
- 2 the inherent risk will be assessed as high.

- 3 the detection risk will be assessed as low.
- 4 the control risk will be assessed as low.

2. Topic 3

Study **ISA 320** and then select the **most correct** alternative.

- 1 The objective of setting performance materiality is to facilitate the auditor in evaluating misstatements during the completion stage of the audit.
- 2 Materiality is a concept that is considered only during the planning and fieldwork stages of an audit.
- 3 The percentages applied to calculate the materiality of financial statements as a whole are set by the IRBA (Independent Regulatory Board for Auditors).
- 4 Setting of a lower materiality level for financial statements as a whole usually implies that the extent of audit procedures are increased in comparison with higher materiality levels for the same set of financial statements.

3. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

- 1 Adequate audit planning benefits the audit of financial statements as it assists the auditor in devoting appropriate attention to important areas of the audit.
- 2 If there is a decrease in the assessed risk of material misstatement for the income balance reflected on the statement of comprehensive income, it results in an increase in the sample sizes and more supervision of the members of the audit team assigned to audit the income balance.
- 3 Planning is only performed at the commencement of the audit.
- 4 The engagement partner may delegate his/her involvement in planning the audit to other key team members.

4. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

Before an auditor commences with the fieldwork, he/she usually discusses the audit strategy with the client's management. Which one of the following matters do the auditor and management agree upon at this time?

- 1 The appropriateness of the entity's plans for dealing with adverse economic conditions.
- 2 The performance of tests of controls.
- 3 The control weaknesses to be included in the communication with those charged with governance.
- 4 The coordination of the assistance of the client's personnel in data preparation.

5. Topic 1

Study **ISA 200**.

ISA 200.16 stipulates that the auditor shall exercise professional judgment in planning and performing an audit of financial statements. Which one of the following particular statements regarding professional judgment is false?

- 1 Materiality and audit risk are not based on professional judgment.
- 2 The nature, timing and extent of audit procedures used to meet the requirements of the ISAs and gather audit evidence are based on professional judgment.
- 3 Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more evidence needs to be collected to achieve the objectives of the ISAs and thereby, the overall objectives of the auditor, is not dependent on professional judgment.
- 4 1 and 3 above.

6. Topic 3

Study **ISA 240** and then select the **most correct** alternative.

- 1 If the auditor has identified fraud, the auditor doesn't have an obligation to report the occurrence to a party outside the entity.
- 2 When an auditor suspects fraud, he/she may only direct inquiries about the suspicion to the client's in-house legal counsel.
- 3 If management has sufficient controls in place over the initiation and recording of journal entries, the auditor has no obligation to design and perform audit procedures to test the appropriateness of these journal entries.
- 4 Fraud may be committed by management by overriding controls or by misappropriation of the company's assets.

7. Topic 5

A consultant at SA Bank is processing your application for a study loan. After entering her access code, she captures your personal details on the automated system. To which **one** of the following controls does this relate?

- 1 Input controls.
- 2 Output controls.
- 3 Processing controls.
- 4 General controls.

8. Topic 3

Study **ISA 315**.

Obtaining an understanding of the client's internal control **will not include**:

- 1 Evaluating the control environment.
- 2 Conducting extensive tests of controls.
- 3 Enquiring of the Information Technology (IT) manager as to the implementation of any new financial reporting applications during the year under audit.
- 4 Evaluating the control activities.

9. Topic 3

Study **ISA 250** and then select the **most correct** alternative.

- 1 If the media provides an adverse comment regarding an audit client's non-compliance to certain health and safety regulations, the auditor should consider this as possible indication of non-compliance.
- 2 If an auditor becomes aware of instances where the audit client fails to comply with laws and regulations, the auditor may only consult his own legal counsel if the audit client has provided written approval.
- 3 An auditor may never withdraw from an engagement when cases of non-compliance to laws and regulations have been identified. Alternatively, the auditor should only describe the non-compliance in the auditor's report.
- 4 Due to the sensitivity of identified instances of non-compliance, the auditor is not allowed to keep copies of records or documents as evidence in his audit file.

10. Topic 3

Study **ISA 315**.

Choose the **most correct** alternative which indicates the effect of the following scenario on the risk of material misstatement at the overall financial statement level:

The accountant of International Products (Pty) Ltd, a company that imports electronic equipment from Japan, resigned during the year under review and the vacancy was filled by a newly qualified chartered accountant. The accountant is also in charge of the internal control system of the company.

- 1 Inherent and control risk will increase.
- 2 Inherent and control risk will decrease.
- 3 Inherent and detection risk will increase.
- 4 Control risk and detection risk will decrease.

11. Topic 3

Study **ISA 315**.

Choose the **most correct** alternative to indicate to which audit risk component the following statement relates when identifying audit risk at the overall financial statement level:

You have recently been appointed as the auditor of XYZ (Pty) Limited.

- 1 Detection risk.
- 2 Inherent risk.
- 3 Control risk.
- 4 Business risk.

12. Topic 3

Study **ISA 300** and then select the **most correct** alternative.

The audit plan should include ...

- 1 The nature, timing and direction of planned risk assessment and audit procedures.
- 2 The scope, timing and extent of planned risk assessment and audit procedures.
- 3 The nature, timing and extent of planned risk assessment and audit procedures.
- 4 The scope, timing and direction of planned risk assessment and audit procedures.

13. Topic 3

Study **ISA 230** and then select the **most correct** alternative.

An audit supervisor reviewed the work performed by the staff to determine if the audit was performed adequately. The supervisor accomplished this by primarily reviewing ...

- 1 checklists.
- 2 audit working papers.
- 3 bank reconciliations.
- 4 financial statements.

14. Topic 3

Select the **most correct** alternative to complete the following paragraph:

During the planning stage of an audit, the auditors determine that the company has a policy not to give discounts. However, discounts have been granted on a high volume of sales

transactions. All these sales were made to the business of the sales manager's wife. This observation will contribute to an increase in the auditor's estimation of ...

- 1 internal control.
- 2 the sales planning materiality figure.
- 3 control risk.
- 4 1 and 3 above.

15. Topic 1

Study **ISA 200**.

One of the ethical requirements relating to an audit of financial statements is that the auditor shall plan and perform an audit with professional scepticism. Which one of the following statements relating to professional scepticism of the auditor is **false**?

- 1 Professional scepticism includes being alert to audit evidence that contradicts other audit evidence obtained.
- 2 Maintaining professional scepticism throughout the audit is not necessary to reduce the risks of overlooking unusual circumstances.
- 3 Professional scepticism is necessary for the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.
- 4 The auditor cannot be expected to disregard past experience relating to the honesty and integrity of the entity's management and those charged with governance.

16. Topic 3

Select the **most correct** alternative to complete the following sentence:

A system based audit approach will most probably be followed by the auditor when ...

- 1 reliance cannot be placed on general controls or application controls.
- 2 reliance can be placed on application controls, but reliance cannot be placed on general controls.
- 3 reliance can be placed on general and application controls.
- 4 1 and 2.

17. Topic 3

Study **ISA 315** and then select the **incorrect** alternative.

Conditions and events that may indicate risks of material misstatement include:

- 1 Lack of personnel with appropriate accounting skills.
- 2 Loss of significant customers.
- 3 Expanding into new locations.
- 4 Only routine transactions are entered into.

18. Topic 2

Study **ISA 210** and then select the **most correct** alternative.

Which of the following is **least likely** to be placed on the agenda for discussing the content of the audit engagement letter?

- 1 Purpose and scope of the engagement.
- 2 Records and client personnel needed.
- 3 Sampling plan.
- 4 Written representations required from management.

19. Topic 2

Which of the following existing circumstances would most likely pose the greatest risk in accepting a new audit engagement?

- 1 Staff will need to be rescheduled to audit the new client.
- 2 There will be a client-imposed scope limitation.
- 3 The firm will have to hire a specialist in one audit area.
- 4 The client's financial reporting system has been in place for ten years.

20. Topic 1

Study **ISA 200** and then select the **most correct** alternative.

- 1 The purpose of an audit is to guarantee a high degree of confidence for intended users in the financial statements.
- 2 ISAs impose responsibilities on management or those charged with governance and override laws and regulations that govern their responsibilities.
- 3 Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

- 4 Audit evidence includes only information contained in the accounting records underlying the financial statements.

8.6.4 Semester 2: Compulsory assignment 02

Instructions:

- (1) Consult **study@Unisa** for instructions on how to submit written or typed assignments.

Special instructions regarding the answering of this assignment

- (1) This assignment covers topics 3, 4 and 6 of the study guide.
- (2) All the questions should be completed.
- (3) Only selected questions will be marked.

Plagiarism:

- Please refer to Unisa's policy on plagiarism. You are reminded that your assignment must be your own work.
- By submitting your assignment, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:
 - If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
 - If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUE3701 Assignment 02, I declare that

- I have read the Unisa Students' Disciplinary Code
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used
- I have not allowed any other student to copy my work
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved

Please note: You do not have to submit the declaration. By submitting any AUE3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:

805205

DATE OF SUBMISSION

Second semester: 14 September 2018

QUESTION

50 marks

The following information relates to the audit of Horcrux Limited (Horcrux):

BACKGROUND INFORMATION (requirements 1 and 2)

You are an audit senior at the auditing firm Muggles Incorporated, a small audit firm, specialising mainly in the farming industry. This is your first year of auditing Horcrux, a company listed on the Johannesburg Securities Exchange Limited (JSE).

Horcrux is dedicated to the mass production and wholesale of jewellery. The period under review, for which you are responsible, covers the year ended 31 March 2018.

The company has one central manufacturing site and store, situated in Jewel City, Johannesburg. It sells its products to distributors and large retail stores. The company has a well-established internal audit department.

The highly regulated jewellery industry is operating in an environment challenged by rising input costs and decreasing disposable household income. Cheap jewellery is being imported increasingly, making it even more difficult to compete in the jewellery manufacturing industry in South Africa. This has resulted in a loss of customers and a continuous decline in the profits of Horcrux. The directors of the company are gravely concerned about this state of affairs, as a decrease in profits means a direct decrease in their related performance bonuses.

Inventory is a material figure on the trial balance. The company uses a computerised, perpetual inventory system.

The audit of Horcrux has been awarded to Muggles Incorporated, as the son-in-law (Mr Malfoy) of the managing director, Mr Snape, is one of the audit partners. Mr Snape argued that because Mr Malfoy's firm is still growing, the large audit fee that Muggles Incorporated will receive from an audit as big as Horcrux's should give it a boost.

Horcrux's previous auditor resigned recently after a disagreement about inventory valuation. The directors of Horcrux became rather apprehensive when asked to elaborate on the matter and refused to give permission to Muggles Incorporated to contact the previous auditor.

Mr Snape requested the audit to be completed within two weeks of the financial year end, which is placing your audit team under immense pressure. Mr Snape further asked you to take extra care in performing the audit, as he invested a great deal of money in Horcrux.

INTERNAL CONTROLS – RECEIVING OF METAL, GEMSTONES AND OTHER COMPONENTS REQUIRED FOR THE MANUFACTURING OF JEWELLERY (requirement 3)

Jewellery is produced by moulding liquid metal alloy and incorporating various different gemstones. Ordered metal, gemstones and other components are delivered in the presence of the goods receiving clerk, Mr Crouch. He physically inspects the raw material received, weighs it and compares it with the delivery note and purchase order. Thereafter, Mr Crouch signs the delivery note to acknowledge receipt of the raw material.

Mr Crouch accesses the receiving software by entering his unique username, consisting of the first four digits of his employee number and a seven-digit password, consisting of a combination of letters, symbols and numbers (as specified by HorcruX’s information technology policy). Mr Crouch enters the purchase order number, retrieves the details of the purchase order and converts them into a goods received note. The purchase order number consists of five alphabetic characters and two numeric characters. Mr Crouch then compares the information on the screen with the information on the delivery note and, if the information is correct, he clicks on the “Accept” icon on the computer screen. The receiving software then issues a pre-numbered goods received note. Mr Crouch prints two copies of these goods received notes, one of which is filed sequentially in the goods receiving section. The other one is sent to the vault accompanied by the raw material (under high security, due to the nature of the material).

Mr Bagman, the vault clerk, acknowledges receipt by signing the goods received note after comparing it with the physical raw material. He immediately reports any discrepancy to the vault manager, Ms Skeeter, who follows up on any reported discrepancies on a daily basis.

REQUIRED

Marks

1. With reference to the **background information**:

Identify and describe the aspects that the auditor should consider when developing the **audit plan** for HorcruX Ltd. Your answer should focus on the **nature** of the audit procedures only.

(15)

2. With reference to the **background information**:

- (a) Identify the **audit risk indicators** at the overall financial statement level.
- (b) For each risk indicator, describe the **audit risk(s)** at the overall financial statement level.

Present your answer as follows:

(a) Audit risk indicator (1 mark each)	(b) Description of audit risks at the overall financial statement level (1½ marks each)
1.	1.

(18)

Communication skills – layout, structure, logical argument.

(2)

3. With reference to the information on internal controls:

Formulate the tests of controls that you will perform to test the manual and automated internal controls relating to the receiving of raw material. **(15)**

Please note: If you make use of tests of controls using test data, limit your answer to **invalid test data**.

---X---

8.7 Other assessment methods

An examination paper which serves as a self-evaluation assessment is included hereafter.

Special instructions and the answering of this assessment opportunity

It is advised that you complete this assessment opportunity under examination conditions within three hours without consulting your study material.

After having completed this, you should compare your answers with the key in Tutorial Letter 202. This assessment opportunity **must not** be sent to the University.

Tutorial material for this assessment opportunity

This assessment opportunity deals with the entire content of this module.

Purpose of this assessment opportunity

The purpose of this assessment opportunity is to serve as a revision of the study material as a whole and at the same time is an indication of the standard which can be expected in the examination.

Attached find a previous examination that serves as a self assessment assignment.

QUESTION

You are an audit senior at XYZ Incorporated. You are a member of the audit team performing the 31 March 2018 year end audit of Combat TB Limited (Combat TB). The following information relating to the company is available to you:

BACKGROUND INFORMATION (requirements 1, 2 and 3)

Combat TB is listed on the Johannesburg Securities Exchange Limited (JSE) and operates in the pharmaceutical industry where raw materials are converted into a finished product (tuberculosis (TB) medicine). The pharmaceutical industry has very specific rules and regulations which are regulated by numerous acts and governing bodies. Combat TB's primary goal is to successfully sell its TB medicine to clinics and hospitals throughout South Africa and other African countries.

Combat TB is a new audit client of XYZ Incorporated. Mr Douglas is the managing partner of XYZ Incorporated and the partner in charge of the audit. The audit firm has two partners and five professional staff members and renders audit services mainly in the mining industry. The

directors of Combat TB requested that the audit should be completed within two weeks of the financial year, which places the auditors under extreme pressure.

XYZ Incorporated was appointed as the auditor of Combat TB via a tender process after the previous auditors resigned. The fact that Mr Douglas was a close school friend of the chief executive officer (CEO) of Combat TB, was the deciding factor in XYZ Incorporated being successful in its bid. Mr Douglas informed you to take extra care in performing this audit since he also has a significant shareholding in the company.

According to the directors of Combat TB, the previous auditors resigned due to a disagreement concerning the accounting treatment of revenue recognised from a contract to manufacture and supply TB medicine to government hospitals for a five-year period. The directors of Combat TB refused to elaborate on the matter and further rejected XYZ Incorporated's request to obtain the previous auditor's audit report. The directors also declined permission to XYZ Incorporated to contact the previous auditors. One of the employees at Combat TB recently indicated that directors receive bonuses based on profits.

A week before the financial year end of Combat TB, a newspaper reported that Combat TB manufactured and supplied new medicine to local clinics without it being approved by the Medicine Control Council of South Africa. Combat TB might therefore face severe penalties which could threaten its ability to continue its business operations in the future.

FLEET OF DELIVERY VEHICLES (requirement 4)

Combat TB operates from one central factory and uses a fleet of delivery vehicles to deliver TB medicine to its customers in South Africa. A logistics company delivers all TB medicine on behalf of Combat TB to other African countries.

The fleet of delivery vehicles consists of both leased and owned motor vehicles. Motor vehicles are carried on the financial statements, at cost, less accumulated depreciation and impairment losses. Depreciation on motor vehicles is charged on a straight-line basis over its estimated useful lives. During the financial year, the depreciation on numerous motor vehicles had to be recalculated and corrected as motor vehicles were not depreciated sufficiently according to their useful lives in the past. The chief financial officer also decided to appoint an expert to determine the correct carrying values of motor vehicles.

THE METHOD FOR THE COMPUTATION OF PLANNING MATERIALITY (requirement 5)

XYZ Incorporated uses the following guidelines for the computation of planning materiality (i.e. the materiality figure to be used when planning and performing the audit):

- 1 to 2% of total assets
- ½ to 1% of revenue
- 2 to 5% of equity

During the identification and assessment of risk of Combat TB, you estimated inherent risk at a **high level**. Furthermore, discussions with key management indicated that the company is labour intensive and prepares annual budgets which have proven to be achievable. You also established that equity is not a suitable indicator to use in the computation of planning materiality since it is not appropriate.

The following working paper relates to the computation of planning materiality and was prepared by your audit team.

Client: Combat TB	Year end: 31 March 2018	A1
Prepared by: W Shiraz	Preparation date: 16 April 2018	
Reviewed by: J Ross	Review date: 18 April 2018	
Subject: Computation of planning materiality for the financial statements as a whole		
<p>Method adopted for the 2018 audit The planning materiality figure for the audit of the company will be computed at 2% of the company's total assets. The following calculation refers:</p> <p>Total assets at year end: R 1 800 000 Planning materiality figure: R1 800 000 x 2% = R36 000</p> <p>The actual figures for the year ending 31 March 2018 will be used to calculate planning materiality even though the client indicated that these figures were not final and may change substantially.</p> <p>Conclusion The planning materiality figure of R36 000 will be appropriate to use in the planning phase of the audit.</p>		

INTERNAL CONTROLS – RECEIVING OF RAW MATERIAL REQUIRED FOR THE MANUFACTURING OF TB MEDICINE (requirement 6)

Ordered raw material is delivered in the designated goods receiving section in the presence of the goods receiving clerk, Mr Mombeni. All the raw material is in a powder format and is received in prepacked 500 gram bags. He physically counts the bags received, weighs it and compares it with the delivery note and purchase order. Thereafter, Mr Mombeni signs the delivery note to acknowledge receipt of the raw material.

Mr Mombeni gains access to the receiving software by entering his unique username and password. Combat TB's Information Technology policy stipulates that all passwords should consist of nine characters comprising a combination of symbols, letters and numbers. When access is granted, Mr Mombeni enters the purchase order number and the details of the purchase order is retrieved and converted into a goods received note. The purchase order number consists of four alphabetic characters and five numeric characters. Mr Mombeni then compares the information on the screen with the information on the delivery note and, if the information is correct, he clicks on the "Accept" icon on the computer screen. The receiving software then issues a pre-numbered goods received note. Mr Mombeni prints two copies of these goods received notes, one of which is filed sequentially in the goods receiving section. The other one is sent to the store accompanied by the raw material. Mr Steward acknowledges receipt by signing the goods received note after comparing it with the physical raw material. He immediately reports any discrepancy to the store manager, Mr Samuels, and enters these on a sequenced automated "discrepancies report" with reference to the relevant goods received note.

A print out of each "discrepancies report" is filed sequentially and is followed up by Ms Chetty, the administrative clerk, in the receiving section.

COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS (requirement 7)

The following draft report on significant deficiencies in internal controls was issued by XYZ Incorporated:

XYZ Incorporated's letterhead
Private and confidential

30 April 2018

The Accountant
Combat TB Ltd
Address

Dear Sir

Report on significant deficiencies in internal controls

During the performance of our audit of Combat TB Ltd for the year ended 31 March 2018, certain matters which we consider to be significant deficiencies in internal controls came to our attention.

Our required statutory audit procedures were designed to express an opinion on the financial statements, as well as on the adequacy of the internal controls. Accordingly, we are of the opinion that the reported significant deficiency in internal control is most probably the only deficiency which exists.

This report is furnished solely for your information and should be used by you only for this purpose. Unless you have obtained our written consent to disclose this report to another party, we will not assume any responsibility for the other party.

The following significant deficiency in internal control has been identified:

Observation
Subsequent to our audit, it has come to our attention that the CEO of Combat TB has resigned.

Should you wish to discuss the matter above, please do not hesitate to contact us.

XYZ Incorporated
Chartered Accountants (SA)
Registered Auditors

REQUIRED

Marks

1. With reference to the background information of Combat TB:

Discuss the factors that the partner in charge of the audit of Combat TB should have considered before accepting the audit and conclude whether this audit should have been accepted or not.

(18)

2. With reference to the background information of Combat TB:

Describe the sources of information that you will utilise to obtain an understanding of the entity and its environment that will enable you to plan the audit of Combat TB.

(21)

3. With reference to the background information of Combat TB:

- (a) Identify the risk indicators at the overall financial statement level.
- (b) For each identified risk indicator, describe the **audit risks at the overall financial statement level** for the 2018 financial year.

Present your answer as follows:

(a) Risk indicators (1 mark each)	(b) Description of audit risks at the overall financial statement level (1½ marks each)
1.....	1.....

(20)

Communication skills - clarity of expression and layout

(1)

4. With reference to the information related to the fleet of delivery vehicles of Combat TB:

- (a) Describe the **risks of material misstatement at the assertion level** relating to the motor vehicles balance in the statement of financial position at 31 March 2018.
- (b) For each risk described, identify the applicable **assertion**.

Present your answer as follows:

(a) Description of the risks of material misstatement at the assertion level relating to the motor vehicles balance (1½ marks each)	(b) Assertions (1 mark each)
1.....	1.....

(11)

Communication skills - clarity of expression and layout

(1)

5. With reference to the method for the computation of planning materiality and working paper A1 entitled “Computation of planning materiality for the financial statements as a whole”:
- (a) Criticise, with reasons, the method used for the computation of the planning materiality figure. (3)
 - (b) For each criticism identified in 5(a), recommend the correct method that should have been followed. (3)

Present your answer as follows:

(a) Criticism (1½ marks each)	(b) Recommendation (1½ marks each)
1.....	1.....

Communication skills - clarity of expression and layout (1)

6. With reference to the internal controls: Receiving of raw material required for the manufacturing of TB medicine:
- Formulate the **tests of controls** that you will perform on the automated and manual internal controls relating to the receiving of raw material.
- Please note:** If you make use of tests of controls using test data, limit your answer to **invalid test data**. (15)
7. With reference to the draft report on significant deficiencies in internal controls:
- Describe the shortcomings in the draft report. (6)

8.8 The examination

Requirements for admission to the examination

Submission of the **compulsory assignment 01** by its due date will give a student admission to the examination in this module. Admission will be obtained by submitting this assignment **in time** and not by the marks you obtain for it. Please ensure that this assignment reaches the University **before or on the due date**. **Late submission of the assignment will result in you not being admitted to the examination. No extension will be given for the late submission of assignments 01 and 02.**

The examination period

This module is offered in both semesters. This means that if you are registered for the first semester, you will write the examination in May/June 2018 and the supplementary examination will be written in October/November 2018. If you are registered for the second semester you will write the examination in October/November 2018 and the supplementary examination will be written in May/June 2019.

During the semester, the examination section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

Format of the examination paper

The duration of the examination is 3 hours. The exam paper consists of a case study with questions. Students will have to apply their theoretical knowledge to the information provided in the case study. The examination will not contain any multiple-choice or any theoretical questions.

Calculator policy

Candidates may only use silent, electronic, battery-driven pocket calculators subject to the following conditions:

- Calculators must be cordless, and may not have print-out facilities or alpha keys;
- Any financial calculator will be allowed, as the following tables will not be provided:
 - Tables of present value factors for various discount rates for varying periods; and
 - Tables of future value factors for various interest rates for varying periods;
- The calculator function on mobile telephones or any electronic device (i.e. laptops and/or any Smart Phone) may not be used; and
- Candidates may not share a calculator with another candidate in the examination room.

Previous examination papers

Previous examination papers are available to students on *myUnisa*. Suggested solutions are not provided. You may, however, accept that the type of questions that will be asked in the examination will be similar to those found in your study material.

Use the **study @ Unisa** brochure for general guidance for the examination as well as for your preparation for the examination.

9 FREQUENTLY ASKED QUESTIONS

The **study @ Unisa** brochure contains an A-Z guide of the most relevant study information.

10 SOURCES CONSULTED

Except for the prescribed textbooks of the module, no additional sources were consulted.

11 IN CLOSING

Wishing you every success with your Auditing studies! We are here to assist you where we can with the content of the module. Please make the most of your opportunity to learn about this module.

12 ADDENDUM

There is no addendum to this tutorial letter.