AUE1501
INTRODUCTION TO AUDITING

Duration 2 Hours 100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT.

Use of a non-programmable pocket calculator is permissible

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

THIS EXAMINATION QUESTION PAPER CONSISTS OF FOUR (4) PAGES.

This paper consists of 6 questions and includes the following main topics

<table>
<thead>
<tr>
<th>PART</th>
<th>MAIN TOPIC</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>True or false statements</td>
<td>10</td>
</tr>
<tr>
<td>2.</td>
<td>Characteristics of a private company</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>The internal and external auditor</td>
<td>18</td>
</tr>
<tr>
<td>4.</td>
<td>Auditing concepts and definitions</td>
<td>24</td>
</tr>
<tr>
<td>5.</td>
<td>Assertions</td>
<td>8</td>
</tr>
<tr>
<td>6.</td>
<td>Purchases and payment cycle</td>
<td>25</td>
</tr>
</tbody>
</table>

**100**

NOTE:

Although the primary purpose of the examination is to test a candidate's knowledge and application of the subject matter, the examiner will consider the ability to organise and present such knowledge in acceptable written language.

[TURN OVER]
QUESTION 1

REQUIRED

Indicate whether the following statements are true or false and provide a reason for your answer. Write down the number of the subsection and the word "True" or "False" next to it and then provide the reason for your answer. Answer the questions in numerical sequence, for example.

1.1 True. Reason
1.2 False Reason

(Each subsection counts two (2) marks)

1.1 An external auditor is appointed to assess the efficiency, cost and effectiveness of the company's internal control systems

1.2 Test of controls are procedures performed by the auditor to collect evidence about assertions for classes of transactions and events for the year under review

1.3 The key aspects of the King III report are to bring about respect and honesty to society

1.4 The main role of the internal auditor is to support the external auditor with the collection of audit evidence.

1.5 Professional competency is not a principle of professional conduct for internal auditors but only for external auditors

QUESTION 2

15 marks

Your friend is thinking of starting a new business in the form of a private company. He is unsure of some of the advantages and disadvantages involved in forming a private company and made the following statements.

2.1 "When I pass away one day my children can carry on with the business as a private company."

2.2 "For a private company, if the public interest score is 150 an audit must be performed."

2.3 "A private company must prepare annual financial statements within eight months after every year-end."

2.4 "It is simple to set up a private company because it requires only a few legal requirements."

[TURN OVER]
2.5 "A director of a company cannot be held personally liable for debts incurred by the company."

2.6 "Corporate governance does not apply to private companies."

REQUIRED

State whether you either agree or disagree with the above statements, and provide a reason in each case. Set out your answer in the following format.

<table>
<thead>
<tr>
<th>Number</th>
<th>Agree or disagree (5 x 1 mark)</th>
<th>Reason (5 x 2 marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>....</td>
<td></td>
</tr>
</tbody>
</table>

QUESTION 3

18 marks

Internal and external auditors serve different purposes. In certain circumstances the external auditor can rely on the work performed by the internal auditor.

REQUIRED

Marks

3.1 List three (3) differences between internal and external auditors. (Present your solution in a tabular format.) (9)

3.2 Describe six (6) considerations that the external auditor should take into account in order to evaluate the work done by the internal auditor. (9)

QUESTION 4

24 marks

External auditors play an important assurance role in the financial world. Certain concepts and terms are relevant to the auditing profession.

REQUIRED

Marks

4.1 Describe the main role of a registered external auditor. (2)

4.2 Define the term materiality. (3)

4.3 Mention four (4) inherent limitations of an internal control system. (6)

4.4 List three (3) types of modified opinions that the auditor can issue. (3)

4.5 List seven (7) criteria which should be satisfied by a registered auditor before an unmodified (unqualified) audit opinion can be expressed. (10)

[TURN OVER]
QUESTION 5

8 marks

Assertions are representations made by management regarding the annual financial statements to be audited. There are assertions applicable to transactions, account balances and presentation and disclosure.

REQUIRED

5.1 Name five (5) assertions applicable to classes of transactions and events (5)

5.2 Name three (3) assertions applicable to account balances (3)

QUESTION 6

25 marks

You are employed as a junior internal auditor of Cricket SA (Pty) Ltd, a large manufacturing company. While the internal audit senior was discussing the audit of the purchases and payment cycle with you, he asked if you could think of the following factors to aid you in performing the audit of the purchases and payment cycle:

- Associated risks
- Internal controls that should be in place to mitigate the identified risks to an acceptable level
- Common documents used in the purchases and payment cycle

REQUIRED

6.1 List ten (10) risks associated with the payment for goods (15)

6.2 List the controls that can be implemented to mitigate the following identified risks associated with the receipt of goods (purchases/payment cycle)

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2.1 The risk that goods may be taken for personal use</td>
<td>(3 marks)</td>
</tr>
<tr>
<td>6.2.2 The risk that the types of goods received are not the type of goods ordered</td>
<td>(1½ marks)</td>
</tr>
<tr>
<td>6.2.3 The risk of poor quality and/or defective goods being received or that the incorrect goods or an incorrect quantity may be received</td>
<td>(4½ marks)</td>
</tr>
<tr>
<td>6.2.4 The risk of goods being stolen</td>
<td>(1½ marks)</td>
</tr>
</tbody>
</table>