Tutorial Letter 201/1/2018

Introduction to Auditing
AUE1501

Semester 1

Department of Auditing

IMPORTANT INFORMATION:
SUGGESTED SOLUTION TO ASSIGNMENT 01 OF 2018 FOR THE FIRST SEMESTER.
SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 01 OF 2018

This tutorial letter provides feedback on compulsory Assignment 01. You need to study the contents of this tutorial letter carefully because it will provide you with valuable insight and assist you with your examination preparation. The study references are provided to assist you. Therefore, please refer to them to obtain a better understanding of the suggested solution.

1. Alternative 2

Reference: Study guide, Learning Unit 1 and Jackson & Stent (2016:3/16)

Eskom is an example of a state owned company. Anglovaal Ltd is an example of a public company. Moale (Pty) Ltd is an example of a private company. Educate NPC is an example of a non-profit company. Therefore, alternative 2 is correct.

2. Alternative 3

Reference: Study guide, Learning Unit 2 and Jackson & Stent (2016:4/5)

Unstable financial systems are one of the fundamental changes to business in the 21st century. Alternatives 1, 2 and 4 are correct and are examples of the realities that we face.

3. Alternative 4

References: Study guide, Learning Unit 2 and Jackson & Stent (2016:4/7)

The main objectives of King IV are described in Jackson & Stent (2016:4/7). Although the King IV is concerned with ethical consciousness and behaviour of businesses, it is not a main objective to relieve poverty and social inequalities in society. However, if businesses are profitable they can expand and expansion can relieve poverty as well as social inequalities through employment and tax collection. Alternatives 1 to 3 are the main objectives of the King IV Report.

4. Alternative 4

Reference: Study guide, Learning Unit 3 and Jackson & Stent (2016:5/12-5/16)

Alternatives 1 to 3 are all examples of control activities. Alternative 4 is a limitation of internal control.

5. Alternative 2

Reference: Study guide, Learning Unit 6

You need to make sure that you understand the meaning of each word in the question. If you are uncertain of the meaning of a word, then Google the word. To be objective, means that you are not biased (unbiased). Therefore, alternative 2 is correct.
6. **Alternative 1**

**Reference:** Study guide, Learning Unit 4

Alternative 1 is a true statement because the Chief Audit Executive (CAE) must function at executive level to be perceived to be influential (to be heard). Private companies do not have to have internal auditors making the statement false (Alternative 2). Registration with SAICA is not a prerequisite for internal auditors (Alternative 3). However, in practice SAEs are often registered with SAICA and the IIA. To function effectively in an organisation, the internal auditor, external auditor and audit committee must interact. This makes alternative 4 false.

7. **Alternative 4**

**Reference:** Study guide, Learning Unit 9 and Jackson & Stent (2016:3/77)

Alternatives 1–3 are all incorrect. As soon as the public interest score of a company is more than 350 then it is subject to an audit. Refer to Learning Unit 9 and note the factors influencing the public interest score.


In Learning Unit 12 we examined assertions in detail. With this question, you need to reflect on what each assertion means. When you are for example, checking the quantity x cost, additions and calculating VAT on an invoice, and then you are checking the accuracy.


Dates on documents indicate when the transaction occurred and should be recorded accordingly. However, the question is concerned with the cut-off date for the financial year-end. Therefore, alternative 1 is correct and alternative 4 is incorrect. Alternatives 2 and 3 are also incorrect and is explained in the study reference.

10. **Alternative 2**

**Reference:** Study guide, Learning Unit 14

There no such thing as “materiality risk”. Therefore, alternative 2 is the correct alternative. The elements of audit risk are inherent risk, control risk and detection risk. Remember the equation \( AR = IR \times CR \times DR \).

11. **Alternative 1**

**Reference:** Study guide, learning unit 14

Refer to Jackson & Stent (2016:7/22) for the definition of “materiality” in an auditing context. A misstatement including omissions, are considered to be material if they, individually or in aggregate could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements. Therefore, alternative 1 is correct.
12. Alternative 3

Reference: Study guide, learning unit 13

Reliability refers to the source and nature of the evidence. Appropriateness refers to the quality of evidences. Sufficiency refers to the quantity of evidence. Relevance refers that the evidence supports the relevant assertion that is examined. Therefore, alternative 3 is correct.

Conclusion

It is important to review the feedback contained in this tutorial letter and compare it with your own answers.

You are welcome to contact us should you have any queries.

We wish you every success in your studies.