

Tutorial letter 101/3/2013

ADVANCED THEORY OF AUDITING AND THE PERFORMING OF THE AUDIT PROCESS

AUE303R

Semesters 1 & 2

Department of Auditing

IMPORTANT INFORMATION:

This tutorial letter contains important information
about your module.

BAR CODE

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1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUE303R 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 *my Studies* 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 and
- Tutorial Letters

All 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*.

To contact the Department of Despatch regarding tutorial material that you have not received, use only the telephone numbers indicated in the booklet entitled ***my Studies @ 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. **It is very important that you access *myUnisa* because important announcements are placed there during the semester that will assist you in the preparation of the examinations.**

Note: Some of the tutorial matter may not be available when you register. Tutorial matter that is not available when you register will be posted to you as soon as possible. When you register, you will also receive an inventory letter containing information about your tutorial matter. See also the booklet entitled: ***my Studies @ Unisa*** (which you received with your tutorial matter).

2 PURPOSE OF AND OUTCOMES FOR THE MODULE

2.1 Purpose

The purpose of this module is stated in the “Introduction to the module” in your study guide.

2.2 Outcomes

For the learning outcomes of this module we refer you to the different topics in your study guide for this module. In the “introduction to the module” you will also find an overview of the module and we also explain our teaching strategy and how the study guide should be used to guide you through the study material.

During the semester you should:

- kickoff by reading Tutorial Letter 104.
- work through your study material, make summaries and complete the “do” activities.
- 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** and complete the self evaluation assignment. All the compulsory assignments and the self evaluation assignment are included in this tutorial letter.
- prepare yourself for the examination (for examination preparation and technique refer to the **my Studies @ Unisa** brochure).

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

3 LECTURER(S) AND CONTACT DETAILS

3.1 Lecturer

Lecturer for AUE303R

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

Lecturer:

Ms L Ferreira

E-mail: aue303r@unisa.ac.za

Tel: 012 429 4418/ +27 12 429 4418

Course co-ordinator:

Mr K Joubert

E-mail: aue303r@unisa.ac.za

Tel: 012 429 4068/ +27 12 429 4068

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: AUE300
 Department of Auditing
 PO Box 392
 UNISA
 0003

Secretary:

Tel: 012 429 3732/ +27 12 429 3732 / 012 429 2367/ +27 12 429 2367

Departmental Webpage:

<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=194>

The Department of Auditing is situated on the 2nd level of the AJH van der Walt building on the main campus in Pretoria and our telephone number is +27 12 429 4707. Professor JM van Staden is the chair of the department.

3.3 University

If you need to contact Unisa about matters not related to the content of this module, please consult the brochure *my Studies @ 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:

Fax number (RSA only)	(012) 429-4150
Fax number (international)	+27 12 429-4150

Other means of contacting the university are:

Physical address	University of South Africa Preller Street Muckleneuk Pretoria City of Tshwane
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Postal address	University of South Africa PO Box 392 UNISA 0003
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Online address	http://my.unisa.ac.za
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Unisa website <http://www.unisa.ac.za>

E-mail addresses

First enquiries (prospective students) study-info@unisa.ac.za
All international students international@unisa.ac.za
(registration-related enquiries)

Other departments

Aegrotat exams aegrotats@unisa.ac.za
Assignments assign@unisa.ac.za
Despatch, study material despatch@unisa.ac.za
Examinations exams@unisa.ac.za
Graduation affairs gaudeamus@unisa.ac.za
Remark papers remark@unisa.ac.za
Recheck papers recheck@unisa.ac.za
Finance finan@unisa.ac.za

Student information

Fellow student names condiscipuli@unisa.ac.za
Student counselling and career development counselling@unisa.ac.za
Enquiries about prescribed books vospresc@unisa.ac.za

Library

The *my Studies @ 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

Short SMS codes

Send an SMS direct query with your name, student number/ID number and a short description of your query.

Applications and registrations	43578
Assignments	43584
Exams	43584
Study material	43579
Student accounts	31954
myUnisa/myLife	43582

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 MODULE-RELATED RESOURCES

The resources at your disposal are classified into two 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. 2012. *Auditing notes for South African students*. 8th edition. Durban: LexisNexis.
- South African Institute of Chartered Accountants (SAICA). *SAICA Handbook 2012/2013 - Auditing Volume 2*. Durban: LexisNexis.
- Gowar H & Jackson RDC. 2013. *Graded Questions on Auditing 2013*. Durban: LexisNexis.

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

4.2 Recommended books

There are no recommended books for this module.

4.3 Electronic Reserves (e-Reserves)

There are no electronic reserves prescribed for this module.

5 STUDENT SUPPORT SERVICES FOR THE MODULE

For student support services you are referred to the **my Studies @ 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 **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 (AirPAC), go to <http://oasis.unisa.ac.za/airpac>.

Telephonic book requests

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

6 MODULE-SPECIFIC 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 *my Studies @ Unisa* brochure for general time management and planning.

7 MODULE PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

8 ASSESSMENT

8.1 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.

Commentaries and feedback on assignments

The solution to assignment 01 will be provided to you in Tutorial Letter 201 which will only be distributed after the due date of assignment 01. The solution to assignment 02 will be sent to you in Tutorial Letter 202 which will only be distributed 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. The solution and commentary on the self evaluation examination paper will be included in Tutorial Letter 104 which will enable you to mark your assignment.

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 10% 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

5% x mark obtained for compulsory assignment 02 plus

90% 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

8.2 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.

8.2.1 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.

8.2.2 Due dates for assignments

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)	6 March 2013 Unique number: 828974	28 August 2013 Unique number: 333683
02 (Compulsory)	28 March 2013 Unique number: 809525	16 September 2013 Unique number: 358209

8.3 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, ***my Studies @ Unisa***, that you received with your study material.

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 3.1 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>.

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. AUE303R).
Correct assignment number.
 Correct unique assignment number (applicable only to assignments 01 and 02).
 Label with bar code.

8.4 Assignments

8.4.1 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 **my Studies @ 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: **my Studies @ 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 1-7 of the study guide and **Tutorial Letter 104**.
- (3) The content of this assignment covers the ISAs. The purpose of this assignment is to systematically guide you through the ISAs. If you honestly attempt the assignment **after** first consulting the ISA, you will reap the benefits. If you copy the solution with the aim to mainly obtain a high year mark, do not be surprised if you fail the examination in spite of an excellent year mark!

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
828974

DATE OF SUBMISSION

First semester: 6 March 2013

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

(1 marks per question)

1. 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.

2. 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.

3. 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 risk assessment procedures to identify risks of material misstatement at financial statement level.
 - 3 The control weaknesses to be included in the communication with those charged with governance.
 - 4 The coordination of the data preparation by the client's personnel.
- 4.** 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 the financial statements as a whole than that initially determined, implies that the auditor should revisit performance materiality.
- 5.** Which one of the following factors would most likely influence an auditor's consideration of the reliability of data when performing analytical procedures?
- 1 Whether the data was developed in a computerised or manual accounting system.
 2. Whether the data was prepared on the accrual basis.
 - 3 Whether the data was developed by a system with adequate controls.
 - 4 Whether the data was processed by an online system.
- 6.** Study **ISA 450** and then select the most correct alternative.
- 1 Management are required by this standard to give the auditor a written representation as to whether they believe the effects of the uncorrected misstatements are immaterial to the financial statements as a whole.
 - 2 Identified misstatements will not require modification to the existing audit plan and strategy.
 - 3 Judgments of management concerning estimates are excluded from the definition of misstatements.
 - 4 The auditor may decide if a breakdown of the misstatements should be set out in his audit file.

7. An audit supervisor reviewed the work performed by the staff to determine if the audit was adequately performed. The supervisor accomplished this by primarily reviewing which one of the following?
- 1 Checklists.
 - 2 Audit working papers.
 - 3 Analytical procedures.
 - 4 Financial statements.
8. The auditor's inventory test counts are traced to the client's inventory listing to test for which of the following financial statement assertions?
- 1 Completeness.
 - 2 Rights and obligations.
 - 3 Allocation and valuation.
 - 4 Understandability and classification.
9. For which one of the following audit tests would the auditor most likely use attribute sampling?
- 1 Identifying entries posted to incorrect accounts.
 - 2 Estimating the amount in an expense account.
 - 3 Evaluating the reasonableness of the depreciation expense.
 - 4 Selecting receivables for confirmation of account balances.
10. An auditor intends to use the work of an actuary who has a relationship with the client. Under these circumstances, the auditor ...
- 1 is required to disclose the contractual relationship in the auditor's report.
 - 2 should assess the risk that the actuary's objectivity might be impaired.
 - 3 is **not** permitted to rely on the actuary because of a lack of independence.
 - 4 should communicate this matter to those charged with governance as a significant deficiency in internal control.
11. Study **ISA 540** and then select the most correct alternative.
- 1 Accounting estimates will always give rise to the risk of material misstatement.
 - 2 Derivative instruments do not necessarily require the estimation of fair values.
 - 3 Fair value accounting estimates are not specialised.

- 4 Not all financial statement items requiring measurement at fair value involve the estimation of uncertainty.
- 12.** Which one of the following steps should an auditor perform first to determine the existence of related parties?
- 1 Examine invoices, contracts, and purchasing orders.
 - 2 Request a list of related parties from management.
 - 3 Review the company's business structure.
 - 4 Review the income tax return filed with SARS.
- 13.** Which one of the following roles would typically be acknowledged in a management representation letter?
- 1 Management has the responsibility for the design of controls to detect fraud.
 - 2 Management communicates its views on ethical behaviour to its employees.
 - 3 Management's knowledge of fraud is communicated to the audit committee.
 - 4 Management's compensation is contingent upon operating results.
- 14.** Select the most correct alternative with regard to the use of analytical procedures by the external auditor.
- 1 The auditor ultimately relies on the use of analytical procedures to form a conclusion about the reasonableness of revenue.
 - 2 The auditor uses analytical procedures to test the control environment of the entity.
 - 3 The auditor does not use analytical procedures when obtaining an understanding of the business.
 - 4 The auditor uses analytical procedures to obtain evidence with regard to the application of accounting policies by the entity.
- 15.** An auditor finds several errors in the financial statements that the client prefers not to correct. The auditor determines that the errors are not material in aggregate. Which of the following actions by the auditor is most appropriate?
- 1 Document the errors in the summary of uncorrected errors and document the conclusion that the errors do not cause the financial statements to be misstated.
 - 2 Document the conclusion that the errors do not cause the financial statements to be misstated, but do not summarise uncorrected errors in the working papers.
 - 3 Summarise the uncorrected errors in the working papers, but do not document whether the errors cause the financial statements to be misstated.

4. Do not summarise the uncorrected errors in the working papers, and do not document a conclusion about whether the uncorrected errors cause the financial statements to be misstated.
16. A successor auditor's initial inquiries of the predecessor auditor should include questions regarding:
 - 1 The predecessor's evaluation of audit risk and judgement about materiality.
 - 2 Subsequent events that occurred since the predecessor's audit report was issued.
 - 3 Possible professional reasons for not accepting the engagement.
 - 4 The predecessor's knowledge of accounting matters of continuing significance.
 17. Which one of the following alternatives would be likely to cause an auditor to consider whether a client's financial statements contain material misstatements?
 - 1 Management did not disclose to the auditor that it consulted with other accountants about significant accounting matters.
 - 2 The financial director will not sign the management representation letter until the last date of the audit.
 - 3 Audit trails of computer-generated transactions exist for a short time only.
 - 4 The results of an analytical procedure disclose unexpected differences.
 18. As part of the process of observing a client's physical inventory count, an auditor should be alert to:
 - 1 The inclusion of any obsolete or damaged goods.
 - 2 Any change in the method of pricing from prior years.
 - 3 The existence of outstanding purchase commitments.
 - 4 The verification of inventory values assigned to goods in process.
 19. Select the most correct alternative that necessitates fair value testing.
 - 1 Available for sale investments.
 - 2 Depreciation of equipment.
 - 3 Allowance for credit losses.
 - 4 Employee benefits.
 20. Which of the following statements is correct regarding accounting estimates?
 - 1 The auditor's objective is to evaluate whether accounting estimates are reasonable in the circumstances.

- 2 Accounting estimates should be used when data concerning past events can be accumulated in a timely, cost-effective manner.
- 3 An important accounting estimate is management's listing of accounts receivable greater than 90 days outstanding.
- 4 Accounting estimates should not be used when the outcome of future events related to the estimated item is unknown.

---X---

8.4.2 Semester 1: Compulsory assignment 02

Instructions:

- (1) Consult *my Studies @ Unisa* for instructions on how to submit written assignments.

Special instruction regarding the answering of this assignment

- (1) This assignment covers the remainder of the syllabus.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
809525

DATE OF SUBMISSION

First semester: 28 March 2013

YOU ARE REQUIRED: Refer to the prescribed textbook listed under point 4.1 namely, *Graded Questions on Auditing 2013* and answer the following questions:

QUESTION 1:	Question 11.15	(30 marks)
QUESTION 2:	Question 14.7	(25 marks)
QUESTION 3:	Question 15.8	(15 marks)

---X---

8.4.3 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 **my Studies @ 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: **my Studies @ 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 1-7 of the study guide and **Tutorial letter 104**.
- (3) The content of this assignment covers the ISAs. The purpose of this assignment is to systematically guide you through the ISAs. If you honestly attempted the assignment **after** first consulting the ISA, you will reap the benefits. If you copied the solution with the aim to mainly obtain a high year mark, do not be surprised if you fail the examination in spite of an excellent year mark!

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
333683

DATE OF SUBMISSION

Second semester: 28 August 2013

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

(1 mark per question)

1. Study **ISA 530** and then select the most correct alternative.
 - 1 This standard sets out a table to calculate the sample size.
 - 2 The tolerable misstatement is nothing other than the application of performance materiality.
 - 3 If the level of sampling risk that the auditor is willing to accept is low then the sample size will also be small.
 - 4 For large populations the actual size of the population will always affect the size of the sample.

2. Study **ISA 300** and then select the most correct alternative.
 - 1 Communication with the predecessor auditor is a consideration that is listed in this standard.
 - 2 Drafting an audit strategy is not a compulsory working paper for smaller entities.
 - 3 According to this standard, planning forms a discrete phase of an audit.
 - 4 The engagement partner may delegate his involvement in planning the audit to other key team members.

3. Study **ISA 500** and then select the most correct alternative.
 - 1 The fact that the electronic information of a client is not retrievable after a specified time is one of the risks that an auditor has to accept.
 - 2 Evaluating the appropriateness of the work of the auditor's expert is part of this standard.
 - 3 The degree of the sufficiency of audit evidence can be calculated precisely by an auditor.
 - 4 This standard is applicable to all the audit evidence obtained during the course of an audit.

4. Study **ISA 501** and then select the most correct alternative.
 - 1 Attending a physical inventory count is compulsory.
 - 2 A physical inventory count must take place at the financial year end.
 - 3 Dealing with consignment inventory is not covered in this standard.
 - 4 Evaluating management's count procedures is addressed in this standard.

5. Study **ISA 501** and then select the most correct alternative.
 - 1 The auditor must always design audit procedures to identify litigation against the client.
 - 2 If management refuses permission to contact their legal counsel the auditor is required to modify the audit report.

- 3 If the auditor assesses a risk of material misstatement regarding litigation, direct communication with external legal counsel is not a specific requirement of the standard.
 - 4 It cannot be expected from those charged with governance at the client to provide a written representation to the auditor regarding litigation.
6. Study **ISA 450** and then select the most correct alternative.
- 1 Those charged with governance are required by this standard to give the auditor a written representation as to the effects of unrecorded misstatements on the annual financial statements.
 - 2 Identified misstatements will not require modification to the existing audit plan and strategy.
 - 3 Judgments of management concerning estimates are excluded from the definition of misstatements.
 - 4 The auditor may decide if a breakdown of the misstatements should be set out in his audit file.
7. Study **ISA 450** and then select the most correct alternative.
- 1 Only the chartered accountant in charge of statutory reporting needs to be informed of material misstatements.
 - 2 Laws or regulations cannot restrict the auditor's communication of certain misstatements to management.
 - 3 If a material misstatement has been corrected by management the auditor still needs to make reference to it in the audit report.
 - 4 The omission of a required disclosure may be regarded as a misstatement.
8. Study **ISA 505** and then select the most correct alternative.
1. Should management refuse to allow the auditor to send an external confirmation, then the audit report will state this fact.
 2. In the case of non-response to an external confirmation, the auditor may then assume that the party agrees with the content of the request.
 3. When using external confirmation procedures, the auditor may rely on the client's internal audit department to exercise control over the external confirmation requests.
 4. The auditor must investigate all exceptions on an external confirmation.
9. Study **ISA 510** and then select the most correct alternative.
- 1 Opening balances are computerised balances and therefore no further audit procedures are required.
 - 2 The appropriateness of accounting policies must be considered according to this standard.

- 3 The opinion of the previous year's auditors has no effect on the current year's audit report.
 - 4 A predecessor auditor, according to this standard, includes another engagement partner in the same audit firm.
- 10.** Study **ISA 520** and then select the most correct alternative.
- 1 This standard requires that all inconsistencies identified by analytical procedures, must be investigated.
 - 2 Analytical procedures may include the use of forecasts.
 - 3 The standard prescribes the specific analytical ratios that must be used by an auditor.
 - 4 Unsophisticated predictive models cannot be used according to this standard.
- 11.** Study **ISA 540** and then select the most correct alternative.
- 1 The auditor does not consider the outcomes of prior period estimates since estimates relate to future events only.
 - 2 Management bias plays a negligible role in the auditing of estimates.
 - 3 The measurement criteria of accounting estimates can vary depending on the applicable financial reporting framework.
 - 4 Obtaining written representations from management regarding the reasonableness of the assumptions used for accounting estimates is not compulsory.
- 12.** Which one of the following procedures would an auditor perform in the planning stage of a financial statement audit?
- 1 Obtain representations from management regarding the availability of all financial records.
 - 2 Communicate with those charged with governance concerning the prior year's audit adjustments.
 - 3 Make inquiries of the client's attorney regarding pending and threatened litigation and assessments.
 - 4 Compare recorded financial information with anticipated results in budgets and forecasts.
- 13.** Study **ISA 540** and identify the alternative that would **not** constitute an example of an accounting estimate.
- 1 Allowance for doubtful debts (allowance for credit losses).
 - 2 Warranty obligations.

- 3 Provision for unpaid leave.
 - 4 Depreciation method.
14. Study **ISA 540** and then select the most correct alternative.
- 1 When auditing smaller entities the standard does not require formal audit working papers to evidence consideration of accounting estimates.
 - 2 Assumptions do not form an integral part of accounting estimates.
 - 3 A difference between the outcome of an accounting estimate and the amount recognised in the prior period financial statements represents a misstatement of the prior period financial statements.
 - 4 The amount of an accounting estimate can never be measured with complete accuracy.
15. Select the alternative which provides the best example of what will be regarded by the auditor as the most reliable source of audit evidence.
- 1 A trainee accountant receives a faxed copy of the bank confirmation and agrees the information to the bank balance in the general ledger bank account.
 - 2 The client sends out and receives back bank, attorneys and investment confirmations on behalf of the auditor. The auditor has for several years accepted this practice as it has been agreed with the client that 2% of the audit fees will be reduced if the client performs the confirmation process.
 - 3 The auditor receives a faxed copy of the investment confirmation. The auditor verifies with the bank that the faxed copy is indeed from the correct source. The auditor then also requests the investment manager to post the original signed confirmation to the auditor.
 - 4 In order to save audit time, the auditor phones the client's attorney to confirm that there are no possible or current litigations existing against the client.
16. Your client sells computer equipment for cash and on credit. Thirty-five major customers buy on credit. You have decided to send out trade debtors confirmation letters to these customers to verify trade receivables at year-end. Identify the financial statement assertion relating to accounts receivable that the above audit procedure is designed to test.
- 1 Completeness.
 - 2 Cut off.
 - 3 Existence.
 - 4 Occurrence.
17. As part of the audit procedures, you (the auditor) need to perform analytical procedures on sections of the payroll. Select the alternative that best illustrates an example of the **most** correct analytical procedure.
- 1 Agree the payslip to the employment contract.

- 2 Cast the payroll expenses for each month.
 - 3 Obtain a bank confirmation from the bank for the payroll amount paid and agree it to the trial balance figure.
 - 4 Compare payroll expenses on a month-on-month basis.
18. 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 cover 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 10 years.
19. KZ Properties has adopted the fair value model to value its investment properties.
- Select the most appropriate alternative that the auditor should consider when performing fair value tests on KZ Properties' investment properties.
- 1 Obtain an independent valuation from an expert.
 - 2 Evaluate from the disclosure of fair values that they are measured in accordance with the financial reporting framework.
 - 3 Incorporate a paragraph in the management representation letter confirming the reasonableness of significant assumptions relating to fair values.
 - 4 All of the above.
20. Which of the following events would **least** likely indicate the existence of related party transactions?
- 1 Making a loan with no scheduled date for the funds to be repaid.
 - 2 Maintaining loan accounts for the benefit of principal shareholders.
 - 3 Borrowing funds at an interest rate significantly below prevailing market rates.
 - 4 Writing down obsolete inventory to net realisable value just before year end.

---X---

8.4.4 Semester 2: Compulsory assignment 02

Instructions:

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

Special instruction regarding the answering of this assignment

- (1) This assignment covers the whole syllabus.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
358209

DATE OF SUBMISSION

Second semester: 16 September 2013

YOU ARE REQUIRED: Refer to the prescribed textbook listed under point 4.1 namely, *Graded Questions on Auditing 2013* and answer the following questions:

QUESTION 1:	Question 8.24(c)	(20 marks)
QUESTION 2:	Question 14.6	(18 marks)
QUESTION 3:	Question 15.9	(30 marks)

---X---

9 OTHER ASSESSMENT METHODS

An examination paper which serves as a self evaluation assessment is found as an addendum to this tutorial letter.

Special instructions and remarks regarding the answering of this assessment opportunity

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

After having completed this, you should compare your answers with the key in Tutorial Letter 104. 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 the examination that serves as a self assessment assignment.

PART	MAIN TOPIC	MARKS
1.	Planning of the audit	42
2.	Substantive procedures to audit plant and equipment	25
3.	Subsequent events	15
4.	Reporting	<u>18</u>
		<u>100</u>

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.

CASE STUDY

100 marks

Background

You are the newly appointed audit senior of Basko Bakery (BB) Ltd, an existing audit client of PMC Auditors. The financial year under review ended on 30 April 2012. BB Ltd is listed on the Johannesburg Securities Exchange (JSE) Limited, operates from one central bakery and has an average annual turnover of R400 million.

The company has an internal audit department. In an attempt to contain the audit fee for upcoming audit the partner responsible for the audit, the audit committee suggested making more use of the internal auditors. You need to consider this during the planning of the audit.

Refer to working paper U1-1 in order to understand the entity.

Plant and equipment

The accountant provided you with the following schedule:

Asset description:	Turbo mixer Z47 (Specialised equipment)
Asset category:	Plant and equipment
Date acquired:	1 November 2011
Cost:	R1 793 831

Depreciation:	10% p.a straight line (single unit)
Residual value:	R Nil
Financing:	Leased from TNT Financing Ltd; ownership passes to BB Ltd at the end of the term of the lease.

Fine for bread price fixing

While reviewing the previous year's audit file, you established that no mention or evidence was on file of the price fixing as reported by the media in the current year. You are of the opinion that the audit procedures for identifying subsequent events need attention during the 2012 audit.

Refer to working paper U1-2 for media reports relating to the price fixing.

Subsequent event identified

Refer to working paper S1-2 regarding the Department of Health (DOH) investigation.

WORKING PAPERS:

		U1-1	
PMC Auditors		Prepared by:	LF
Client:	Basko Bakery Ltd	Date:	15/05/2011
Period:	Y/E 30/4/2012	Reviewed by:	
Subject:	Understanding of the entity	Date:	
The business			
<p>Basko Bakery (BB) purchases flour from millers and bakes bread and confectionery products. The bakery business is treated as a manufacturing industry where raw materials are converted into a finished product with fixed and variable overheads.</p> <p>BB supplies bread and confectionery on credit to numerous supermarkets, petrol station shops, etc throughout Gauteng. It operates from one central bakery and uses a fleet of delivery vans to deliver to its customers.</p> <p>Monthly management reports that disclose the monthly revenue and expenses are prepared by the client. There is a detailed annual budget which is broken down into months. BB's accounting department will provide PMC Auditors with financial records, all the management reports and the VAT returns.</p> <p>Overheads mainly consist of electricity, delivery expenses and wages. Other monthly expenditure includes advertising costs, insurance and staff expenses. The client employs a small number of administrative staff and a large labour force. Inventory is kept to the minimum at any time due to the nature of the product.</p> <p>In the bakery industry consumption increases over winter months and during holidays. Analytical review procedures are applied very effectively in this type of industry as the prediction and analysis of relationships between financial information and non-financial information is possible. The non-financial records include production and delivery records.</p>			

		U1-2	
PMC Auditors		Prepared by:	LF
Client:	Basko Bakery Ltd	Date:	15/05/2011
Period:	Y/E 30/4/2012	Reviewed by:	
Subject:	Relevant media reports	Date:	

The following working paper contains a summary of relevant media reports identified while planning and performing the audit:

Finance News 10/03/2011:

Basko Bakery complies with bread pricing ruling

The Competition Commission said on Tuesday that it was informed by Basko Bakery that bread price reductions had been implemented which were part of the package of penalties imposed on it for anti-competitive behavior.

The price of standard white and brown loaves of bread will be reduced by an average of 30c from 01/05/2011. This price reduction is in addition to any other promotional discount to retailers.

The commission imposed a 10% penalty calculated on bread sales of the 2011 financial year. BB Ltd will pay the fine in 12 equal monthly installments commencing 1 June 2011.

Guardian News 15/03/2011:

Massive class action against bread price fixing

A group of civil society organisations and consumers have launched what they say is a "massive" class action against three companies found to have colluded in fixing the price of bread.

Related Articles 04/05/2011

Basko Bakery expects a decline in earnings for 2011. (The Business Reporter)

			S1-2
PMC Auditors		Prepared by:	LF
Client:	Basko Bakery Ltd	Date:	28/05/2012
Period:	Y/E 30/4/2012	Reviewed by:	
Subject:	Subsequent events	Date:	

Department of Health (DOH) investigation

During May 2012 the Department of Health (DOH) started an investigation against BB Ltd. This has nothing to do with the bread price fixing case. The charges of the investigation included the use of unsafe ingredients for human consumption. According to the alleged charges, since August 2011 BB Ltd added an ingredient to the dough to fortify the bread with vitamins B and C. However, HIV aids patients receiving antiviral drug treatment, were allegedly showing severe allergies to these additives. Various complaints were lodged to the DOH which resulted in the current investigation. If found guilty, BB Ltd could be fined a penalty calculated on 20% of one year's turnover. The fine releases BB Ltd from further liability as the state will handle personal liability.

I discussed the matter with management on 27/05/2012. They indicated that this initiative to fortify the bread was to gain the confidence and trust of the consumers by adding some "health" to the bread. This initiative was launched after the price fixing fine.

The financial director Mr. Iwiza informed me that no adjustments or disclosure to the annual financial statements would be considered for this matter as their intention was good.

From the cash flow forecasts I established that the company does not have additional cash reserves and the impact of a possible penalty will have a detrimental impact on the business.

The planned sign off date of the annual financial statements is 1 June 2012. I am of the opinion that the investigation will not be finished by that date.

REQUIRED

Marks

1. Planning of the audit (understanding and analytical review)

Refer to the background information and working papers U1-1 and U1-2.

1.1 Describe the steps that you will perform to obtain an understanding of the entity and its environment that will enable you to plan the audit of Basko Bakery Ltd. **(15)**

1.2 Describe the analytical review procedures that you might conduct at the **planning stage** for the BB Ltd audit. **(18)**

1.3 Describe six aspects that you need to evaluate and consider before relying on the work of the internal auditors during the audit. **(9)**

2. Substantive procedures for plant and equipment

Describe the detailed substantive procedures that you will perform to audit the Turbo mixer Z47. (25)

3. Subsequent events

Refer to the working paper S1-2.

Describe the audit procedures commonly performed by auditors to identify subsequent events (Mark allocation: 1½ marks per properly formulated procedure). (15)

4. Reporting

Discuss the aspects to be considered to reach an appropriate opinion and then draft the *basis of opinion* paragraph of the audit report. You may assume that management will refuse to disclose and/or adjust for the possible DOH penalty. Assume that the correct accounting treatment would be that a provision for the penalty must be included in the financial statements.

- **Your reasoning in reaching an appropriate opinion.** (10)
- **Draft the *Basis of opinion* paragraph** (not the audit opinion). (8)

10 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 2013 and the supplementary examination will be written in October/November 2013. If you are registered for the second semester you will write the examination in October/November 2013 and the supplementary examination will be written in May/June 2014.

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

The Examination Paper

Note that your self evaluation assignment is an example of an examination paper. It will be included in this tutorial letter under point 14. Please refer to this assessment opportunity for the format of the examination paper and type of questions you can expect in the examination.

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 ***my Studies @ Unisa*** brochure for general guidance for the examination as well as for your preparation for the examination.

11 FREQUENTLY ASKED QUESTIONS

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

12 SOURCES CONSULTED

Apart from the prescribed textbook no additional sources were consulted.

13 CONCLUSION

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.

14 ADDENDUM

No further information is included.