


**AUD2M1W
RAD2M1K**

May/June 2009

AUDITING II (MODULE 1)

Duration : 2 Hours

100 Marks

EXAMINERS :

FIRST :

SECOND :

MRS SCC GREGORY

MR KN MOTUBATSE

Use of a non-programmable pocket calculator is permissible.

THIS PAPER CONSISTS OF **EIGHT (8)** PAGES.

This paper consists of the following questions and main topics:

QUESTION	MAIN TOPIC	MARKS
1	Multiple choice questions	10
2	Auditing in general and Professional Conduct	20
3	Statutory matters and Corporate Governance	30
4	Audit process and assertions	15
5	Planning and risk	<u>25</u>
		<u>100</u>

This paper is set in English only.

NOTE:

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

[TURN OVER]

QUESTION 1

10 marks

REQUIRED

For each subsection of this question, select **ONE** alternative that you consider to be appropriate. Then write down your answer as the number of the subsection and the letter that precedes the alternative selected. Answer the subsections of this question in numerical sequence, for example:

- 1.1 A
- 1.2 B

(1 mark per question)

- 1.1 Select the **most** appropriate alternative to complete the following sentence:

The characteristic that is most common to internal auditors and external auditors is the characteristic of ...

- A independence.
- B freedom.
- C comparability.
- D conclusion.

- 1.2 Which **one** of the following is incorrect?

- A A practitioner entrusted with monies belonging to others, in the course of professional work, should keep such monies separate from firm monies.
- B Clients' monies received by a practitioner should be deposited without delay to the debit of a client account.
- C Monies may only be drawn from the client account on the instructions of the client.
- D Fees due from a client may be drawn from clients' monies provided that the client has approved such a withdrawal.

[TURN OVER]

- 1.3. Which **one** of the following is correct?
- A Advertisements should not state the basis on which professional fees for services are calculated.
 - B Advertisements should contain testimonials.
 - C Advertisements sent by email are not permitted.
 - D Advertisements should not state hourly rates.
- 1.4 Select the **most** appropriate alternative to complete the following sentence:
A private company is a company having a share capital which by its articles...
- A restricts the rights of transfer of its shares.
 - B offers shares / debentures of the company to the public.
 - C have shares of par value only.
 - D does not limit the number of its members.
- 1.5 Who does not qualify for membership of a Close Corporation?
- A Natural person.
 - B Member incapable of running his/her affairs.
 - C Trustee of a testamentary trust.
 - D Trustee of a member who is incapable of running his/her affairs.
- 1.6 Which is **not** an indicator of a going concern problem?
- A Inconsistent earnings.
 - B Deterioration in paying creditors.
 - C Increase in turnover.
 - D Recurring losses.

- 1.7 As the auditor you find that the accounting system and related control procedures are excellent. Is it possible to perform only tests of control?
- A Yes, as the internal control system was tested completely and no errors were found and this is a low risk client.
 - B No, as all internal control systems have inherent limitations which make them less than 100% efficient.
 - C Yes, as it would not be cost effective and due to time constraints as you are expected at another audit.
 - D No, as it is your firm's policy to always ignore the results from the test of controls and perform substantive procedures.
- 1.8 Which **one** is not part of the preliminary engagement activities?
- A Obtaining an understanding of the entity and its environment, including internal control.
 - B Establishing an understanding on whether the client can be appropriately serviced.
 - C Obtaining an understanding on whether the firm is able to comply with the ethical requirements relating to the engagement.
 - D Establishing an understanding of the terms of the engagement.
- 1.9 Select the **most** appropriate alternative to complete the following sentence:
- Materiality is ...
- A both quantitative and qualitative.
 - B only quantitative.
 - C only qualitative.
 - D none of the above.

- 1.10 Which **one** of the following is incorrect?
- A Misappropriation would include embezzlement.
 - B Theft of physical assets or intellectual property.
 - C Then entity paying for goods or services not received.
 - D Management override.

QUESTION 2

20 marks

PART A

REQUIRED

Marks

- 2.1 Postulates are the very foundation on which the audit discipline is built upon. Without a foundation, nothing of performance can be built.

Briefly explain your understanding of the following postulate:
"Internal controls reduce the probability of errors and irregularities" (2)
- 2.2 Briefly explain the difference between statutory and non-statutory engagements. (3)
- 2.3 Briefly explain why there is a need for auditors. (2)
- 2.4 Briefly explain the role of the auditor. (2)
- 2.5 When is confidential information permitted to be disclosed by an audit firm? (3)
- 2.6 Objectivity is one of the five fundamental principles established by the IFAC Code of Ethics for professional accountants.

Briefly explain this principle. (2)

[TURN OVER]

PART B

REQUIRED

Marks

State whether the following events/actions would give rise to a threat to professional accountants **and** give reasons for your answers, in terms of the IFAC code of ethics for professional accountants.

- 2.7 Moloto Inc, an audit firm, advises their client H2O (Pty) Ltd on accounting principles and disclosure, as well as assists with consolidations, reconciliations etc. (2)
- 2.8 Mr J Malan, the partner, has been involved in the audit of Dot G (Pty) Ltd for over ten years. (2)
- 2.9 Bie and Co, an audit firm, is a trustee of Shooters Trust. Shooters Trust holds shares in Sports Shop (Pty) Ltd. Bie and Co is the auditor of Sports Shop (Pty) Ltd. (2)

QUESTION 3

30 marks

REQUIRED

Marks

Your brother's company was registered as a Close Corporation, Laduma CC. He now has a opportunity to tender for one of the 2010 soccer world cup projects, and has questions with regards to Close Corporations and Companies.

He has also heard about the King Code but does not know if he must comply with it.

- 3.1 When is a company defined as a "widely held company"? (4)
- 3.2 Name **three (3)** things that must be done in order for the CC to be converted into a company. (6)
- 3.3 List **four (4)** characteristics of good corporate governance as described in the 2002 King Report. (6)
- 3.4 Name **two (2)** entities to whom the King Code would apply? (3)

[TURN OVER]

- 3.5 Who should the Board of Directors compose of? (3)
- 3.6 Discuss **two (2)** functions an effective internal audit should provide. (4)
- 3.7 Briefly discuss the relationship between the external auditors and the audit committee. (4)

QUESTION 4

15 marks

PART A

REQUIRED

Marks

Internal controls are all around us, and we are part of it in our daily lives, sometimes not even realising it.

Explain the intention of the following "internal controls" we come across every day of our lives.

- 4.1 When filling up with petrol the petrol pump automatically returns the counters which reflect the amount of the previous sale and the quantity sold, to zero. (3)
- 4.2 When shopping at Makro, once a shopper has paid for their goods, they must present the till slip and the goods to a security person at the door of the shop. (3)
- 4.3 When you go to the cinema, the attendant will tear the ticket in two as you enter, giving you back half and keeping the other half. (3)

PART B

REQUIERD

Marks

- 4.4 Explain **two (2)** types of tests of controls. (3)
- 4.5 Explain **two (2)** types of substantive procedures. (3)

[TURN OVER]

QUESTION 5

25 marks

PART A

Your audit firm was recently approached by a prospective client, Van Gough (Pty) Ltd. Before accepting a new client, your firm should determine whether it wishes to enter into a relationship with Van Gough (Pty) Ltd.

REQUIRED	Marks
5.1 Briefly discuss reasons as to why an audit firm may not wish to enter into a relationship with a prospective client.	(6)
5.2 Name the four (4) distinct stages of the audit process.	(4)
5.3 When should the auditor consider materiality?	(3)
5.4 List the components of audit risk.	(3)

PART B

The annual financial statements of a company can be seen as a collection of assertions made by the directors regarding the position and results of operations of the company they are managing on behalf of shareholders.

These assertions can be categorised as follows:

- Assertions about **classes of transactions and events** for the period under audit, e.g. sales, purchases, interest received.
- Assertions about **account balances** at year end, e.g. accounts receivable, property, plant and equipment, accounts payable.
- Assertions about **presentation and disclosure**, e.g. notes which support balance sheet account headings

REQUIRED	Marks
5.5 Name and describe an assertion for each of the above categories.	(9)