



# National University of Science and Technology

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**SECOND SEMESTER EXAMINATION: 2012/2013**

**DATE : MAY 2013**

**SUBJECT : ADVANCED AUDITING CAC 4203**

**TIME ALLOWED : THREE (3) HOURS**

**MARKS : 100**

## **INSTRUCTIONS TO CANDIDATES**

1. Answer all questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

**QUESTION 1 [30 Marks]**

- (a) You are the auditor of Moyo Chemical Compounds, a public limited company that researches and prepares chemical compounds for industrial use.

The audit for Moyo Chemical Compounds for the year ended 30 June 2012 revealed the following subsequent events:

**Date Event**

17 August 2012. One of the major customers, who represented 15% of the total trade receivables on the SOFP, went bankrupt.

23 September 2012. Financial statements approved by directors.

24 September 2012 Audit work completed and auditor's report signed.

4 November 2012

Accidental release of toxic fumes in the atmosphere from the company's chemical plant resulting in severe damage to the environment. Management had made adequate disclosure of this in the financial statements to year end 30 June 2012 and made proper amendments wherever necessary.

25 November 2012. Financial statements issued by Moyo Chemical Compounds.

29 November 2012

Flooding of a nearby river destroyed the machinery and equipment at one of the company's locations. Repairs to the entire set-up are required that will take eleven months. This will result in production losses

**Required:**

- (a) For each of the following three dates:  
(i) 17 August 2012  
(ii) 4 November 2012  
(iii) 29 November 2012

State whether the events occurring on those dates are adjusting or non-adjusting according to IAS 10 Events occurring after the Reporting Period, giving reasons for your answer.

Explain the auditor's responsibility and the audit procedures that should be carried out. **[20 Marks]**

- (b) ISA 560 describes the audit work to be carried out for any subsequent events.

**Required:**

List the audit procedures that can be used prior to the signing of the auditor's report to identify events that may require adjustment or disclosure in the financial statements. **[10 Marks]**

**QUESTION 2 [20 Marks]**

- (a) What is an environmental audit? **[3 marks]**
- (b) 'Environmental issues often have implications for business and cannot be ignored by auditors. Auditors need a general awareness of the risk that environmental issues may have an impact on the financial statements.'

**Required:**

Comment on the above statement. **[9 marks]**

- (c) Explain substantive procedures to detect material misstatement due to environmental matters. **[8 marks]**

**QUESTION 3 [28 Marks]**

- (a) Comment on the limitations that shareholders may perceive exist in the standard unmodified auditor's report as described in ISA 700 'Forming an opinion and reporting on financial statements'. **[6 marks]**
- (b) Explain and distinguish between 'qualified opinion', 'disclaimer of opinion' and 'emphasis of matter paragraph' used in modified reports. **[6 marks]**
- (c) Fine & Young is a firm of Chartered Certified Accountants. One of its audit clients, Tadu, is a textbook publisher. Tadu is planning to expand through the acquisition of a number of small publishers of other media such as video tapes and CDs. The finance director of Tadu has been reviewing the financial statements of potential targets. He has come across an auditor's report dated 19 January 2013, on financial statements for the year ended 30 September 2011 which does not have the standard wording of an unmodified report. The finance director has now approached the audit manager of Icehouse for an explanation of its meaning. The scope and opinion paragraphs are as follows:

**'Scope'**

'We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

'However, the evidence available to us identified certain transactions which had not been included in the previous year's records and as a result had been omitted from the financial statements for the year ended 30 September 2010'

'Adjustments have been made and are disclosed in Note 22. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion'.

**‘Opinion’**

‘In our opinion the financial statements give a true and fair view of the financial position of the Company as of 30 September 2012 and of the loss on its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

‘The company’s liabilities exceed its assets at 30 September 2011 creating an adverse situation which management believes is reversible over the coming twelve months. Management further believes that the company is capable of continuing to trade for twelve months from the date of this report.’ 19 January 2013’

**Required:**

Identify and explain the shortcomings of this report.

**[16 marks]**

**QUESTION 4 [22 marks]**

Much publicity has been given to developments which have implications for the responsibilities and liabilities of management and auditors, both internal and external, and relating to:

- (a) the opinion of the external audit. **[6 marks]**
- (b) reporting assurance on the effectiveness of internal financial controls. **[6 marks]**
- (c) written representations. **[5 marks]**

**Required:**

Comment on responsibilities involved in each of the above areas and discuss the impact of recent developments regarding the professional liability of external auditors.

**Note:** the mark allocation is shown against each of the three issues.

- (d) What is an auditor’s legal position relating to outstanding liability for expenses? **[5 marks]**

**END OF EXAMINATION PAPER**