



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION: 2013/2014

DATE: MAY 2014

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**[25 MARKS]**

- (a) Discuss why the identification of related parties, and material related party transactions, can be difficult for auditors. **[8 marks]**
- (b) You are an audit manager responsible for providing hot reviews on selected audit clients within your firm of Chartered Accountants. You are currently reviewing the audit working papers for Tonota Co, a long standing audit client, for the year ended 31 January 2014. The draft statement of financial position of Tonota Co. shows total assets of \$12 million (2013 - \$11.5 million).The audit senior has made the following comment in a summary of issues for your review:

‘Tonota Co’s statement of financial position shows a receivable classified as a current asset with a value of \$25,000. The only audit evidence we have requested and obtained is a written representation stating the following:

- that the amount is owed to Tonota Co from Seruwe Co,
- that Seruwe Co is controlled by Tonota Co’s chairman, Kuda Moyo, and
- that the balance is likely to be received six months after Tonota Co’s year end.

The receivable was also outstanding at the last year end when an identical written representation was provided, and our working papers noted that because the balance was immaterial no further work was considered necessary. No disclosure has been made in the financial statements regarding the balance. Seruwe Co is not audited by our firm and we have verified that Tonota Co does not own any shares in Seruwe Co.’

Required:

In relation to the receivable recognized on the statement of financial position of Tonota Co as at 31 January 2013:

- (i) Comment on the matters you should consider. **[7 marks]**
- (ii) Recommend further audit procedures that should be carried out. **[5 marks]**
- (iii) Discuss the quality control issues raised by the audit senior’s comments. **[5 marks]**

QUESTION 2**[28 MARKS]**

- (a) Describe management's responsibilities and the work that it should perform in relation to the going concern status of companies. **[7 marks]**
- (b) Describe the possible procedures to be followed by the auditor according to ISA 570 during the review of the going concern status of an entity. **[7 marks]**

Pondai is a large thermal power generation company that is listed on a stock exchange. It is highly geared because, like many such companies, it borrowed a large sum to pay for permission to operate in a disputed area. It has suffered huge losses due to non-production because the area has been the subject of litigation for many years. The company's share price has dropped by 60% during the last two years and there have been several changes in the senior management during that period. There has been considerable speculation in the press over the last six months about whether the company can survive without being taken over by a rival. Four companies have approached the company regarding a possible takeover but all have failed, mainly because the bidders pulled out of the deal as a result of a drop in share prices generally.

The company has net assets, but has found it necessary to severely curtail its capital investment programme. Some commentators consider this to be fundamental to the future growth of the business; others consider that the existing business is fundamentally sound. It has also been necessary for the company to restructure its finances. Detailed disclosures of all these matters have always been made in the financial statements. No reference has been made to the going concern status of the company in the previous auditors' reports on financial statements and the deterioration in circumstances in the current year is no worse than it has been in previous years.

Required:

- (c) On the basis of the information provided above, describe the audit report that you consider is likely to be issued in the case of Pondai, giving reasons. **[7 marks]**
- (d) Explain the difficulties that would be faced by Pondai and its auditors if Pondai's audit report made reference to going concern issues **[7 marks]**

QUESTION 3

[25 MARKS]

Your firm has been external auditor of Sisonke Limited for some years. Sisonke has an internal audit department, engaged in both compliance and operational auditing. You have a high opinion of the quality of internal audit work and have established a good relationship with Nkululeko, the head of internal audit. He has asked you to give a talk to the members of his department during their annual training week. He would like your views on the different roles of external and internal auditors, the type of work that each carry out and their reporting responsibilities.

Required:

- (a) Draft the lecture notes that you will use when giving your talk, paying particular attention to the differences and similarities of the following features of external and internal auditors:
 - (i) general role **[3 marks]**
 - (ii) independence **[3 marks]**
 - (iii) the work carried out on systems of internal control and operations **[3 marks]**
 - (iv) reporting responsibilities **[3 marks]**

- (b) Explain what evidence you would seek as external auditor to satisfy yourself that you can rely on the work of the internal auditor. **[7 marks]**
- (c) Give three examples of internal audit activity that might be used by the external auditor. **[6 marks]**

QUESTION 4 [22 MARKS]

Discuss the following:

- (a) the dominance of global firms and how they affect the accounting profession **[6 marks]**
- (b) how International Standards on Auditing affect smaller firms **[6 marks]**
- (c) the impact of developments in public company oversight on external auditors **[5 marks]**
- (d) the need for new and revised standards **[5 marks]**

END OF EXAMINATION PAPER