



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

AUDITING AND INTERNAL CONTROL

AIC33B3

Final Summative Assessment Opportunity

November 2014

Time: 3 hours

Marks: 100

Assessor: Mr A.S. Peer; Mr C Ackermann; Mr J. Mamaile

Moderator: Mr M. Pete

INSTRUCTIONS:

- This paper consists of seven pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly (if applicable).
- Start each question on a new page.
- Silent, non-programmable calculators may be used.

QUESTION 1**AUDIT REPORTING****[10]**

- 1) Why does the title of the audit report includes the word "Independent"? (1)
 - a) To signify that the audit is an assurance engagement
 - b) To enhance the credibility of the report by emphasising the independence of the auditor
 - c) To limit the auditors liability should the audit report prove to be inappropriate

- 2) To who is the annual audit report addressed for a listed company? (1)
 - a) The audit committee
 - b) The chairman of the board
 - c) The shareholders

- 3) The audit report must not provide an opinion on which of the following? (1)
 - a) The fair presentation of the financial position
 - b) The effectiveness of the company's internal control
 - c) The fair presentation of the company's financial performance

- 4) When signing off the audit report, the terms registered auditor and chartered accountant must be included. (1)
 - a) True
 - b) False

- 5) Which of the following may cause the auditor to modify his audit opinion? (1)
 - a) There is disclosure which must be brought to the attention of the users
 - b) The audit budget was exceeded
 - c) There are uncorrected material misstatements in the financial statements

- 6) Which of the following will result in the auditor giving an adverse opinion? (1)
 - a) A disclosure which is material has been omitted from the financial statements
 - b) The auditor wishes to draw attention to an important matter

- c) The selected accounting policies resulted in a pervasive misstatement because they are inappropriate
 - d) The audit is unable to obtain sufficient appropriate audit evidence due to circumstances beyond his control
- 7) Which of the following could result in the auditor giving a disclaimer? (1)
- a) Significant limitations have been placed on the auditor by client management
 - b) The selected accounting policies used was inappropriate
 - c) The selected accounting policies was not applied correctly
- 8) Can the auditor have two “except for” qualifications in the audit report, one based on a limitation of the audit scope and the other on a disagreement? (1)
- a) Yes
 - b) No
- 9) With which words will the “emphasis of matter” paragraph start? (1)
- a) Without qualifying our opinion above,...
 - b) In our opinion, the following matters requires emphasis...
 - c) The following matter forms part of our audit opinion...
- 10) With regards to “other information” in the annual report, what is the auditors responsibility? (1)
- a) The auditor as no responsibility
 - b) The auditor must express an opinion on the other information
 - c) The auditor must read the other information in order to detect misstatements of fact and material inconsistencies
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QUESTION 2**AUDIT REPORTING****[10]**

Thabo Ndlovu started his auditing traineeship three year ago and have now been promoted to audit supervisor. One of the new audit trainees could not remember the

wording of the independent auditors report as it relates to the auditors responsibility paragraph.

REQUIRED:

Explain to the audit trainee what must be stated in the auditor's responsibility paragraph in the independent auditors report.

QUESTION 3

WORKING PAPERS

[10]

ISQC 1 Quality control for firms that perform audit requires that audit firms implement and conduct the necessary quality review procedures to ensure the audit is considered to be good quality.

REQUIRED:

Engagement staff quality review and audit partner review is important as part of the quality assurance programme. List what is the responsibility of the engagement staff and that of the audit partner with reference to quality review procedures.

QUESTION 4

EDP

[10]

Controls in a computerised environment are categorised as either general controls or application controls. General controls are those which establish an overall framework of control for computer activities. General controls must therefore be in place if application controls are to be working effectively. One of the categories of general controls is documentation. Documentation should be promptly updated for any changes and responsibility for this task must be allocated to specific individuals.

REQUIRED:

- 4.1) List why sound documentation policies are essential in a computerised environment (5)
- 4.2) Pre-determined documentation standards should exist. List some of the criteria of the pre-determined documentation standards (5)
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QUESTION 5**EDP CAATs****[10]**

Computer assisted audit techniques are exactly what they sound like: making use of a computer to assist in carrying out the audit. Although there is some extremely powerful and complex software available to assist in performing audits, the concept is simple: wherever it is economical and efficient to do so, the power, speed and versatility of the computer should be harnessed to assist with the audit.

REQUIRED:

Answer the following questions on System Oriented CAATs.

- 5.1) What is Test Data? (3)
- 5.2) What is an Integrated Test Facility? (3)
- 5.3) What is Parallel Simulation? (2)
- 5.4) What is an Embedded Audit Facility? (2)
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QUESTION 6**EDP****[20]**

Controls in a computerised environment are categorised as either general controls or application controls. Application controls is any control within an application which contributes to the accurate and complete recording and processing of transactions which have actually occurred, and have been authorised.

REQUIRED:

- 6.1) List and describe any five programme input checks (10)

- 6.2) The objective of output controls is to ensure that output is accurate and complete. List seven output controls over distribution of computer output (7)
- 6.3) List any three output controls users can execute to ensure that output is accurate and complete (3)
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QUESTION 7 **EDP DEFINITIONS** **[10]**

Define the following terms.

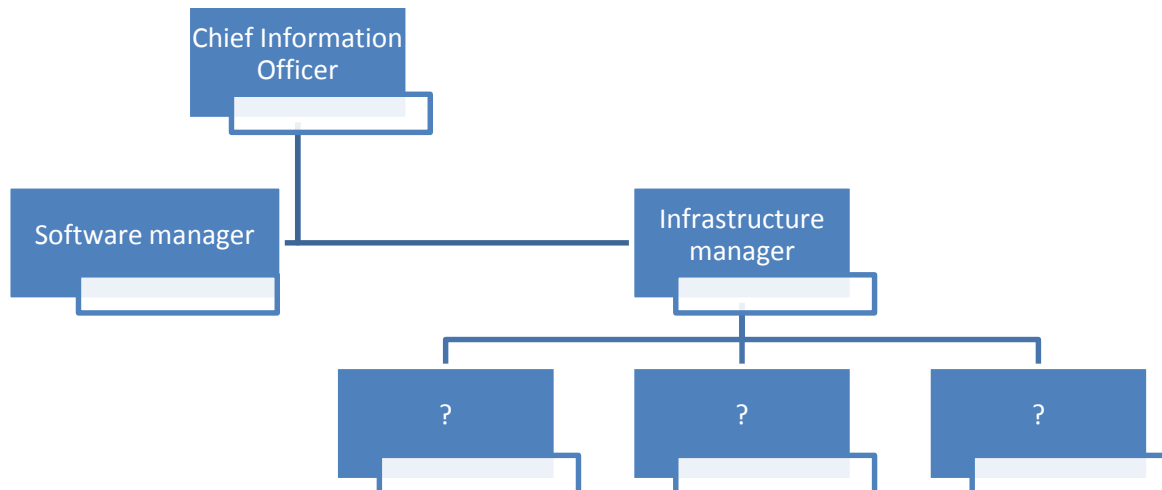
- 7.1) The principle of least privilege (2)
- 7.2) Disaster recovery procedures (2)
- 7.3) Encryption (2)
- 7.4) Logging (2)
- 7.5) The principle of fail safe (2)
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QUESTION 8 **EDP CONTROL ENVIRONMENT** **[10]**

Controls in a computerised environment are categorised as either general controls or application controls. General controls are those which establish an overall framework of control for computer activities. General controls must therefore be in place if application controls are to be working effectively. One of the categories of general controls is the control environment. As part of the control environment, organisations must implement an organisational structure and allow assignment of authority and responsibly to enable clear reporting lines of authority and to lay out the foundation for segregation of duties.

REQUIRED:

The following section of an organogram is given for your perusal.



Discuss who can be working under the Infrastructure Manager. Name them and elaborate on their responsibilities.

QUESTION 9**SYSTEM DEVELOPMENT****[10]**

Systems change because the business work changes, and the need for quicker, different, additional and better quality information increases. Business systems are said to have a life cycle i.e., they start, develop, mature and decline. Systems development has to do with significant changes relating to computerised systems. This often means that most of the aspects of a system can change, such as hardware, software, communication devices, personnel procedures and documentation. It is important to note that when system development procedures are carried out risks must be kept to a minimum.

REQUIRED:

- 9.1) List the controls that should be implemented during the project approval stage of system development (5)
 - 9.2) List the controls that should be implemented as part of project management during the entire system development process (5)
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TOTAL**[100]**