CO-ORDINATOR AND LECTURER
Anwar Chowdhury
Room 40.310
Telephone (042) 21 4007

TUTORS
Anwar Chowdhury (Room 40.310, Tel 042 214007))
Hemant Deo (Room No 40.307, Tel 042 213731)
Robyn Cook (Room No 40.301, Tel 042 214006)

SUBJECT DESCRIPTION
Advanced auditing is a capstone subject for students undertaking an accountancy major. It integrates accounting standards, accounting systems, internal controls, and the auditing functions of obtaining and evaluating evidence, and reporting - all within the context of a professional environment. This subject begins with an overview of auditing and continues through the audit process with emphasis on financial statement audit under the Corporations Law. In addition, the programme addresses issues related to Electronic Data Interchange audit.

PERFORMANCE OBJECTIVES
Through participation in the activities of this subject students will be able to:

- evaluate the role and regulation of modern audit with an appreciation of demand for and supply of audit services;
- describe the appointment, rights, duties and liabilities of company auditors;
- identify management assertions with regard to financial information and decide appropriate ways of collecting required evidence;
- design an audit plan appropriate to the risks surrounding the audit engagement;
- design and perform appropriate audit tests to obtain sufficient appropriate evidence on each segment of financial statements;
- integrate evidence separately collected on each segment of the financial statements to form an overall opinion;
- write an audit report in accordance with the Australian corporate requirements;
- describe essential aspects of an internal audit, an operational audit and a public sector audit.

METHODOLOGY
Lectures, interactive tutorials, self study and practical projects.
PRESCRIBED TEXTS


REFERENCE TEXTS


RECOMMENDED JOURNALS
Wk Nos | Week Starting | WEEKLY TOPICS | Tutorial Questions
---|---|---|---
01 | 21 Jul 97 | Introduction to auditing | No Tutorials
 | | Demand and supply of auditing |
02 | 28 Jul 97 | Audit environment including auditors’ rights and responsibilities | 1.1, 1.7, 1.8, 1.10, 1.18, 2.22
 | | | 1.13, 1.14, 1.15, 1.16
03 | 04 Aug 97 | Audit independence | 2.1, 2.2, 2.4, 2.5, 2.21,
 | | Accepting engagement and appointment | 2.28
 | | Audit documentations |
04 | 11 Aug 97 | Audit Planning | 2.25, 2.28, 2.32, 3.1, 3.2, 3.16
 | | Materiality and risks | 6.15, Case 1 from casebook
 | | Audit strategy |
05 | 18 Aug 97 | Compliance test | 5.1, 5.2, 5.3, 5.9, 6.1, 6.2, 6.6,
 | | | 7.1, 7.12

ESSAY DUE DURING THE WEEK COMMENCING ON 18 AUGUST 1997

06 | 25 Aug 97 | Compliance tests | 8.1, 8.2, 8.3, 8.4, 8.6, 8.7, 8.14
07 | 01 Sep 97 | Substantive tests | 9.1, 9.2, 10.1, 10.2, 10.3, 10.4
 | | | 8.16, 8.30, 9.3, 11.5, 11.23
 | | | Case 3 from Casebook
08 | 08 Sep 97 | Substantive tests | 9.4, 9.5, 9.8, 9.11, 9.16

MID TERM TEST- DATE, TIME AND VENUE TO BE ADVISED

09 | 15 Sep 97 | Auditing advanced computer systems including EDI based systems | 11.1, 11.2, 11.3, 11.4, 10.5
 | | | 10.6, 10.11, 10.13, 11.30
10 | 22 Sep 97 | Completing an audit | 12.14, 12.20, 12.13, 12.27

TWO WEEKS RECESS 29 SEPTEMBER 1997 TO 12 OCTOBER 1997

11 | 13 Oct 97 | Audit Reporting | 13.11, 13.19, 13.25, 13.30
 | | | Case 5 from casebook
12 | 20 Oct 97 | Audit expectations, litigation and regulation | 14.6, 14.11, 14.12, 14.15 14.25,
 | | | 14.26

COMPUTER ASSIGNMENT DUE DURING THE WEEK COMMENCING ON 20 OCT 1997

13 | 27 Oct 97 | Specialised audit areas | 1.11, 1.13, 2.4, 2.5, 2.7, 2.20
 | | | 4.15
14 | 03 Nov 97 | Revision | 2.2, 5.4, 8.19, 14.19
SUBJECT REQUIREMENTS AND ASSESSMENT
Any student failing to complete the following compulsory requirements WILL FAIL the subject. The COMPULSORY subject requirements are:

- active participation in tutorials. Tutors will award the participation mark based on the level of knowledge, contribution and presentation skill displayed in the tutorial class;
- a satisfactory completion of essay and computer assignment;
- a satisfactory mark in the mid-term examination;
- a minimum of 40% marks in the final examination;

The composite mark will be made up as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essay</td>
<td>10%</td>
</tr>
<tr>
<td>Computer assignment</td>
<td>10%</td>
</tr>
<tr>
<td>Mid term examination</td>
<td>15%</td>
</tr>
<tr>
<td>Tutorial participation including 3 cases from the casebook</td>
<td>15%</td>
</tr>
<tr>
<td>Final examination (three hours)</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

ESSAY

“Many members of the accounting profession and the wider business community argue that although there have been a few instances where the independence of an auditor could be questioned, in vast majority of the cases the auditors have been, and continue to be, independent of the directors who nominated them for appointment. On the other hand, some accountants and representatives of smaller investors and shareholder groups believe that lack of independence is a significant problem and that the auditor is, in practice, responsible to management or the directors.” Source: Review of the Requirements for the Registration and Regulation of Auditors, Draft Report. April 1996. Para 807, P82).

Critically discuss the above statements identifying and explaining the issues involved. You are also required to make suggestions for improving the efficiency and effectiveness of audit independence in Australia.

This essay may be prepared and presented in a number of ways, eg it could support the position taken up by the profession, totally reject the profession’s position or take an alternative regulatory position. Provide sufficient appropriate evidence from recent developments in accounting and auditing.

Special requirements for preparation and presentation of essay.

Due date
Submit TWO copies of your essay during the week beginning on 18 August 1997, to your tutor in the week’s tutorial class.

Length
Around 3 000 words
**Assessment Criteria:**
The markers will consider the following aspects, among others, in the assessment of the essay - (a) **synopsis**, (b) **structure and presentation**, (c) **content**, (d) **style**, and (e) **reference and citation**. The essay must be **TYPED** and include a list of references containing only those works cited. The **Accounting Review method of citation and reference** must be used (Check January 1997 copy of Accounting Review, pages 181-185).

**Penalties**

<table>
<thead>
<tr>
<th></th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>No synopsis</td>
<td>1</td>
</tr>
<tr>
<td>Incorrect citation</td>
<td>1</td>
</tr>
<tr>
<td>No reference list</td>
<td>1</td>
</tr>
<tr>
<td>Late penalty per day</td>
<td>1</td>
</tr>
</tbody>
</table>

For plagiarism **ALL MARKS** will be deducted. Refer to the University of Wollongong General Information Calendar 1997 pages 70-71 on plagiarism.

**COMPUTER ASSIGNMENT**
The computer assignment, case number 8 from the casebook, is due during the week commencing on 20 October 1997. For this assignment you are required to complete all **discussion questions and exercises** from pages 95-96 of the casebook and submit your **typed work with original disc** to your tutor during the week’s tutorial class.

**COMPUTER LABORATORY TIMES**
The following unsupervised laboratory times have been allocated to ACCY 342 students for completion of the computer and other assignments.

<table>
<thead>
<tr>
<th>Days</th>
<th>Times</th>
<th>Laboratories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuesdays</td>
<td>19.30 - 20.30</td>
<td>Lab 1</td>
</tr>
<tr>
<td>Wednesday</td>
<td>13.30 -14.30</td>
<td>Lab 5</td>
</tr>
<tr>
<td>Thursday</td>
<td>11.30 - 12.30</td>
<td>Lab 4</td>
</tr>
<tr>
<td></td>
<td>14.30 - 15.30</td>
<td>Lab 2</td>
</tr>
<tr>
<td></td>
<td>16.30 - 17.30</td>
<td>Lab 5</td>
</tr>
<tr>
<td></td>
<td>16.30 - 17.30</td>
<td>Lab 7</td>
</tr>
</tbody>
</table>

Students **SHOULD NOT** leave completion of the assignment to the last moment as there are only a limited number of computers available in the laboratories.

**LATE SUBMISSION OF ESSAYS OR COMPUTER ASSIGNMENTS COUNTING TOWARDS COMPOSITE MARK**

The Essay or the Computer Assignment, which count towards the composite mark and are submitted after the due date, will, unless special exemption has been given for a substantial reason properly documented by the lecturer in charge, incur a penalty of one mark per day or part thereof.

Essays or computer assignments submitted **TEN DAYS** after the due date will receive a mark of **ZERO**.
TUTORIAL ASSIGNMENTS
Tutorial assignments have been listed in the detailed weekly study and practice programme, and lecture and tutorial schedule on Page 3 of the Subject Programme. Students are required to have prepared answers to all the questions prior to the tutorial class. The tutors will check the tutorial solutions and give you credit for the quality of work done.

MID-TERM EXAMINATION
The mid term examination will be a multiple choice test covering contents to week eight of the subject schedule. The result of this examination should be displayed on the departmental NOTICE BOARD as soon as they are available.

FINAL EXAMINATION
The final examination consisting of short essay questions will cover the entire subject.

LECTURES
The subject has lectures totalling two hours per week one hour 3.30-4.30 PM on Tuesdays in room number 20.3 and another one hour 3.30-4.30PM on Thursdays in room 20.3. The 5.30-7.30PM lecture in room 20.5 on Tuesdays is a repeat class.

The lecturers will teach on the core areas and provide general guidance in the lecture. The lecturers may also distribute additional study materials at some lectures. Attendance at the lecture is highly recommended but not compulsory.

INSTITUTE OF CHARTERED ACCOUNTANTS STUDENT SOCIETY & AUSTRALIAN SOCIETY OF CPAs ACCOUNTING STUDENTS REGISTER
Students are strongly advised to join one of these student societies. Benefits include one year subscription to the respective bodies journal, access to library facilities, and a free copy of Accounting and Auditing Handbook 1997 published by Prentice Hall Australia.

COOPERS & LYBRAND PRIZE
Coopers and Lybrand, Chartered Accountants, offer a cash prize of $400 to the student securing the highest aggregate mark in ACCY 342 Advanced Auditing at his/her first attempt, providing the student has attained a sufficient academic standard.

QUERIES AND QUESTIONS
Students encountering difficulties with aspects of the course should first raise the matter with their tutors. If there is still a problem, contact the subject co-ordinator/lecturer.

PAST EXAMINATION PAPERS
Past examination papers included as part of the subject programme SHOULD only be used as a guide. The final examination this year could have an entirely different format or emphasis.

SPECIAL CONSIDERATION AND SUPPLEMENTARY EXAMINATION
Refer to the University of Wollongong General Information Calendar 1997 for procedures on supplementary examination and special consideration Pages 74-76.

If a supplementary examination is granted it may be written, oral or computer generated and will be held under examination conditions soon after the last date of the formal examination period. Only one supplementary exam will be held.
If a student requests a supplementary examination or special consideration, then it is the student's responsibility to be available during the above period, in case a supplementary examination is granted.

Students should note that all final examination papers will not be allowed to be taken from the examination room and hence will not be available to students taking supplementary examination.

SUCCESS AND HARD WORK
Success in this subject requires hard work throughout the session. Back loading of studies does not normally produce a good result in this subject. We shall provide you full support but the hard work MUST be done by you.

Good luck.

ANWAR CHOWDHURY
22 July 1997
**Main Learning Areas**

<table>
<thead>
<tr>
<th>Compulsory Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing - definition</td>
</tr>
<tr>
<td>Auditing and accounting</td>
</tr>
<tr>
<td>Types of audits</td>
</tr>
<tr>
<td>Types of auditors</td>
</tr>
<tr>
<td>Accountancy Profession</td>
</tr>
<tr>
<td>Demand for audit</td>
</tr>
<tr>
<td>Supply of Audit</td>
</tr>
</tbody>
</table>

**WEEK TWO - AUDITORS’ RIGHTS AND RESPONSIBILITIES**

<table>
<thead>
<tr>
<th>Main Learning Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives of auditing</td>
</tr>
<tr>
<td>Management and auditor responsibility</td>
</tr>
<tr>
<td>Auditing standards (AUS)</td>
</tr>
<tr>
<td>Auditing guidance statements (AGS)</td>
</tr>
<tr>
<td>Audit reports</td>
</tr>
<tr>
<td>Rights of auditors</td>
</tr>
<tr>
<td>Duties of auditors</td>
</tr>
<tr>
<td>Auditors responsibilities for irregularities</td>
</tr>
<tr>
<td>Auditors responsibilities for other information contained in the audited financial reports</td>
</tr>
</tbody>
</table>

**WEEK THREE - AUDIT INDEPENDENCE AND APPOINTMENT**

<table>
<thead>
<tr>
<th>Main Learning Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional ethics</td>
</tr>
<tr>
<td>Auditor independence</td>
</tr>
<tr>
<td>Management advisory services provided by auditors</td>
</tr>
<tr>
<td>Client acceptance</td>
</tr>
<tr>
<td>Audit appointment</td>
</tr>
<tr>
<td>Engagement letter</td>
</tr>
<tr>
<td>Quality control for audit work</td>
</tr>
<tr>
<td>Audit documentation</td>
</tr>
</tbody>
</table>

**WEEK FOUR - AUDIT PLANNING, MATERIALITY AND RISK ANALYSIS**

<table>
<thead>
<tr>
<th>Main Learning Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit planning</td>
</tr>
<tr>
<td>Knowledge of business</td>
</tr>
<tr>
<td>Audit materiality</td>
</tr>
<tr>
<td>Audit risks</td>
</tr>
<tr>
<td>Transaction based audit</td>
</tr>
<tr>
<td>Systems based audit</td>
</tr>
<tr>
<td>Risk driven audit</td>
</tr>
<tr>
<td>Audit strategy</td>
</tr>
</tbody>
</table>

**WEEK FIVE - COMPLIANCE TESTING**

<table>
<thead>
<tr>
<th>Main Learning Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal controls</td>
</tr>
</tbody>
</table>
WEEK SIX - COMPLIANCE TESTING (CONTINUED)

Main Learning Areas
- Internal controls
- Recording internal controls
- Evaluating internal controls
- Management assertion
- Tests of controls/compliance tests
- Nature of compliance test
- Timing of compliance test
- Extent of compliance test
- Compliance test in CIS environment
- Using the work of others in compliance tests
- Compliance test on sales and accounts receivable
- Reporting on the internal control weaknesses

Compulsory Readings
- Textbook
  - Chapter 8, 9, 10, 11
- Handbook
  - AUS214, AUS402
  - AUS502, AUS514
  - AUS602, AUS604
  - AGS1018, AGS1020
  - AGS1022

WEEK SEVEN - SUBSTANTIVE TESTS

Main Learning Areas
- Audit detection risks
- Substantive tests
- Nature of substantive tests
- Timing of substantive tests
- Extent of substantive tests
- Substantive test in CIS environment
- Using the work of others in substantive tests
- Initial engagements - opening balances
- Substantive test on sales and accounts receivable
- Substantive test on inventories
- Reporting on the errors detected to the audit committee

Compulsory Readings
- Textbook
  - Chapter 8, 9, 10, 11
- Handbook
  - AUS502, AUS504
  - AUS512
  - AUS514, AUS602
  - AUS604, AUS606
  - AGS1018, AGS1020
  - AGS1022

WEEK EIGHT - SUBSTANTIVE TESTS (CONTINUED)

Main Learning Areas
- Audit detection risks

Compulsory Readings
- Textbook
  - Chapter 8, 9, 10, 11
Substantive tests
Nature of substantive tests
Timing of substantive tests
Extent of substantive tests
Substantive test in CIS environment
Using the work of others in substantive tests
Initial engagements - opening balances
Substantive test on sales and accounts receivable
Substantive test on inventories
Reporting on the errors detected to the audit committee

WEEK NINE - AUDITING EDI SYSTEMS

Main Learning Areas
Internal controls in EDI systems
Risk analysis of EDI systems
Risk based audit approach in EDI systems

Compulsory Readings
Textbook
Chapter 12
Handbook
AGS1018, AGS1022

WEEK TEN - COMPLETING AN AUDIT

Main Learning Areas
Auditing income and expenses
Contingent liabilities
Minutes of meetings
Audit of related party
Audit of accounting estimates
Comparatives
Subsequent events
Going concern
Management representation letter
Communication with audit committee

Compulsory Readings
Textbook
Chapter 13
Handbook
AUS508, AUS516
AUS518, AUS520
AUS704, AUS706
AUS708, AUS710
AGS1014

WEEK ELEVEN - AUDIT REPORTING

Main Learning Areas
Legal requirements of audit report
Professional requirements of audit report
Circumstances of unqualified report
Format of unqualified audit report
Circumstances of modified report
Disagreement reporting
Uncertainty reporting
Scope limitation reporting
Reporting comparatives
Reporting subsequent events
Reporting going concern problem

Compulsory Readings
Textbook
Chapter 14
Handbook
AUS702, AUS704
AUS706, AUS708,

WEEK TWELVE - AUDIT EXPECTATION, LITIGATION AND REGULATION

Main Learning Areas
Audit expectation gap

Compulsory Readings
Textbook
Chapters 1, 2, 3, 4
Litigation under contract
Litigation under common law
Litigation under statute
Auditors’ liability to third parties
Audit regulation

WEEK THIRTEEN - SPECIALISED AUDIT AREAS

Main Learning Areas

| Internal audit | Textbook | Chapter 16,17 |
| Performance audit | Handbook | AUS806, AUS808 |
| Public sector audit | | AUS902, AUS904 |
| Review of financial reports | | AGS1016, ED30 |
| Engagement to perform agreed-upon procedures | | |
| Audit and review reports - Half-year accounts and consolidated accounts | | |
| Compliance auditing | | |

Compulsory Readings
Family Name ....................................................
Other Names ..................................................
Student Number ............................................
Table Number ............................................... 

UNIVERSITY OF WOLLONGONG

DEPARTMENT OF ACCOUNTING & FINANCE

ACCY 368 INSOLVENCIES

SPRING SESSION EXAMINATION 1996

Time Allowed: 3 hours
Reading Time Allowed: 10 minutes
Number of Questions: 5

DIRECTIONS TO CANDIDATES

1. The paper consists of FIVE (5) questions. You must attempt all questions.

2. All questions are of equal mark value.

EXAMINATION MATERIALS/AIDS ALLOWED

1. Electronic Calculators allowed.

2. Foreign language dictionary allowed.

Please Note: Examination Paper printed on both sides

THE EXAMINATION PAPER MUST NOT BE REMOVED FROM THE EXAMINATION ROOM
**Question 1**
Argenti considers creative accounting to be a symptom of corporate failure, whereas Smith alludes to it being a cause. How do you reconcile the two differing opinions?  
(20 marks)

**Question 2**
Advisers in any type of insolvency administration will, at some point, have to assess the viability of the company. Why is this assessment necessary and what factors need to considered when making this assessment?  
(20 marks)

**Question 3**
What were the aims of the Australian Insolvency law reforms? Describe the changes brought about by the Harmer Report (Corporate Law Reform Act 1992) and whether or not these changes are consistent with the aims you have outlined.  
(20 marks)

**Question 4**
What are the two conventional definitions of insolvency and how is each identified? Referring to at least two case studies, discuss the misuse of accounting (creative accounting/window dressing) in disguising the insolvency of a company.  
(20 marks)

**Question 5**
Compare and contrast the role of the insolvency administrator under the various types of insolvency administrations available within Australian Law (in your answer, you should make mention of the potential legal liability the administrator may incur).  
(20 marks)

Total: 100 Marks
UNIVERSITY OF WOLLONGONG
DEPARTMENT OF ACCOUNTING AND FINANCE

ACCY 342 ADVANCED AUDITING

SPRING SESSION EXAMINATION 1995

Time Allowed: 3 HOURS
Reading Time Allowed: 10 MINUTES
Number of Questions: 8

DIRECTIONS TO CANDIDATES

1. Each question does NOT carry equal marks.
2. Answer ALL questions.

ONLY ELECTRONIC CALCULATORS ALLOWED

N.B. Electronic calculators (distinguished from hand-held computers by the existence of an alpha keyboard) will be permitted in all examinations unless specified to the contrary on both the cover sheet of the examination paper and the Examination Timetable.

Please Note: Examination Paper printed on both sides

THE EXAMINATION PAPER MUST NOT BE REMOVED FROM THE EXAMINATION ROOM

QUESTION 1
The advice from Trevor Sykes (1990, 46) for investors in Australian corporations is:

Watch the share price, because it is remarkable how often the market senses that a company is in deep trouble. And if the published accounts are saying one thing, and the market is saying another, always believe the market.

You are required to describe briefly

(a)  why there may be a demand for audit services from the large Australian companies listed on the Stock Exchange even in the absence of a statutory requirement under the Corporations Law, and

(8 marks)

(b)  what are the special reasons why some Australian exempt proprietary companies may have their financial statements audited despite the fact that under section 327 of Corporations Law it is not mandatory for these companies to appoint auditors.

(4 marks)

Total 12 marks

QUESTION 2

PART A

You have received a telephone call on 15 August 1995 from John Wiseman, the president of Whitfield Limited, a listed company with a turnover of $50 000 000. He has told you that the

♦  results of the audit for the year to 30 June 1995 are needed by 30 September 1995,

♦  the accounting records and procedures are strictly in accordance with the statutory and professional requirements, and

♦  a “premium” will be added to your fees if the audit is completed within the required time.

You are required to explain with reasons why you would accept or reject this audit appointment.

(5 marks)
QUESTION 3

PART B

You are asked to accept appointment as an auditor of Eastwood Corporation Limited with respect to the accounting year to 30 June 1995. On your instruction, Robert Goodman, one of the audit managers of your firm, has prepared a brief report after researching the background of the proposed Eastwood audit. The report includes the following matters for your consideration:

♦ Eastwood had three different auditors in the last five audits, and
♦ Eastwood had four different finance directors in the last five years.

You are required to explain with reasons why you would accept or decline the audit engagement of Eastwood.

(5 marks)

Total 10 marks

QUESTION 3

Audit engagements should be managed effectively from the time of acceptance of the appointment. The auditor is to communicate with management and the previous auditor before accepting a new engagement, and communication continues, after appointment, with the management and the audit committee.

You are required to

(a) explain why an incoming auditor is required to communicate with the predecessor auditor before accepting a new audit engagement;           (2 marks)

(b) describe the common contents of an audit engagement letter;                           (5 marks)

(c) explain under what circumstances the auditor may be required to send engagement letters to existing audit clients;                           (3 marks)

(d) explain with reasons whether a disclaimer in the audit engagement letter may prevent auditors’ liability to a banker who advanced money relying on the audited financial statements.      (6 marks)

Total 16 marks
QUESTION 4

You are the auditor of ABC Limited. You have already gained an understanding of the internal control structure, and studied and evaluated ABC’s accounting systems and related internal controls. Four controls, that follow, have been identified by the audit team in the expenditure cycle of ABC. The accounting and internal control systems require

- approved purchase requisition for each order;
- approved purchase order for each delivery received;
- receiving clerks count, inspect, and compare goods received to the respective purchase order;
- access to locked storage areas by authorised personnel only.

You are required to

(a) identify one potential misstatement that could be prevented/detected by each of the above four controls;  
(4 marks)

(b) suggest one procedure for the auditor to test compliance of each of the four controls identified above;  
(4 marks)

(c) explain with reasons whether you think the understanding and recording of the accounting systems and related internal controls is a one-off task;  
(3 marks)

(d) discuss the inherent limitations that should be recognised when considering the effectiveness of the internal control structure.  
(5 Marks)

Total 16 marks
QUESTION 5

Willy & Milly Pty. Ltd. prepares the pay-roll for many different companies. Most choose to transmit their pay-roll data via phone link from their computers to Willy & Milly's computer. Because of the sensitivity of pay-roll information, Willy & Milly goes to extraordinary lengths to provide security. The password procedure is as follows:

- The client dials Willy & Milly's phone number and their computer responds, asking for a password;
- The client gives an eight-character password;
- The Willy & Milly computer requests the phone number of the client's computer;
- The client gives its phone number;
- The Willy & Milly computer breaks the connection with the client, verifies that the phone number is on the list of approved numbers, and dials it back;
- The Willy & Milly computer, once recognised by the client computer, transfers control to it and awaits the command to transfer or receive pay-roll data.

You are required to

(a) prepare a sketch or a system flowchart depicting the above control procedures.  
(4 marks)

(b) explain the weaknesses in these control procedures.  
(4 marks)

(c) describe the possible implications of these weaknesses for the auditors of (i) Willy & Milly, and (ii) Willy & Milly’s client companies.  
(4 marks)

Total 12 marks

QUESTION 6
You are the auditor of East-West Limited. The draft balance sheet of the company shows the following assets and liabilities:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balance</td>
<td>50,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>9,000,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>14,550,000</strong></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Taxation provision</td>
<td>40,000</td>
</tr>
<tr>
<td>Borrowing <strong>due for repayment in full on 31 October 1995</strong></td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>5,440,000</strong></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>9,110,000</strong></td>
</tr>
</tbody>
</table>

Assuming the audit report has to be signed on 30 September 1995, you are required to:

(a) explain which audit procedures you will adopt in order to obtain sufficient appropriate evidence with respect to the borrowing as at 30 June 1995;  

(4 marks)

(b) describe, with reasons, what form(s) of audit report would be appropriate if you have doubts on the auditee’s ability to repay/renew/replace borrowing at the end of October 1995;  

(4 marks)

(c) explain why post balance sheet events should be a matter of concern to the auditors.  

(4 marks)

Total 12 marks
QUESTION 7

The World Wide Web (WWW) is conceived as a seamless world in which all information, from any source, can be accessed in a consistent and simple way. The WWW rests upon the client-server model which represented a breakthrough in technology that resulted in a myriad of opportunities and risks to businesses. One such opportunity is Electronic Data Interchange (EDI).

Required:

(a) Briefly explain what is Hypertext in relation to the World Wide Web?  
(2 marks)

(b) Sketch a diagram of the client-server model and briefly describe how it works.  
(5 marks)

(c) Outline the special risks, threats and exposures associated with the audit of an EDI system.  
(5 marks)

Total 12 marks

QUESTION 8

Both in the private and public sectors when an entity has an internal audit department, the management may delegate to it some of its supervisory functions. The internal audit function constitutes a separate component of internal control undertaken by specially assigned staff within the entity. While the independent auditor has sole responsibility for the audit report and for the determination of the nature, timing and extent of the audit procedures, much of the work of the internal audit department may be useful to the independent auditor in the examination of the financial information.

You are required to

(a) explain the scope and objectives of internal audit;  
(4 marks)

(b) discuss briefly what should the independent auditor consider about the internal auditor when evaluating the effectiveness of an internal auditor’s work.  
(6 Marks)

Total 10 Marks
UNIVERSITY OF WOLLONGONG

DEPARTMENT OF ACCOUNTANCY

ACCY 342 ADVANCED AUDITING

SPRING SESSION EXAMINATION 1994

Time Allowed: 3 HOURS

Reading Time Allowed: 10 MINUTES

Number of Questions: 8

DIRECTIONS TO CANDIDATES

1. Each question does not carry equal marks.

2. Answer ALL questions.

ONLY ELECTRONIC CALCULATORS ALLOWED

N.B. Electronic calculators (distinguished from hand-held computers by the existence of an alpha keyboard) will be permitted in all examinations unless specified to the contrary on both the cover sheet of the examination paper and the Examination Timetable.

Please Note: Examination Paper printed on both sides
QUESTION 1

You work for a medium-sized firm of chartered accountants which has a number of local offices, each with at least one partner. The audit clients of the firm include a number of companies listed on the Australian Stock Exchange. The firm has been considering ways of ensuring that the quality of audit work performed by the firm at all offices is of a uniformly high standard and complies with the quality control requirements of the profession on all audits.

You are required to describe the

(a) procedures that should be followed by the auditor to comply with the audit standard as it relates to the work delegated to assistants on an individual audit, and

(b) policies and procedures to be adopted by an audit firm to provide reasonable assurance regarding the quality of audit work generally.

(Total 12 marks)

QUESTION 2

Statement of Auditing Practice AUP10, "Planning" (paragraph 12) states that auditors should consider a number of matters in developing the overall audit plan for the expected scope and conduct of audit, including the setting of materiality levels for audit purposes.

You are required to:

(a) describe the factors that should be considered in developing the overall audit plan;

(b) explain briefly why materiality is important in auditing;

(c) list the considerations affecting materiality in auditing.

(Total 12 marks)
QUESTION 3

You are auditing the purchases system of Robin Engineering Limited, a listed company with a turnover of 66 million dollars. The systems notes in the previous year audit files includes the following:

- purchase orders are raised by the purchasing manager and signed by the managing director;
- goods are received by the goods receiving department where a goods received note is prepared;
- purchase invoices are posted to the purchase ledger by the bookkeeper. The purchase ledger is maintained on a small minicomputer;
- cheques paying creditors are signed by the managing director.

A new audit assistant has asked you a number of questions on accounting systems and related internal controls.

You are required to:

(a) explain with reasons why it is important to the auditor that the auditee should have a sound system of internal control in operation;  

(4 marks)

(b) list which stages you will go through in carrying out the audit of the purchases system including the consideration and testing of internal control;  

(4 marks)

(c) describe what would be the effect on your audit work, and what audit action you would take:

(i) if you find weaknesses in some of key controls. (These may be inherent weaknesses, exceptions, and/or errors found in the audit tests);  

(5 marks)

(ii) if you conclude that the weaknesses in the system of internal control in the purchases system are so serious that you will not be able to rely on internal controls in your audit work.  

(3 marks)

(Total 16 marks)
QUESTION 4

PART A

You have completed the evaluation of the accounting systems and related internal controls of Kimberly Electronics Limited. You managed to identify the following potential misstatements that could occur for financial report assertions in accounts affected by cash disbursements systems:

- a cheque may be issued to an unauthorised payee;
- a bank balance in the general ledger may not reconcile to the bank statement;
- approved purchase invoices may be paid twice;
- an issued cheque may be improperly classified in Cash Payments Journal.

You are required to:

(a) identify a key control that could prevent or detect each misstatement; (4 marks)

(b) suggest a possible test of controls for each key control identified in (a) above. (4 marks)

PART B

You are the audit manager of XYZ Limited, a large manufacturing company with around 500 customers in the debtors’ ledger. You decided to conduct debtors confirmation as at 31 May 1994 in the audit of the year to 30 June 1994.

An audit assistant working in your team was not clear about why you are confirming 31 May 1994 balances knowing fully that you have to report on the debtors’ balances as at 30 June 1994.

You are required to:

(a) explain under which circumstances it is possible to conduct debtors’ confirmation prior to balance date; (4 marks)

(b) list other audit procedures, if any, you may perform on the June 1994 transactions that will have direct effect on the balance date debtors. (4 marks)

(Total 16 marks)
QUESTION 5

PART A

Define and distinguish between auditing "around the computer", "through the computer", and "with the computer".  
(5 marks)

PART B

ABC Limited is a computer retailer with an annual turnover of around 90 million dollars. ABC has a sophisticated Electronic Data Processing(EDP) system.
You are required to:

(a) explain with reasons which EDP audit approach you will adopt in the audit of ABC;  
(3 marks)

(b) name four audit tasks for which you may use test data in the sales audit of ABC;  
(2 marks)

(c) name four audit tasks that may be effectively performed by generalised audit software in the creditors audit of ABC.  
(2 marks)

(Total 12 marks)

QUESTION 6

You have completed the audit of a small manufacturing company. At your meeting with the directors, you asked them for a letter of representation, but they refused to sign the letter as they considered it is your responsibility to perform the audit and not their own.
You are required to:

(a) briefly explain the purpose of the letter of representation and describe its expected contents;  
(4 marks)

(b) briefly describe the position of a letter of representation in relation to the possible legal liability of the directors of the client company for misstatements and the reliance an auditor can place on the statements in the letter;  
(4 marks)

(c) list the arguments you would put forward to persuade the directors to sign the letter of representation.  
(4 marks)

(Total 12 marks)
QUESTION 7

PART A

It is quite frequently stated that the audit process and audit report are not adequately understood by the users of general purpose financial reports. The auditing profession is actively searching for ways to promote understanding among these users of the audited general purpose financial reports.

You are required to explain:

(a) what assurances would an unqualified audit report provide the users of audited general purpose financial reports, and

(b) what conclusions should NOT be made by these users from an unqualified audit report.

PART B

You are the auditor of Soundwealth Limited, a company listed on the Stock Exchange. As per the balance sheet, the company's total assets amount is $7,222,666 and the amount of total current liabilities is $9,555,888 (including borrowings $2,000,000). The company does not have any non-current liabilities.

You are required to:

specify what form(s) of audit report which should be appropriate for Soundwealth. Give reasons.

QUESTION 8

Auditing in the public sector is an expanding area of our profession. It extends to all the three tiers (federal, state and local) of government in Australia. The principles of auditing theory and practice in the private sector are applicable to auditing in the public sector. However, there are some variations in the audit approach and audit regulation.

You are required to:

(a) distinguish between the public sector audit and the private sector audit;

(b) explain why public sector auditors are believed to be more independent than the private sector auditors.