

**UNIVERSITY OF BOLTON**

**OFF CAMPUS DIVISION**

**BOTSWANA - IDM**

**BA (HONS) ACCOUNTANCY**

**SEMESTER 2 EXAMINATION 2018/2019**

**AUDITING AND ASSURANCE**

**MODULE NO: ACC 5004**

Date: 2nd March 2019

Time: 3hrs

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**INSTRUCTIONS TO CANDIDATES:**

There are FIVE questions in this examination  
Section A - Answer ALL THREE questions  
Section B – Answer - ONE question  
This is a closed book examination.  
You must hand in this exam paper with your  
answer booklet.

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**Section A Section A - Answer ALL THREE questions**

**Question 1**

You are the auditor of Toys 'n More, a limited liability company which manufactures and sells assorted toys over the internet. The company is managed by Mr Smith and two assistants. Mr Smith authorises important transactions such as wages and large orders, one assistant maintains the payables ledger and orders inventory and pays suppliers, and the other assistant receives customer orders and despatches the toys. Due to other business commitments, Mr Smith only visits the office once per week if at all.

At any time, about 100 different types of toys are available for sale. All sales are paid for immediately using EFT or debit card with the order. There are no receivables. Turnover is \$5.2 million per annum.

You are planning the audit of Toys 'n more and are considering using some of the procedures for gathering audit evidence recommended by ISA 500 as follows:

- i) Analytical Procedures**
- ii) Inquiry**
- iii) Inspection**
- iv) Observation**
- v) Re-calculation**

**Required:**

- a) For EACH of the above procedures;**
    - i) Explain its use in gathering audit evidence (5 marks)**
    - ii) Describe one example for the audit of Toys 'n More (5 marks)**
  - b) Discuss the suitability of each procedure for Toys 'n More explaining the limitations of each (10 marks)**
  - c) Tabulate 5 key features of small companies such as Toys 'n More and the impact these may have on your audit work. (10 marks)**
- (30 Marks)**

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PAST EXAMINATION PAPER

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## Question 2

The purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.

Required:

- a) **Draft an explanation dealing with the purpose of an external audit and its role in the audit of large companies, for inclusion in your firm's training materials. (15 marks)**
  
- b) The external audit process for the audit of large entities generally involves two or more recognisable stages. One stage involves understanding the business and risk assessment, determining the response to assessed risk, testing of controls and a limited amount of substantive procedures. This stage is sometimes known as the interim audit. Another stage involves further tests of controls and substantive procedures and audit finalisation procedures. This stage is sometimes known as the final audit.

**Describe and explain the main audit procedures and processes that take place during the interim and final audit of a large entity.**

**(10 marks)**

**(25 Marks)**

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**Question 3**

- a) ISA 500 requires audit evidence to be reliable.

**Required;**

**List 4 factors that influence the reliability of audit evidence**

**(4 marks)**

- b) ISA 260 Communication with those charged with Governance deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements.

**Required;**

- i) **Describe 2 specific responsibilities of those charged with governance**

**(4 marks)**

- ii) **Explain 4 examples of matters that might be communicated to them by the auditor.**

**(4 marks)**

- c) **List and explain 4 methods of selecting a sample of items to test from a population in accordance with ISA 530 Audit Sampling.**

**(4 marks)**

- d) **List and explain 4 assertions that relate to the recording of classes of transactions.**

**(4 marks)**

**In terms of audit reports, explain the term 'modified' and give 2 examples of the situations that such a report may be issued.**

**(5 marks)**

**(25 Marks)**

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**Section B– Answer - ONE question**

**Question 1**

**Bluff Co**

Day to day internal controls are important for all businesses to maximise the efficient use of resources and profitability.

Your firm has recently been appointed as auditor to Bluff, a private company that runs a chain of small supermarkets selling fresh and frozen food and canned and dry food. Bluff has very few controls over inventory because the company trusts local managers to make good decisions regarding the purchase, sale and control of inventory, all of which is done locally. Pricing is conducted on a cost plus basis.

Each supermarket has a stand-alone computer system on which monthly accounts are prepared. These accounts are mailed to head office every quarter. There is no integrated inventory control, sale or purchasing system and no regular system for inventory counting. Management accounts are produced twice a year.

Trade at the supermarkets has increased in recent years and the number of supermarkets has increased. However, the quality of staff that has been recruited has fallen. Senior management at Bluff are now prepared to invest in more up-to-date systems.

**Required;**

- a) Describe the problems that you might expect to find at Bluff resulting from poor internal controls. (10 marks)
- b) Make 4 recommendations to the senior management of Bluff for the improvement of internal controls, and explain the advantages and the disadvantages of each recommendation. (10 Marks)
- (20 marks)

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**Question 5**

- a) Explain the term 'audit risk' and the three elements of risk that contribute to total audit risk. (4 marks)**

The Live Strong charity was established in 1985. The aim of the charity is to provide support to children from disadvantaged backgrounds who wish to take part in sports such as football, athletics and rugby.

Live Strong has a detailed constitution which explains how the charity's income can be spent. The constitution also notes that administration expenditure cannot exceed 10% of income in any year.

The charity's income is derived wholly from voluntary donations. Sources of donations include;

- i) Cash collections by volunteers asking the public for donations in shopping areas
- ii) Cheques sent to the charity's head office
- iii) Donations from generous individuals. Some of these donations have specific clauses attached to them indicating that the initial amount donated (capital) cannot be spent and that the income (interest) from the donation must be spent on specific activities, for example, provision of sports equipment.

**Required:**

- b) Identify areas of inherent risk in the Live Strong charity and explain the effect of each of these risks on the audit approach. (12 marks)**
- c) Explain why the control environment may be weak at the Live Strong charity. (4 marks)**

**(20 Marks)**

**End of Questions**