Faculty of Commerce and Economics
School of Accounting

ACCT5908

AUDITING AND ASSURANCE SERVICES

COURSE OUTLINE
AND
SEMINAR PROGRAM

SUMMER SESSION, 2007
1. COURSE STAFF

1.1 Staff members and contact details

Contact details for course coordinator

<table>
<thead>
<tr>
<th>Lecturer-in-charge</th>
<th>Room Number</th>
<th>Telephone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Stuart Taylor</td>
<td>Quad 3092</td>
<td>9385 5826</td>
<td><a href="mailto:stuart.taylor@unsw.edu.au">stuart.taylor@unsw.edu.au</a></td>
</tr>
</tbody>
</table>

1.2 Communication with staff

Students will be notified of staff consultation hours during the first seminar in week 1. You are encouraged to seek help at a time that is convenient to you during their regular consultation hours. Note that consultation in person is the recommended consultation mode. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct any consultations by e-mail, unless they indicate a personal preference to work otherwise. You may, however, phone staff during their consultation hours.

Please note that common written etiquette must be observed when conducting any written communication with staff members. Communications that use shorthand and ‘SMS’ language is not permitted.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and locations

There are two three hour seminars per week. The times and locations are

<table>
<thead>
<tr>
<th>Day</th>
<th>Start Time</th>
<th>Finish Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>10:00 a.m.</td>
<td>1:00 p.m.</td>
<td>Room 303</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>New Law Building</td>
</tr>
<tr>
<td>Wednesday</td>
<td>10:00 a.m.</td>
<td>1:00 p.m.</td>
<td>Room 303</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>New Law Building</td>
</tr>
</tbody>
</table>

2.2 Units of credit

ACCT5908 Auditing and Assurance Services has a total of 6 units of credit.

2.3 Relationship of this course to other course offerings

This course is offered by the School of Accounting as part of the Master of Professional Accounting Degree. In order to enrol in this course, you must have passed ACCT5930 Financial Accounting. This course also constitutes part of the core curriculum of studies required by the Institute of Chartered Accountants in Australia.

2.4 Approach to learning and teaching

At university, the focus is your self-directed search for knowledge. Seminars, textbooks, exams and other resources are all provided to help you learn. You are therefore required to attend all seminars and read all required readings in order to fully grasp and appreciate the concepts of Auditing and Assurance Services.

It is up to you to choose how much work you do in each part of the course: preparing for classes; completing assignments; studying for exams; and seeking assistance or extra work to extend and clarify your understanding. You must choose an approach that best suits your learning style and goals in this course. seminar questions as well as case studies with solutions are provided to guide your learning process.

The teaching staff have put a great deal of thought into the development and presentation of this course so students may experience a flexible but directed learning approach to Auditing and Assurance Services.
3. COURSE AIMS AND OUTCOMES

3.1 Course aims
This course examines the process of auditing and the concepts which underlay the practice. Although the focus of attention is on audits carried out under the provisions of the Corporation Act 2001, reference is also made to other forms of audit and assurance. The course is intended to provide an overview of the audit process as it exists in Australia and under the International Standards on Auditing. Although the auditing course is broken into a number of segments, students should recognise that each segment forms part of the audit process.

3.2 Student learning outcomes

Content-based learning outcomes
1. To develop students' understanding of the audit function and the reasons for an audit.

2. To familiarise students with the professional, legal, ethical, commercial and regulatory framework within which audits and other audit related and assurance engagements are carried out.

3. To examine the audit process and the techniques used by auditors including risk analysis, evidence collection and evaluation, computer assisted audit techniques and audit reporting.

4. To familiarise students with current developments in audit practice.

Skills-based outcomes
As a result of satisfactorily completing this course, you will achieve the following skills:

5. A capacity to learn independently and to assume responsibility for the learning process.

6. A capacity to learn within teams – to co-operate with team members, to assume leadership and to manage differences and conflicts.

7. A capacity to conduct applied business research – acquiring, analysing and presenting knowledge relevant to specific audit client engagement issues.

8. A capacity to tolerate ambiguity in making various audit judgments.

9. An ability to apply knowledge to specific audit contexts.

10. A capacity to reflect on your own strengths and weaknesses as a learner.

11. An ability to make professional presentations.

3.3 Teaching strategies
Instruction in this course consists of one three hour seminar each week. Methods of presentation may include lectures, videos, discussion of case study material and student presentations. It should be emphasised that attendance at classes is a necessary but not sufficient condition for adequate examination preparation. All students should study the relevant textbook, materials prescribed, auditing standards and/or other relevant professional pronouncements, and participate in class discussions.
4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Preparation for and performance in class
It is a requirement of this course that all students attempt the assigned weekly readings and discussion questions prior to attending class. The importance of adequate preparation prior to each seminar including the completion of all questions cannot be overemphasised, as the effectiveness and usefulness of the seminar depends to a large extent on students’ active participation during the seminar.

4.2 Workload
It is expected that you will spend at least twenty hours per week studying this course. This time should be made up of reading, research, working on case studies and questions and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.3 Attendance
Your regular and punctual attendance at seminars is expected in this course. University regulations indicate that if students attend less than 80% of scheduled classes they may be refused final assessment.

4.4 General conduct and behaviour
You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at www.my.unsw.edu.au.

4.5 Keeping informed
You should take note of all announcements made in seminars or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information. Specific announcements will also be made via WebCT.

5. LEARNING ASSESSMENT

5.1 Formal requirements
To be eligible for a passing grade in this course students must:

1. Achieve composite mark of at least 50% AND

2. Satisfactorily complete all assessment tasks (or submit appropriate documentation relating to your failure to complete a task to the Lecturer-in-charge) AND

3. Achieve a satisfactory level of performance in the final exam. This usually means a minimum mark of 50%. Any student having an overall mark of 50 or more but less than 50% in the final examination will be given an UF grade (unsatisfactory fail) or be asked to sit a supplementary final exam, depending on the individual’s circumstances.

Please note that there will only be ONE supplementary exam. It is the student’s responsibility to ensure that he or she is available on the date of the supplementary exam.

A ‘pass conceded’ (PC) grade may only be granted by the Faculty of Commerce and Economics Assessment Committee and not the Head of School or the Lecturer-in-charge of this course.
5.2 Assessment overview
The composite mark for ACCT5908 will be calculated as follows.

<table>
<thead>
<tr>
<th>Assessment Item (Due Date)</th>
<th>Weight</th>
<th>Item Assesses Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Assignment (seminar 7, and 11)</td>
<td>20%</td>
<td>1, 2, 3, 6, 7, 8, 10 and 11</td>
</tr>
<tr>
<td>Mid-session exam (seminar 8)</td>
<td>25%</td>
<td>1, 2, 3, 5, 8, 9 and 10</td>
</tr>
<tr>
<td>Final examination (seminar 14)</td>
<td>55%</td>
<td>1, 2, 3, 4, 5, 8 and 9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Group assignment (20%)**
The assignment will be undertaken by groups of four students within the same class. The assignment has 2 parts due at the beginning of your class in weeks 9 and 12. The composition of groups must be finalised **by the end of seminar 2** (preferably earlier) and submitted to your lecturer in writing (refer ‘Assignment Group Allocation Form’ on page 49). Please note that it is the student’s responsibility to organise a group. Details regarding the nature of the assignment and its assessment are provided on pages 11-13.

A major part of this assignment involves conducting extensive research on a company’s business environment, operations, strategies and its financial position. Students are expected to conduct their own business research, then apply knowledge gained from this course to critically analyse and evaluate this information and demonstrate their understanding of the nature of the company (its external as well as internal environment, including relevant applicable laws and regulations) in the context of assessing the risks of material misstatement and fraud.

Self and peer assessment will be involved in the determination of the final mark. The aim of the self and peer (S&P) assessment procedure is to encourage students to co-operate with their team members, to understand the importance of managing differences and conflicts in a team environment in order to ensure the effectiveness of teamwork. Furthermore, the S&P procedures can also be used to create productive dialogues among team members, allowing students to reflect on the strengths and weaknesses of both the team and the individuals comprising the team. For more details regarding the S&P methodology refer to pages 13 and 51.

**Mid-session exam (25%)**
A mid-session exam of 1.5 hour’s duration will be held on Monday 29th January (seminar 8). Further information regarding the mid-session test will be provided in seminar 7. The aim of this mid-session exam is to provide you with ongoing feedback relating to your understanding and learning progress within the course. The mid-session exam will be a combination of short answer written questions and multiple choice aimed at testing both technical and analytical skills learned in this course.

**No supplementary exam will be held for the mid-session exam.**

**Final examination (55%)**
Students are required to sit for a final examination paper in this course. The exam will be of two hours duration and will be held during the week 14 seminar, on February 19th.
5.3 Special consideration and supplementary examinations
The School of Accounting follows the UNSW policy and process for Special Consideration (see https://my.unsw.edu.au/student/atoz/SpecialConsideration.html). Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers) – applications will not be accepted by teaching staff;
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

Please note: If a supplementary exam is approved, there is only one opportunity to sit the exam.
6. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see [http://www.lc.unsw.edu.au/plagiarism/index.html](http://www.lc.unsw.edu.au/plagiarism/index.html).

Plagiarism is the presentation of the thoughts or work of another as one’s own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person’s assignment without appropriate acknowledgement;
- paraphrasing another person’s work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does not amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at [www.lc.unsw.edu.au/plagiarism](http://www.lc.unsw.edu.au/plagiarism)

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle
† Adapted with kind permission from the University of Melbourne.
7. **STUDENT RESOURCES**

7.1 **Course resources**

1. **Prescribed Textbooks**


2. **Additional References:**

   Students will find many other auditing textbooks which will provide additional supplementary information. Some of these are available on closed reserve in the main library.

Both the textbook and the reading materials are available from the UNSW Bookshop.

7.2 **Course website**

A course website will be maintained within the WebCT environment at http://vista.elearning.unsw.edu.au/

You are required to have a Unipass and Unipin to access this website. In addition, you must be enrolled in the course to access the website. The website will contain announcements, copies of the weekly questions and any other material deemed suitable by the Lecturer-in-charge from time to time. We cannot place any material on the website that involves the use of student IDs or that raises issues with respect to privacy. Details regarding access to this website will be provided in class. If you have any difficulties with WebCT access, please contact Stuart Taylor (9385 5826) (stuart.taylor@unsw.edu.au) or Lisa Lifman (l.lifman@unsw.edu.au).

7.3 **Other resources, support and information**

The University and the Faculty provide a wide range of support services for students, including:

- **Learning and study support**
  - FCE Education Development Unit (http://education.fce.unsw.edu.au)
  - UNSW Learning Centre (http://www.lc.unsw.edu.au)
  - EdTec – WebCT information (http://www.edtec.unsw.edu.au)

- **Counselling support** - http://www.counselling.unsw.edu.au

- **Library training and support services** - http://info.library.unsw.edu.au

- **Disability Support Services** – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (http://www.equity.unsw.edu.au/disabil.html). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- **Examination procedures** and advice concerning illness or misadventure

- **Special Consideration** including Supplementary Examinations

- **Occupational Health and Safety** policies and student responsibilities;

8. **CONTINUAL COURSE IMPROVEMENT**

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW’s Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.
## 9. Seminar Schedule

<table>
<thead>
<tr>
<th>Seminar</th>
<th>Date</th>
<th>Day</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3rd Jan</td>
<td>Wed</td>
<td>Introduction to the Audit Function, Assurance Framework, Professional Standards and Structure of the Profession.</td>
</tr>
<tr>
<td>2</td>
<td>8th Jan</td>
<td>Mon</td>
<td>Introduction to the Audit Process – Understanding the Entity and Assessing Risk.</td>
</tr>
<tr>
<td>3</td>
<td>10th Jan</td>
<td>Wed</td>
<td>Internal Controls Evaluation and Mitigating Controls.</td>
</tr>
<tr>
<td>4</td>
<td>15th Jan</td>
<td>Mon</td>
<td>Audit Evidence and the Audit Assertions</td>
</tr>
<tr>
<td>5</td>
<td>17th Jan</td>
<td>Wed</td>
<td>Analytical Procedures and Risk Assessment</td>
</tr>
<tr>
<td>6</td>
<td>22nd Jan</td>
<td>Mon</td>
<td>Auditors Response to Risks and Assessment of Materiality.</td>
</tr>
</tbody>
</table>
| 7       | 24th Jan| Wed | Cable Co Video – Course Review.  
(Assignment Status Report Due) |
| 8       | 29th Jan| Mon | MID-SESSION EXAM  
To be held in this class  
Venue to be announced |
| 9       | 31st Jan| Wed | Using the Work of Others, Internal Audit and Public Sector Auditing |
| 10      | 5th Feb| Mon  | Auditing in an IT Environment — Control Environment |
| 11      | 7th Feb| Wed  | Auditing in an IT Environment — Tests of Controls and Substantive Testing.  
(Assignment Due) |
| 12      | 12th Feb| Mon | Completing the Audit Process and Audit Reporting. |
| 13      | 14th Feb| Wed | Legal Liability/Ethics – Course Review |
| 14      | 19th Feb| Mon | FINAL EXAM  
To be held in this class time  
Venue to be announced |
10. ASSESSMENT DETAILS

10.1 Group assignment

The assignment is to be based on Seven Network Limited.

The aim of the group assignment is to test students’ ability to integrate skills learnt in Auditing and Assurance Services to analyse a real company from the auditor’s perspective and within the framework of auditing standards. The successful completion of this assignment requires extensive research on the Seven Network Limited group of companies’ internal and external environments, operations, strategies and an analysis of the annual report including financial information.

Students are expected to demonstrate their ability to critically evaluate various information and apply analytical skills to critically evaluate potential audit risks in relation to the Seven Network Limited group of companies. Based on their analysis, students are then required to prepare specified parts of the audit planning workpapers.

**Required: (total = 60 marks representing 20% of course assessment)**

You are a part of the team responsible for the Seven Network Limited group of companies (Seven) audit engagement. You have been assigned to gather relevant background information and prepare audit workpapers in relation to the planning issues listed below.

1. In relation to Seven provide a brief description of the following (factors included in ASA315 Appendix 1):
   - Business Operations:
     - Nature of revenue sources (5 marks)
     - Conduct of operations (5 marks)
   - Industry Conditions:
     - Market and competition (5 marks)
   - Regulatory Environment:
     - Accounting principles and industry specific practices (5 marks)

2. With reference to simple comparisons, ratios, the discussion provided in the Seven Network Limited 2006 annual report and your background discussion in Question 1 above comment on Seven’s:
   (a) Short term and long term liquidity (5 marks)
   (b) Profitability (4 marks)
   (c) Efficiency of management (3 marks)
   (d) Overall financial position (2 mark)

   Note; mathematical calculations should be placed in an appendix, which will not count as part of the six page limit.

3. (a) List the two key assertions for each of the following Seven Network Limited balance sheet accounts
   - Cash and Cash Equivalents
   - Property Plant and Equipment
   - Non Current Interest Bearing Liabilities
   - Current Program Rights and Inventories
   - Licences, Mastheads and Copyright Rights
(0.5 mark ea x 10 assertions = 5 marks total)

(b) Provide one specific and detailed test of detail for each of the ten assertions listed in your answer to Part (a).
(1.5 mark ea x 10 tests = 10 marks total).

Provide your answer in the following tabular format

<table>
<thead>
<tr>
<th>Account</th>
<th>Assertion</th>
<th>Test of Detail</th>
</tr>
</thead>
</table>

[20 Marks]

Additional Assessment Criteria

In addition to the content, the assignment will be assessed based on the following criteria:

1. Effectiveness and format of the assignment and the ability to communicate information gathered and analysis of risks.
2. The ability to integrate various content components into a cohesive concise and meaningful document.
3. Creativity.

[6 Marks]

Length

Maximum 6 pages.

The page limit excludes bibliography and appendices. Font size must be at least 12, one and a half line spacing or greater (use Times New Roman). Margins on all sides must be 2.5 cm or greater.

Consult your lecturer if you are unsure about any of the above formatting requirements. Please note that any writing in excess of the page limit will NOT be marked.

Additional Information

1. A Group Assignment Work Plan is included on page 48 to assist your completion of this assignment.
2. An Assignment Group Allocation Form is included on page 49 for you to keep a record of your group members. You will be supplied with an additional form in Seminar 2 to complete and return to your lecturer.
3. A Group Assignment Peer Evaluation Form is included on page 50. Each group member is to complete and submit this form with the group assignment (in a sealed envelope if you wish to keep the information confidential).
4. You are required to submit a one page Assignment Status Report at the beginning of Seminar 7 (24th January). There are no marks for doing this but failure to submit or below standard submissions will incur a penalty of 5 marks for the assignment.

Submission Details

1. A hardcopy of the assignment is to be submitted to your lecturer at the beginning of Seminar 11 (7th February). Any assignments received after this time will be considered late and subject to the penalty described in the course outline. Last minute printing difficulties, computer failure or transportation problems will not constitute an adequate excuse for lateness.

2. Please keep a copy of your work.
3. Each assignment must use an official assignment cover sheet and all students must sign the declaration on the front of the cover sheet. A copy of this cover sheet is available on Page 50 of this guide. **No marks will be awarded to any student who does not sign the cover sheet.**

4. The title page should clearly indicate the names of your team members and their student numbers, your lecturer and the time and location of your seminar. **Failure to do so will incur a 5 mark penalty.**

5. All assignments must be typed. Footnotes should be reserved for points of clarification. Marks may be deducted for inappropriate use of footnotes and appendices.

6. Individual marks will be based on the marking scheme as per ‘Required’ on pages 14 and 15.

7. Please note, elaborate binding and plastic covers are **not necessary and will not result in extra marks.** Assignments that are not stapled or otherwise bound together may not be accepted.

8. **Late submissions will incur a 10 mark penalty** for every day of late submission (including weekends).

10.2 Group assignment work plan
See page 48 for Group Assignment Work Plan.

10.3 Assignment group allocation form
See page 49 for Assignment Group Allocation Form.

10.4 Assignment Cover Sheet
See page 51 for Assignment Cover Sheet

10.5 Peer evaluation marking scheme
See page 53 for all information on the Peer Evaluation Marking Scheme. You may also wish to refer to WebCT (http://webct.edtec.unsw.edu.au/webct/public/home.pl).
11. Summer Session 2007, Key Dates

*It is your responsibility to ensure that:*

1. You are recorded by the University as being correctly enrolled in all your courses. The last day for students to discontinue without financial penalty is XXXXX and the last day to discontinue without academic penalty is XXXXX.

2. You have successfully completed all prerequisite courses. Any work done in courses for which prerequisites have not been fulfilled will (unless an exemption has been granted) be disregarded, and no credit given nor grade awarded.

3. You organise your affairs to take account of examination and other assessment dates. Your exam will be held on February 19th.

4. You keep the University informed of all changes to your contact details.

5. You make a copy of all work submitted for assessment, and keep returned marked assignments and essays.

A full list of UNSW Key Dates is located at: [https://my.unsw.edu.au/student/resources/KeyDates.html](https://my.unsw.edu.au/student/resources/KeyDates.html)
Course Introduction
Introduction to Audit, Assurance and Professional Framework

SEMINAR 1: Wednesday, 3rd January 2007

Reading Guide:

References:
Gay and Simnett, Chapters 1 and 2.

Standards:

* ASA 200: Objective and General Principles Governing an Audit of Financial Statements.
ASA 220: Quality Control for Audits of Historical Financial Information.

Discussion Questions:

1. Review the recent history of the auditing profession “A profession in crisis”? (handout).
2. Discuss the concept of “assurance” in an audit setting.
3. With reference to Woolworths Limited Financial statements:
   (a) Describe the objective of an independent audit.
   (b) Distinguish between the management’s and the auditor’s responsibility for the financial reports being audited.
   (c) Explain the meaning of ‘true and fair’/‘fairly’ presented in the audit report.

* Please note, it is essential that students familiarise themselves with the key references (identified by *) prior to each week’s seminar.

Note: This course requires students to apply their skills learnt in Auditing and Assurance Services to analyse a real company from the auditor’s perspective and within the framework of the auditing standards. As such we require students to download / review the 2006 Woolworths Group Limited annual report from either the
Woolworths or ASX websites, to be used in class from next seminar to answer various seminar discussion questions.
Introduction to Audit Process, Understanding the Entity and Assessing Risk

SEMINAR 2: Monday, 8th January 2007

Reading Guide:

References:

Gay and Simnett, Chap.6 (pp.252-264)
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 1, part (i) and Solution.

Standards:

* ASA 240: The Auditor’s Responsibility to consider Fraud in an Audit of a Financial Report
ASA 300: Planning an Audit of a Financial Report
ASA 320: Materiality and Audit Adjustments
* ASA 315: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements

Discussion Questions


2. Identify the types of information in the client’s minutes of the board of directors’ meetings that are likely to be relevant to the auditor. Explain why it is important to read the minutes early in the engagement.

3. When an auditor has accepted an engagement from a new client who is a manufacturer, it is customary for the auditor to tour the client’s plant facilities. Discuss the ways in which the auditor’s observation made during the course of the plant tour will be of assistance as he/she plans and conducts the audit.

4. Roebuck and Martinov, Chapter 9, Mock Examination 2, Question 3, part a (p.175). Note: for ‘required’ substitute ‘business risk’ for ‘interest risk’.

5. Prepare a SWOT analysis of Woolworths current market position to present in the class. For the purposes of the SWOT analysis:
(a) Refer to the entire Woolworths group of companies within the one SWOT analysis.

(b) Assess at least five (5) key issues for each of the SWOT factors.
Internal Controls Evaluation and Mitigating Controls

SEMESTER 3    Wednesday, 10th January 2007

Reading Guide:

References:

* Gay and Simnett, Chp.8 (pp.335-361), Chp.9 (pp.404-423).
* Roebuck and Martinov, Cases 1-7, 2-6 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Final Examination 1, Question 3 and Solution.

Standards:


Discussion Questions

1. Roebuck and Martinov, Chapter 9, Mock Examination 3, Question 1 (p.179).
   Identify three(3) factors which impact on Business Risk at the account level. Consider whether there are any controls that would/could address the risks identified.

2. Roebuck and Martinov, Cases 2-3 (page 29), part 2.

3. Roebuck and Martinov, Chapter 9, Mock Examination 2, Question 2 (p.174).

4. For the following business risks, outline an internal control that would address the risk:
   i)  Risk of non-collectability of debtors.
   ii) Repairs to plant and machinery incorrectly being capitalised.
   iii) Overpayment of overtime to individual employees.
   iv) Payments being made twice to the same supplier.
   v) Inventory being stolen.

5. Review the Corporate Governance note for Woolworths Limited and comment on the relevance of the information provided on auditor’s control evaluation.
6. What information is included in Woolworths Limited annual report which would assist the auditor in evaluating the Control Environment?
Audit Evidence and the Audit Assertions

SEMINAR 4:  Monday, 15th January 2007

CLASS QUIZ TO BE HELD IN THIS SEMINAR.

Reading Guide:

References:

Gay and Simnett, Chp.5 (pp.190-198), Chp.8 (pp.345-348, pp.360), Chp.10.
* Roebuck and Martinov, Cases 3-1 part 2, 3-4, 3-7, 9-3 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 1 and Solution.

Standards:

* ASA 500: Audit Evidence

Discussion Questions

1. Roebuck and Martinov, Chapter 9, Mock Examination 2, Question 4 (pp.177-8).

2. Roebuck and Martinov, Chapter 9, Case 9-4 part A (p.187).

3. For each of the two (2) key audit risks described below complete the following:
   (i) provide a brief explanation as to why the situation constitutes an audit risk
   (ii) identify the key account balance affected
   (iii) identify the prime audit assertion to be tested
   (iv) for the account balance and the assertion listed in (ii) and (iii) describe in specific terms the substantive audit procedure which would best address the risk.

   The situations are independent of each other and are to be treated separately in your answers.

   (a) Slim and Fit Limited is a manufacturer of sporting equipment. The majority of the merchandise is highly desirable, easily handled and of relatively high dollar value. Stealing has been an ongoing problem.
(b) Holford Limited is a manufacturer of cars. Their new range of sports coupe ‘EAGLE’ has been a great success with huge sales in the last twelve months. However, there has been a great number of customer complaints and a dramatic increase in the servicing and repairs of this model in the last three months. It appears that the material used in the brake linings which is unique to ‘EAGLE’ is defective after 8,000 kilometres. There is no stock of ‘EAGLE’ at year end due to a waiting list as a result of the popular demand for the car.

4. Roebuck and Martinov, Chapter 10D, Question 35 p.199.

5. For the following four (4) key statement of financial position account balances for Woolworths Limited, identify the key assertion(s) for each account, and for 2 of the listed accounts design appropriate substantive audit procedures for the key assertion(s): Inventory, Property, Plant & Equipment, Accounts Receivable and Accounts Payable.
Analytical Procedures and Risk Assessment

SEMINAR 5: Wednesday, 17th January 2007

NOTE: COMPLETE AND HAND IN ‘GROUP ALLOCATION FORM’ (Refer page 35).

Reading Guide:

References:

Gay and Simnett Chp.6 (pp.266-275).
* Roebuck and Martinov, Cases 1-3, 4-1 and solutions.
* Roebuck and Martinov, Chapter 9, revise Mock Examination 1, Question 1 and Solution.

Standards:

* ASA 520: Analytical Procedures.

Discussion Questions

1. Planning is critical to the conduct of a financial statement audit. (The attached five (5) year statistical summary should be used to answer the following).

   Required:

   (a) Determine relevant areas and issues for consideration for the 2006 audit.

   (b) What other information needs to be obtained and tasks conducted, in order to conclude the planning phase of the audit?
2. Analytical procedures provide a means of identifying unusual fluctuations caused by potential material errors or irregularities.

For each of the following "unusual fluctuations", describe an error or the situation that could have occurred, given no change in circumstances.

(a) The number of employees has increased along with total wage expenses. However, the provision for long service leave account balance has reduced significantly.

(b) Sales for a retail store have increased by 20% during the year. However, merchant fees (credit card charges) have remained constant.

3. During the process of analytical procedures of GETRICH Ltd it was observed that a number of ratios had changed significantly since the prior year's audit:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Liquid ratio</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Days debtors outstanding</td>
<td>40 days</td>
<td>54 days</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>63 days</td>
<td>118 days</td>
</tr>
</tbody>
</table>

You are also aware of the following information:

- The company has doubled their overdraft limit. The limit had been exceeded on a number of occasions during the year.
- The directors propose to recommend a final dividend, which is less than half of the prior year's dividend, due to the company's cash situation.
- The company's gearing ratio has significantly increased as a result of a $2 million long-term loan which has been entered into in order to finance a major capital project. The issued capital of $4 million remains unchanged.

**Required:**

Discuss the financial position of GETRICH Ltd. Support your answer using the information given above.

4. Roebuck and Martinov, Chapter 9, Mock Examination 2, Question 1, p.172.
### Group Statistics

Not Forming Part of the Accounts

**2005**  | **2004**  | **2003**  | **2002**  | **2001**
---|---|---|---|---
\text{\( \text{\$ (unaudited) mil) } \)} & \text{\( \text{\$ mil) } \)} & \text{\( \text{\$ mil) } \)} & \text{\( \text{\$ mil) } \)} & \text{\( \text{\$ mil) } \)}
\hline
\text{Revenue Items} & 1,265.9 & 1,275.7 & 1,512.1 & 1,739.0
\hline
\text{Sales} & 1,323.8 & 1,265.9 & 1,275.7 & 1,512.1 & 1,739.0
\hline
\text{Profit before interest, tax and extraordinary item} & 92.4 & 109.0 & 145.6 & 135.3 & 139.7
\hline
\text{Net interest} & \text{(19.6)} & \text{(25.8)} & \text{(32.6)} & \text{(26.9)} & \text{(44.0)}
\hline
\text{Profit before tax and extraordinary item} & 72.8 & 83.2 & 113.0 & 108.4 & 95.7
\hline
\text{Income tax expense before extraordinary & material items} & \text{(16.5)} & \text{(11.0)} & \text{(18.9)} & \text{(25.0)} & \text{(28.2)}
\hline
\text{Profit after tax but before extraordinary item & material items} & 56.3 & 72.2 & 94.1 & 83.4 & 67.5
\hline
\text{Outside equity interests} & \text{(0.6)} & \text{(0.6)} & \text{(3.8)} & \text{(4.9)} & \text{(0.4)}
\hline
\text{Net operating profit before extraordinary item & material items} & 55.7 & \text{(49.8)} & 71.6 & \text{(25.0)} & 139.7
\hline
\text{Net profit/(loss) attributable to shareholders} & 5.9 & 71.6 & 90.3 & 62.0 & \text{(23.3)}
\hline
\text{Cost of dividends} & 38.2 & 49.1 & 50.4 & 41.0 & 45.4
\hline
\text{Balance Sheet Items} & & & & &
\hline
\text{Paid-up capital} & 356.1 & 338.2 & 327.8 & 275.3 & 238.0
\hline
\text{Reserves and unappropriated profits} & 305.1 & 323.8 & 283.2 & 266.1 & 280.4
\hline
\text{Shareholders' equity} & 661.2 & 662.0 & 611.0 & 541.4 & 527.4
\hline
\text{Convertible notes} & \text{-} & \text{-} & \text{-} & \text{-} & \text{-}
\hline
\text{Outside shareholders' equity} & 93.8 & 5.6 & 4.0 & 38.8 & 77.8
\hline
\text{Total shareholders' equity} & 755.0 & 685.2 & 615.0 & 580.2 & 605.2
\hline
\text{Total shareholders' equity and liabilities} & 1,555.3 & 1,494.1 & 1,617.1 & 1,387.6 & 1,629.3
\hline
\text{Cash, deposits and negotiable securities} & 214.6 & 168.6 & 287.2 & 176.4 & 233.0
\hline
\text{Other tangible assets} & 1,265.7 & 1,281.7 & 1,292.3 & 1,197.9 & 1,374.6
\hline
\text{Intangibles and future income tax benefits} & 75.0 & 168.6 & 43.8 & 176.4 & 233.0
\hline
\text{Total assets} & 1,555.3 & 1,494.1 & 1,617.1 & 1,387.6 & 1,629.3
\hline
\text{Other Items} & & & & &
\hline
\text{Dividends per share: unadjusted} & 12.0¢ & 17.0¢ & 20.0¢ & 19.0¢ & 18.0¢
\hline
\text{Adjusted} & 12.0¢ & 17.0¢ & 18.9¢ & 16.9¢ & 15.1¢
\hline
\text{Earnings per share:} & & & & &
\hline
\text{unadjusted} & 15.6¢ & 21.2¢ & 27.5¢ & 28.5¢ & 28.2¢
\hline
\text{Adjusted} & 15.7¢ & 21.0¢ & 27.7¢ & 25.2¢ & 22.4¢
\hline
\text{Dividend payout ratio} & 76.2% & 80.8% & 69.2% & 67.8% & 67.6%
\hline
\text{Cash payout ratio} & 67.8% & 69.3% & 59.6% & 54.9% & 59.5%
\hline
\text{Return on shareholders' funds} & 8.4% & 11.3% & 15.7% & 14.7% & 12.5%
\hline
\text{Return on capital employed} & 9.6% & 11.0% & 15.4% & 14.2% & 14.6%
\hline
\text{Liabilities to tangible assets ratio} & 54.1% & 55.8% & 63.4% & 58.7% & 63.7%
\hline
\text{Net tangible assets per share} & 165.0¢ & 183.0¢ & 175.0¢ & 171.0¢ & 169.0¢
\hline
\text{Number of shareholders at year-end} & 21,998 & 21,198 & 21,209 & 22,773 & 21,284
\hline
\text{Number of convertible notes holders at year-end} & 21,998 & 21,198 & 21,209 & 22,773 & 21,284
\hline
\text{Notes:}\n\[1\] Adjusted for bonus issues.
\[2\] Based on the net operating profit and the number of shares on issue at year-end.
\[3\] Based on the net operating profit and the average number of shares on issue during year and adjusted for bonus issues.
\[4\] Dividends declared per share as a percentage of earnings per share.
\[5\] Dividends paid per share, after recognising elections under the Bonus Share Plan, as a percentage of earnings per share.
\[6\] Net operating profit as a percentage of average opening and year-end shareholders' equity.
\[7\] Profit before interest, tax and extraordinary item divided by the sum of average shareholders' equity and average borrowings
\[8\] Shareholders' equity (less future income tax benefits and intangibles) divided by the number of shares on issue at year end, adjusted for bonus issues.
Auditors Response to Risks and Assessment of Materiality

SEMINAR 6: Monday, 22nd January 2007

Reading Guide:

References:
Gay and Simnett Chp.7 (pp.313-319).
* Roebuck and Martinov, Cases 3-5, 3-7 and Solutions.

Standards:
*ASA 300: Materiality and Audit Adjustments.
ASA 330: The Auditors' Procedures to Response to Assessed Risks.

Discussion Questions

1. The following are two situations in which the auditor is required to develop an audit strategy:

   (a) The client has inventory of approximately fifty locations in a three-state region. The inventory is difficult to count and can be observed only by travelling by car. The internal controls over acquisitions, payments and perpetual records are considered effective. This is the fifth year that you have done the audit and audit results in past years have always been excellent.

   (b) This is the first year of an audit of a medium sized company that is considering selling its business because of severe underfinancing. A review of the purchases and payment cycle indicates that controls over disbursements are excellent, but controls over accounts payable cannot be considered effective. The client lacks receiving reports and a policy as to the proper timing to record purchases. When you review the general ledger, you observe that there are many adjusting entries to correct accounts payable.
Required:

For the above situations recommend an evidence mix (i.e. tests of control/analytical procedures/substantive tests) for the audit of:

- Inventory.
- Accounts payable (Creditors).

Justify your answer in relation to each situation above.

2. During the course of an audit engagement, an independent auditor must address the concept of materiality. This concept is inherent in the work of the independent auditor and is important for planning, evidence gatherings, error evaluation and in the audit opinion forming process.

Required:

(a) Briefly describe what is meant by the independent auditor's concept of materiality.

(b) Outline the relevance of materiality during each of the following stages of the audit process:

- Planning
- Evaluation of the results of audit testing
- Forming an audit opinion

(c) Discuss the process of setting audit materiality.

3. Roebuck and Martinov, Chapter 10A, Question 9, p.195.

4. With reference to the Woolworths SWOT analysis from Seminar 2 and analytical procedures performed in Seminar 3, determine planning material for Woolworths group. Justify your choice of the base and percentage.
Overview of the Course to Date – ‘Cable Co Chronicles: Portrait of an Audit’ Video

SEMESTER 7: Wednesday, 24th January 2007

No prescribed reading.

This seminar will be devoted to an overview of the course to date. During the seminar ‘The Cable Co Chronicles’ Video will be used as a basis for discussion and to bring together all aspects of the course to date. The following questions might be useful as a viewing guide.

PART I

1. What type of entity is Cable Co for audit purposes?
2. Identify the various information sources used by the auditor in preparing the proposal for Cable Co engagement.
3. Outline Cable Co’s business objectives/future plans.
4. Who are the users of Cable Co’s audited financial reports?
5. What was the reason for Cable Co wanting to change auditors?

PART II

6. Outline client acceptance issues considered in relation to the preparation of tender proposal.
7. Outline issues brought up in relation to CIS review.
8. What specific risks were identified during the initial planning stage?

PART III

9. Outline specific industry risk in relation to Cable Co.
10. Outline control risk evaluation and the planned use of substantive analytical procedures.

PART IV/V

11. Discuss the problems found by the auditors in relation to Cable Co’s payroll.
12. Outline the related party transactions issue and its resolution.
SEMERN 8: Monday, 29\textsuperscript{th} January 2007

THE MID-SESSION EXAMINATION WILL BE HELD
DURING THE REGULAR CLASS TIME
VENUE TO BE ANNOUNCED
THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF ACCOUNTING
ACCT5908 AUDITING AND ASSURANCE SERVICES

Using the Work of Others / Internal Audit / Public Sector Audit

SEMINAR 9:  Wednesday, 31st January 2007

Reading Guide:

References:
Gay and Simnett, Chp.8 (pp.374-376), Chapters 15 and 16.
* Roebuck and Martinov, Case 4-9 and Solution.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 4 Part A and Solution.

Standards:
* ASA 600: Using the Work of Another Auditor
* ASA 610: Considering the Work of Internal Auditing
* ASA 620: Using the Work of an Expert
AUS 904: Engagements to Perform Agreed-upon Procedures.
AUS 806: Performance Auditing.

Discussion Questions

1. Roebuck and Martinov, Chapter 10F, Question 50, p.200.

2. Review Woolworths Limited financial report and identify any areas in which the auditor may need to engage an expert.

3. Your accounting firm has recently acquired a new audit client, which operates a major industrial plant. Coal is the main raw material used to generate power for the plant.
   (a) Consider whether the use of an independent expert will be necessary to determine the quantity of coal held in stockpiles at the plant.
   (b) Assuming such is required, outline the broad procedures that are necessary for you to be able to rely on the expert's work.

5. Explain how the objectives of public sector accounting differ from that of the private sector. What implications do these differences have for auditing the public sector in terms of the application of the risk methodology and the AUSs.

6. (a) The private sector auditor must be 'independent and seen to be independent'. Is the same true of the public sector auditor?

(b) Discuss the main independence features prevalent in a public sector audit.
Auditing in IT Environment — Control Environment

**SEMINAR 10: Monday, 5th February 2007**

**Reading Guide:**

**References:**

Gay and Simnett, Chp.8 (pp.362-373), Chp.9 (pp.428-433), Chp.10 (pp.493-497).
* Roebuck and Martinov, Case 2-6 and Solution.
* Roebuck and Martinov, Cases 4-4, 4-5, 4-7 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 2 and Solution.

**Standards:**


**Discussion Questions**

**Question One**

(a) What are the implications of the existence of a computer environment at a client’s place of business for an auditor?
(b) What are the differences between general and application controls in an IT environment?

**Question Two**

You have been assigned to the audit of a private company which operates a plant nursery with a turnover of $2 million a year. The total number of full-time employees working for the company is 10, together with 3 to 5 casual employees as and when required on weekends. The company is run by a husband and wife team who are the directors and shareholders and a full time accounts clerk, Margaret, who is responsible
for all accounting related tasks including debtors, stock, payroll and creditors. All accounting functions are performed on a stand alone PC which runs purchased software from a software house which specialises in the nursery industry. The access to various applications is controlled by passwords. Margaret records passwords to each application in her top drawer. Back up CD’s, for all application data, are created on a regular basis, appropriately labelled and maintained in a "back-up" case next to the PC.

As a security measure, the keyboard to the PC has a locking mechanism to control access to the on/off switch. Each night the machine is locked and the key left at reception in case the directors need to access the computer.

The office of the company is located in a large mobile caravan inside the nursery which is well fenced. The company trades 7 days a week but Margaret only works Mondays to Fridays. The office is also used by various members of the staff to process sales invoices and dispatch documents.

Instructions on the use of various applications of software are maintained behind the desk on which the PC is located for ease of access by Margaret as she needs to refer to these on a regular basis.

**Required:**
Identify major weaknesses in the general IT control environment and suggest remedies for each weakness.

**Question Three**

You have just been appointed auditor of A Limited (A). As part of the audit planning process you have visited the premises and noted the following issues:

a) A’s IT function is under the overall control of the Finance Director. However the day to day operations are the responsibility of the IT Manager who has had significant IT experience.

b) The key modules of A’s Financial Management System (FMS) are currently undergoing significant modification. The Systems Analyst who initially implemented the FMS was recently dismissed as a result of a disagreement with the IT Manager.

c) A few days after the dismissal, the Systems Analyst returned to A’s IT department and made some unauthorised changes to the FMS. Subsequent to the dismissal of the Systems Analyst, the FMS development work lost direction.

d) The programmers, who received their detailed instructions from the Systems Analyst, had no written instructions or documented system specifications for the FMS modifications. All such instructions and specifications had been given by the Systems Analyst verbally.

e) Only IT department staff are allowed access to the IT department. When you visited, however, you were able to enter the department, review existing FMS documentation, and make changes to a FMS program under development via a computer which was logged on but not attended by a programmer. During this period you were not asked for identification and were left alone for long periods of time.

**Required:**
Identify major weaknesses in the general IT control environment and suggest remedies for each weakness.
Question Four

Roebuck and Martinov, Case 2-4, Part 2 (p. 30).

Question Five

XYZ Ltd has a computerised payroll system. The payroll file contains the following fields.

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Employee Number</td>
</tr>
<tr>
<td>11</td>
<td>Department/Unit Number</td>
</tr>
<tr>
<td>12</td>
<td>Name</td>
</tr>
<tr>
<td>13</td>
<td>Street Address</td>
</tr>
<tr>
<td>14</td>
<td>State</td>
</tr>
<tr>
<td>15</td>
<td>Post Code</td>
</tr>
<tr>
<td>16</td>
<td>Telephone Area Code</td>
</tr>
<tr>
<td>17</td>
<td>Telephone Number</td>
</tr>
<tr>
<td>18</td>
<td>Mobile Number</td>
</tr>
<tr>
<td>19</td>
<td>Employment Start Date</td>
</tr>
<tr>
<td>20</td>
<td>Termination Date</td>
</tr>
<tr>
<td>21</td>
<td>Annual Gross Salary</td>
</tr>
<tr>
<td>22</td>
<td>Annual Leave Balance</td>
</tr>
</tbody>
</table>

(a) For each of the following controls, which field would you use it for, which audit assertion would it help address
- Valid code test
- Limit/reasonableness test
- Field test
- Auto-numbering

(b) Which field is the primary key and which field is the foreign key? What is the purpose of each key field?

(c) If an employee works different hours and is paid differing amounts, each fortnight, how would this be stored?

(d) Why aren’t the annual income tax and the annual net salary stored in the file?

(e) If XYZ wants to allow the payroll clerk to be able to add new employees and changed their details, but not delete them, how can this be controlled?
Auditing in IT Environment
Tests of Controls and Substantive Testing

SEMINAR 11: Wednesday, 7th February 2007

Reading Guide:

References:

Gay and Simnett, Chp.8 (pp.362-373), Chp.9 (pp.428-433), Chp.10 (pp.493-497).
* Roebuck and Martinov, Case 2-6 and Solution.
* Roebuck and Martinov, Cases 4-4, 4-5, 4-7 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 2 and Solution.

Standards:


Discussion Questions

Question One

How does the nature of accounting errors differ between a manual and a computerised accounting system? How does this affect the audit strategy?

Question Two

Toan & Associates are a firm of solicitors specialising in commercial law. An audit is required under the solicitors’ trust regulations. Recent changes in government regulation have deregulated the fees of commercial lawyers, with the result that legal fees have decreased by 20% over the past year. The firm has 4 partners, 90 associates and 6 support staff. All financial records are contained on a personal computer. A general ledger software package that is widely used by legal firms is used by the
organisation. The general ledger package also contains an accounts receivable subsidiary ledger, a work-in-progress file (which shows current status of legal cases) and a payroll subsidiary ledger.

All financial records, including all payroll documentation, are maintained by the ledger clerk. The payroll details entered consist of changes to standing data and transactions. The changes to standing data are additions and deletions of staff to the payroll master file, change of address, variation of approved fortnightly pay, and change to approved overtime rate. Any such changes are contained on a variation of payroll information form which is approved by the personnel partner and one other partner. After being entered into the system, the variation of payroll information form is filed in numerical sequence.

The transaction data is entered each fortnight when the partners and staff complete a pay sheet which assigns their times to jobs. This is entered into the computer package by the ledger clerk and is used to update the work-in-progress file and the payroll file. If any staff work overtime, which must be approved by the partner in charge of the case (evidenced by the partner initialling the pay sheet), this is entered and the overtime is paid at the approved set rate.

The following reports are produced each fortnight and are reviewed and authorised by all partners, at fortnightly partners’ meetings:

- Printout of year-to-date payroll master file.
- Payroll transactions file for the last fortnight.
- List of staff who have undertaken overtime in the last fortnight.
- Current status of all cases in progress.
- Cases in progress where additional work has been undertaken over the last fortnight.
- Cases completed and billed over the last fortnight.
- List of accounts receivable master file.

**Required:**

(a) Identify any controls that exist in the payroll area. For the controls identified, detail the relevant assertion that each control addresses.

(b) The client's software package contains a programmed range check on the payroll file. No associate's fortnightly pay (before overtime) should be outside the range of $2,200-$4,000. Identify and illustrate by example with respect to this control the technique(s) by which the auditor could obtain direct evidence that this programmed control is working.

(c) Some of the reports generated by the client each fortnight are exception reports. Identify which of the reports generated are exception reports. Explain and distinguish between the relevance of the reports to:

(i) the partners of the law firm
(ii) the auditors.

(d) The auditors also use the same exception reports for their audit. Instead of relying on the client-generated exception reports the auditors decide to generate their own. Which computer-assisted audit techniques will aid the auditors in generating these reports? Why would the auditors decide to generate their own reports rather than rely on the client-generated reports?
Question Three

FGH Ltd maintains its sales transactions in the following file.

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Invoice Number</td>
</tr>
<tr>
<td>02</td>
<td>Customer Number</td>
</tr>
<tr>
<td>03</td>
<td>Item Number</td>
</tr>
<tr>
<td>04</td>
<td>Quantity</td>
</tr>
<tr>
<td>05</td>
<td>Sundry Charges</td>
</tr>
<tr>
<td>06</td>
<td>Order Date</td>
</tr>
</tbody>
</table>

a) Why isn't the order total stored? Why could this present a problem?
b) How would you use GAS to test for completeness of sales?
c) How would you use GAS to test for occurrence of sales?
d) How would you use GAS to test for accuracy of sales?
e) How would you use GAS to test for cut-off of sales?

Question Four

You are the auditor of Loans Limited, and are in the process of planning the audit of their investment funds, which are strictly invested in residential mortgages.

The mortgage subsidiary ledger is maintained on a centralised database in the following format:

<table>
<thead>
<tr>
<th>Field</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan number</td>
</tr>
<tr>
<td>2</td>
<td>Customer number</td>
</tr>
<tr>
<td>3</td>
<td>Property number (of mortgaged property)</td>
</tr>
<tr>
<td>4</td>
<td>Date of issue</td>
</tr>
<tr>
<td>5</td>
<td>Original mortgage/loan amount</td>
</tr>
<tr>
<td>6</td>
<td>Term of mortgage/loan</td>
</tr>
<tr>
<td>7</td>
<td>Fixed or floating rate</td>
</tr>
<tr>
<td>8</td>
<td>Interest rate (for fixed rate mortgages)</td>
</tr>
<tr>
<td>9</td>
<td>Current balance outstanding</td>
</tr>
</tbody>
</table>

You have satisfied yourself that general controls in the system are reliable.

Required:
(a) Define general audit software (GAS).
(b) Identify two key financial report assertions in relation to the current mortgage/loan balance outstanding (Field 9) and explain why they constitute key assertions.
(c) For the assertions identified in (b) above describe two specific examples how GAS can be used in the substantive testing of mortgage/loans balance outstanding.
(d) Describe one specific IT application control you would expect to find in the above system to assist with addressing the financial report assertions identified in (b) above.
**Question Five**

ABC Ltd has the following field in its accounting system. ABC Ltd requires payment of all debts within 30 days.

<table>
<thead>
<tr>
<th>Field No</th>
<th>Field Name</th>
<th>Field No</th>
<th>Field Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Customer Number</td>
<td>11</td>
<td>Order Number</td>
</tr>
<tr>
<td>2</td>
<td>Name</td>
<td>12</td>
<td>Customer Number</td>
</tr>
<tr>
<td>3</td>
<td>Street Address</td>
<td>13</td>
<td>Date</td>
</tr>
<tr>
<td>4</td>
<td>City</td>
<td>14</td>
<td>Item Number</td>
</tr>
<tr>
<td>5</td>
<td>State</td>
<td>15</td>
<td>Quantity</td>
</tr>
<tr>
<td>6</td>
<td>Post Code</td>
<td>16</td>
<td>Sale Price</td>
</tr>
<tr>
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<td>9</td>
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<td>Item Number</td>
</tr>
<tr>
<td>22</td>
<td>Item Description</td>
</tr>
<tr>
<td>23</td>
<td>Quantity on Hand</td>
</tr>
<tr>
<td>24</td>
<td>Cost</td>
</tr>
<tr>
<td>25</td>
<td>Last Dispatch Date</td>
</tr>
<tr>
<td>26</td>
<td>Last Receiving Date</td>
</tr>
</tbody>
</table>

**Required**

a) What is an exception report?

b) Using the ABC Ltd files, listed above, give one example of an exception report that audit software could generate, to help you test each of the following assertions.

i) Valuation of accounts receivable

ii) Occurrence of sales

iii) Completeness of inventory

iv) Valuation of Inventory

c) Using the ABC Ltd files, listed above, give one example of a report (not an exception report) that audit software could generate, to help you test each of the following assertions.

i) Accuracy of sales

ii) Valuation of Inventory

iii) Existence of Accounts Receivable
Completing the Audit Process and Audit Reporting

SEMINAR 12: Monday, 12th February 2007

Reading Guide:

References:

Gay and Simnett, Chps. 12 and 13.
* Roebuck and Martinov, Cases 3-1 Parts 1 and 3, 5-2, 5-5, 5-8, 9-6 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 4 Part C and Solution.

Standards:

* ASA 560: Subsequent Events.
* ASA 570: Going Concern.
* ASA 701: Modifications to the Auditor’s Report

Discussion Questions

1. Review Woolworths Limited audit report and directors’ declaration. Comment as to the date each one is signed.


3. Turbo audited Charge Ltd. For the year ended 30 June 2005. Turbo is aware that certain events and transactions that took place after 30 June 2005, but before he issues his report dated 31 August 2005, may affect the company’s financial statements.

The following material events or transactions have come to his attention:

(a) On 3 July 2005 a major debtor of Charge Ltd was declared bankrupt.

(b) On 15 July 2005, the company settled and paid a personal injury claim to a former employee as the result of an accident that occurred in
September 2003. The company had not previously recorded a liability for the claim.

(c) On 1 August 2005, a plant owned by Charge Ltd was damaged by a flood resulting in an uninsured loss of inventory.

Required:

(i) For each of the events or transactions described above, indicate the audit procedures that should have brought the item to the attention of the auditor.

(ii) Determine the impact, if any, on Charge’s financial report in relation to each of the above subsequent events.

4. Outline and justify the audit opinion that the auditor should issue in each of the following independent situations.

   With the exceptions of the issues outlined, assume that the auditor is satisfied in all other material aspects.

   (i) The client’s solicitor’s representation letter reveals that there is a possibility of a large legal settlement being made against the client. The client refuses to disclose this fact in the accounts or the notes to the accounts as the cause of the legal action occurred after year end.

   (ii) A cut-off error is identified by the auditor which results in an understatement of sales, debtors and profit. The client decides not to adjust the accounts on the basis of this error and the auditor determines that the error is not material to the financial statements.

   (iii) A consignment of inventory is incorrectly excluded from inventory and creditors. The client decides not to adjust the accounts on the basis of this error and the auditor determines that the error is material to the financial statements.

5. Roebuck and Martinov, Chapter IOG, Questions 53, 54, 57, 58 and 59, p.201.
LEGAL LIABILITY/ETHICS - COURSE REVIEW

SEMINAR 13: Wednesday, 14th February 2007

Reading Guide:

Ethics

References:

Gay and Simnett, Chps. 3 and 4.
* Roebuck and Martinov, Cases 6-2, 6-3 and Solutions.
* Roebuck and Martinov, Chapter 9, Mock Examination 1, Question 4B and Solution.

Standards Ethics:

APES 110: Code of Ethics for Professional Accountants (Part A and s290)

Discussion Questions - Ethics

1. The following each involve a possible violation of the professional bodies’ (ICAA and CPAA) ethical rules. For each situation, identify relevant applicable CPC Section B fundamental principle(s) and whether it is being complied with.

   (a) John Brown is a chartered accountant, but not a partner, with three years of professional experience with Lyle, and Lyle Chartered Accountants, a one-office firm. He owns 2,5000 shares in an audit client of the firm, but he does not take part in the audit of the client and the amount of stock is not material in relation to his total wealth.

   (b) A client requests assistance of J. Bacon, Chartered Accountant, in the installation of a computer system for maintaining production records. Bacon had no experience in this type of work and no knowledge of the client's production records, so he obtained assistance from a computer consultant. The consultant is not in the practice of public accounting, but Bacon is confident of his professional skills. Because of the highly technical nature of the work Bacon is not able to review the consultant's work.
Five small Sydney public accounting firms have become involved in an information project by taking part in an interfirm working paper review program. Under the program, each firm designates two partners to review the working papers, including the tax returns and the financial statements of another public accounting firm taking part in the program. At the end of each review, the auditors who prepared the working papers and the reviewers have a conference to discuss the strengths and weaknesses of the audit. They do not obtain authorisation from the audit client before the review takes place.

Discussion Questions - Law:

1. In his comprehensive judgement in Pacific Acceptance Corporation v Forsyth, Moffit J. set out the duties of the auditor. Briefly outline these duties. Consider also the relationship between these common law duties and the auditing standards.

2. What was the significance for the auditors of the AWA Limited v Daniels (trading as Deloitte, Haskins and Sells) and others recent decisions?

3. What is the 'proximity test' with regard to auditor's liability to third parties? Support your explanation with relevant legal cases.
Final Examination

SEMINAR 14:  Monday, 19\textsuperscript{th} February 2007

THE FINAL EXAMINATION WILL BE HELD
DURING THE REGULAR CLASS TIME
VENUE TO BE ANNOUNCED
# 10.2 GROUP ASSIGNMENT WORK PLAN

<table>
<thead>
<tr>
<th>By : Seminar</th>
<th>Activity</th>
<th>Deliverable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Finalise groups of 4.</td>
<td>Hand in completed ‘Assignment Group Allocation Form’ to your lecturer during Seminar 2 (8th January)</td>
</tr>
<tr>
<td>5</td>
<td>Problem scoping, gather relevant background information on Seven Network Limited, major competitors, industry factors, etc. including detailed analysis of the Seven Network Limited latest annual report. Prepare detailed timetable and member responsibilities to ensure timely completion.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Assignment near completed. Identify areas for further work and adjust timetable/responsibility allocation to ensure timely and high quality delivery.</td>
<td>Hand in one page status report during Seminar 7 (24th January)</td>
</tr>
<tr>
<td>11</td>
<td>Completion of all Assignment requirements.</td>
<td>Hand in assignment at the beginning of Seminar 11, along with peer assessments (7th February).</td>
</tr>
</tbody>
</table>
# 10.3 Assignment Group Allocation Form

## Seminar Details

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Number:</td>
<td>-----------------------------------------------------------------</td>
</tr>
<tr>
<td>Lecturer:</td>
<td>-----------------------------------------------------------------</td>
</tr>
</tbody>
</table>

## Group Details:

<table>
<thead>
<tr>
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<table>
<thead>
<tr>
<th>Group Members:</th>
<th>Student Names:</th>
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</tr>
<tr>
<td>4</td>
<td></td>
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</tr>
</tbody>
</table>
10.4 GROUP ASSIGNMENT COVER SHEET

Overleaf

Note: All students MUST sign the declaration on the cover sheet. Failure to do so will result in a mark of zero being awarded.
ASSIGNMENT COVER SHEET

Student Number: ________________________________
Name: ________________________________________

Course: ________________________________
Lecturer: ________________________________
Seminar Number: ________________________________

Day: ___________ Time: ________ Classroom: _____________

Assignment Item/Title/Question: ________________________________

Date Due: __________________ Date Submitted: _______________

I declare that this assessment item is my own work, except where acknowledged, and has not been submitted for academic credit elsewhere, and acknowledge that the assessor of this item may, for the purpose of assessing this item:

Reproduce this assessment item and provide a copy to another member of the University; and/or,

Communicate a copy of this assessment item to a plagiarism checking service (which may then retain a copy of the assessment item on its database for the purpose of future plagiarism checking).

I certify that I have read and understood the University Rules in respect of Student Academic Misconduct.

Student Signature: __________________ Date: __________________

________________________________________________________
________________________________________________________
________________________________________________________
________________________________________________________
10.5 GROUP ASSIGNMENT PEER EVALUATION FORM

The purpose of this form is to allow you to assess the amount of effort each member of your group has put into the completion of the assignment.

You should take care to complete this form honestly.

Individual responses will be kept confidential.

In the spaces provided, list all members of your group (including yourself) and allocate a mark out of 10 to each group member to indicate their effort in completing the assignment.

Each group member’s mark will be determined using the following formula:

Assume the assignment was awarded a mark of 6/10 and you were awarded a peer evaluation average of 8/10. This would result in you receiving a final mark of 4.8 out of 10, calculated as 80 percent of 6. If you were awarded a peer evaluation average of 10/10 you would receive the full 6 marks out of 10.

Please note that the marks are NOT allocated proportionally across the group members. In other words if all the group members receive a peer evaluation average of 10/10 then using the above example everyone will receive 6 out of 10.

Seminar Details:
Seminar Day and Time: .................................................................
Lecturer: .....................................................

Group Details: Group Name (Optional): ............................

Group Members: Student Name (Optional): ...........................

<table>
<thead>
<tr>
<th>Student Names:</th>
<th>Student Numbers:</th>
<th>Mark out of 10:</th>
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<tbody>
<tr>
<td>1. Your Name and Student Number:</td>
<td>..................</td>
<td>..................</td>
</tr>
<tr>
<td>Other Group Members:</td>
<td>..................</td>
<td>..................</td>
</tr>
<tr>
<td>2. ..................</td>
<td>..................</td>
<td>..................</td>
</tr>
<tr>
<td>3. ..................</td>
<td>..................</td>
<td>..................</td>
</tr>
<tr>
<td>4. ..................</td>
<td>..................</td>
<td>..................</td>
</tr>
</tbody>
</table>

PLEASE HAND THIS FORM TO YOUR LECTURER DURING YOUR LECTURE IN WEEK 12