

THE UNIVERSITY OF
NEW SOUTH WALES



Australian School of Business™

School of Accounting

ACCT3708

AUDITING AND ASSURANCE SERVICES

**COURSE OUTLINE
AND
SEMINAR PROGRAM**

SESSION ONE 2008

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LECTURES: 1 TO 12
MULTIPLE CHOICE EXAM ANSWERS:

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1. COURSE STAFF

1.1 Staff members and contact details

Contact details for course coordinator

Teaching Staff	Room Number	Telephone	Email
Lecturer-in-charge Dr. Wendy Green	Quad 3094	9385 5805	w.green@unsw.edu.au
Lecturing Staff Dr. Stuart Taylor	Quad 3092	9385 5826	stuart.taylor@unsw.edu.au
Other Teaching Staff Robert Morley	Quad 3109	9385 5907	r.morley@unsw.edu.au
Shan Zhou	Quad 3089	9385 6283	s.zhou@unsw.edu.au
Honours Program Lecturer-in-charge Dr. Wendy Green	Quad 3094	9385 5805	w.green@unsw.edu.au

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. 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 discouraged.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and locations

L/T Class No.	Day	Time	Location	
ACCT3708 Auditing and Assurance Services				
Lectures (start in week 1)	Lect a or Lect b	Tue	10:00 – 12:00 18:00 – 20:00	Physics Theatre Mathews Theatre C
Tutorials (start in week 2)	W09A W10A W10B W11A W11B F10B W13A W14A W14B W16A W17A W18A F10A F11A	Wed	9:00 – 10:00 10:00 – 11:00 10:00 – 11:00 11:00 – 12:00 11:00 – 12:00 12:00 – 13:00 13:00 – 14:00 14:00 – 15:00 14:00 – 15:00 16:00 – 17:00 17:00 – 18:00 18:00 – 19:00 10:00 – 11:00 11:00 – 12:00	ASBus 118 ASBus 118 ASBus 114 ASBus 114 ASBus 118 ASBus 219 ASBus 118 ASBus 118 ASBus 114 Gold G05 Gold G05 Gold G05 Quad 1045 Quad 1045
ACCT3718 Honours Seminar (additional seminar for all honours students – starts in week 2)		Tue	13:00 – 14:00	Gold G02

2.2 Units of credit

ACCT3708 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 and may form part of an accounting major, double major or disciplinary minor within the Bachelor of Commerce or Bachelor of Economics degrees. In order to enrol in this course, the following prerequisites must have been satisfied – ACCT2542 Corporate Financial Reporting and Analysis. 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. Lectures, tutorials, textbooks, exams and other resources are all provided to help you learn. You are therefore required to attend all lectures and tutorials 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. Lecture and tutorial questions as well as case studies with solutions are provided to guide your learning process.

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 is consistent with 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

The course consists of lectures and tutorials.

Lectures

Lectures (two hours per week) will be held each Tuesday (except as specified in the course timetable – see page 11 of the course outline). The purpose of lectures is to introduce and explain concepts that are critical to the core themes of the course. Further, lectures are aimed at providing students with the understanding of the audit process and provide guidance for each stage within the process.

In order to maximise the benefits of attending lectures, students are expected/encouraged to read the relevant study materials (i.e. specified chapters or pages in the textbook, auditing standards and practical case studies with solutions) thoroughly before attending lectures.

Tutorials

Each student is expected to register for a tutorial group via the WebCT system. Tutorials (one hour per week) will be held each week from weeks 2 to 12. The tutorials constitute the core learning experience of this course. During tutorials, students will be encouraged to discuss various steps in the audit process in a team environment and may be asked to present their findings in front of the class, as well as applying their knowledge to specific audit issues and situations via homework questions and class exercises.

Tutorial questions are included in the lecture and tutorial program handed out as a part of the Course Outline booklet distributed during the lecture in week 1. It is essential that, prior to a tutorial, you read the relevant course materials and prepare written responses to any tutorial questions assigned.

To assist in the development of key research and analytical skills, some of these tutorial questions may require students to conduct additional research.

Self study

Self study is a key element of the learning design of this course. Self study materials include the auditing standards, the case studies and lecture questions included in the Course Outline. The aim of this material is to encourage students to assume responsibility in the learning process and to make the tutorials more effective. Thus onus is on students to review and complete these materials. Staff will be available in consultation hours to assist with difficulties experienced with the self study materials.

4. STUDENT RESPONSIBILITIES AND CONDUCT

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 tutorial questions *prior* to attending class. The importance of adequate preparation prior to each tutorial including the completion of all questions cannot be overemphasised, as the effectiveness and usefulness of the tutorial depends to a large extent on students' active participation during the tutorial.

4.2 Workload

It is expected that you will spend at least **ten 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 lectures and 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 lectures, tutorials 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. The preliminary date of the supplementary exam is **Thursday 3rd July 2008**.

A 'pass conceded' (PC) grade may only be granted in exceptional circumstances by the Faculty of Business Assessment Committee and not the Head of School or the Lecturer-in-charge of this course.

5.2 Assessment overview

The composite mark for ACCT3708 will be calculated as follows.

Assessment Item (Due Date)	Weight	Item Assesses Learning Outcomes
Group Assignment	20%	1, 2, 3, 6, 7, 8, 10 and 11
Mid Semester Test	25%	1, 2, 3, 5, 8, 9 and 10
Final examination	55%	1, 2, 3, 4, 5, 8 and 9
TOTAL	100%	

Group assignment (20%)

The assignment will be undertaken by groups of four students within the same class. 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 in Section 10.

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 Section 10.

Mid Semester Test (25%)

The mid semester test will be held during the lectures in week 7 (April 29th). Further information regarding the mid semester test will be provided in lectures 6. The aim of the mid semester test is to provide you with feedback relating to your understanding and learning progress within the course. The mid semester test 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 semester test.

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 cover the entire course, although emphasis will be given to those areas not previously examined.

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.

In the Australian School of Business (ASB), requests for special consideration are determined by a Faculty wide panel which will advise the Lecturer-in-Charge of appropriate action.

If the Faculty panel grants a special consideration request, this may entitle the student to sit a supplementary examination. In such cases the follow procedures will apply:

- Supplementary exams will be scheduled centrally and will be held approximately two weeks after the formal examination period. Actual date will be advised by mid-session.
- Where a student is granted a supplementary examination as a result of a request for special consideration the student's original exam (if completed) will not be marked and only the mark achieved in the supplementary examination will count towards the final grade.

Further information concerning supplementary examinations is available on the ASB website.

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>.

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

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

Roebuck P. and N. Martinov-Bennie “Case Studies in Auditing and Assurance” Lexis Nexis, 4th Edition 2007.

Gay G, and R. Simnett “Auditing and Assurance Services in Australia”, McGraw-Hill, revised 3rd edition, 2007.

2. Recommended References

None

Australian Society of CPAs or the Institute of Chartered Accountants, Auditing Handbook, Vol. 2 of the Accounting and Auditing Handbook, Prentice-Hall, 2008.

Note: The standards can be downloaded from the following site

http://www.auasb.gov.au/standards_new_AuASB.htm#Standards

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.

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
<https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>
- **Special Consideration** including Supplementary Examinations
- **Occupational Health and Safety** policies and student responsibilities;
<http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

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. Lecture Schedule

Lecture	Date:	Topic
1	Mar 11	Introduction to the Audit Function, Assurance Framework, Professional Standards and Structure of the Profession.
2	Mar 18	Introduction to the Audit Process – Understanding the Entity and Assessing Risk.
	Mar 25	Easter Recess (No classes this week)
3	Apr 1	Analytical Procedures, Risk Assessment and Materiality.
4	Apr 8	Internal Controls Evaluation and Mitigating Controls.
5	Apr 15	Audit Evidence and the Audit Assertions.
6	Apr 22	Auditors Response to Risks.
7	Apr 29	Mid semester test to be held during this week's lectures There are no tutorials this week
8	May 6	Auditing in an IT Environment – Background and Internal Controls. Assignment Status Report due
9	May 13	Auditing in an IT Environment – Audit Procedures/CAATs.
10	May 20	Using the Work of Others, Internal Audit and Public Sector Auditing. Assignment Due
11	May 27	Completing the Audit Process and Audit Reporting.
12	Jun 3	Legal Liability/Ethics

10. ASSESSMENT DETAILS

10.1 Group assignment

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 also requires students to do research into report writing and preparation of materials in a format acceptable for presentation to senior executives.

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 assigned company.

Group assignment details

The assignment is to be based on Select Harvests Limited (Select) and is to be submitted at the commencement of your tutorial in week 10, as per the Course Outline, (p.13).

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 Selects' 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 pieces of information and apply analytical skills to critically evaluate potential audit risks.

An important aspect of the assignment will be to demonstrate your ability to present a written report in a worklike manner.

Required

You are a part of the team responsible for the Select audit engagement. You have been assigned to gather relevant background information and prepare a report for an audit committee meeting in relation to the half year review for 2008. Your report should include:

1. A description of the following in relation to Select:

Business Operations:

- Nature of revenue sources
- Conduct of operations
- Products & services and markets

Industry Conditions:

- Market and competition
- Regulatory environment

[4 marks]

2. A PEST analysis detailing the kinds of factors that may influence the Business of Select. Note: PEST analysis is a commonly used tool to assist in conducting strategic analysis that decomposes the client's business environment into the following four spheres of influence -

Political
Economic
Social
Technical

[3 marks]

3. An analytical review **based on the Select 2007 Annual Report**. This review should consider Liquidity, Profitability and Efficiency ratios.

[3 marks]

4. The five key audit risks which would impact on the half yearly review of Select. The five risks identified should be justified based on the information you have provided in parts 1 through 3 and should include the account most affected by the risks identified. **[5 marks]**
5. An explanation of how a Half Yearly Review would differ from a full audit. **[1 mark]**
- 6: Presentation: Your assignment should be presented in a format as if it were to be presented to an audit committee meeting. It should be succinct, and use of tables is encouraged. **[4 marks]**

Length

Maximum 10 pages (font size 12, 1½ line spacing, Times New Roman).
Margins on all sides at 2.5 minimum.

Additional Information

1. A Group Assignment Work Plan is included in Section 10.2 to assist your completion of this assignment.
2. An Assignment Group Allocation Form is included in Section 10.3. You will be supplied with an additional form in Tutorial 2 to complete and return to your tutor in tutorial 3.
3. A Group Assignment Peer Evaluation Form is included in Section 10.5. 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 Tutorial 8. 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 tutor at the beginning of Tutorial 10. 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 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 18 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. 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.
7. **Late submissions will incur a 3 mark penalty** for every day of late submission (including weekends).

10.2 Group assignment work plan

10.2 GROUP ASSIGNMENT WORK PLAN

By : Tutorial	Activity	Deliverable
3	Finalise groups of 4.	Hand in completed 'Assignment Group Allocation Form' to your tutor during Tutorial 3
5	Problem scoping, gather relevant background information on the assigned company, major competitors, industry factors, etc. including detailed analysis of the assigned company latest annual report. Prepare detailed timetable and member responsibilities to ensure timely completion.	
8	Assignment near completed. Identify areas for further work and adjust timetable/responsibility allocation to ensure timely and high quality delivery.	Hand in one page status report during Tutorial 8
10	Completion of all Assignment requirements.	Hand in assignment at the beginning of Tutorial 10, along with peer assessments.

10.3 Assignment Group Allocation Form

Tutorial Details

Day and Time:

Number:

Tutor:

Group Details:

Group Name:
(Optional)

**Group
Members:**

Student Names:

**Student
Numbers:**

1
2
3
4

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: _____

Tutor: _____

Tutorial 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:

11. Session 1 2008, Key Dates

It is your responsibility to ensure that:

1. You are recorded by the University as being correctly enrolled in all your courses. **Monday 10 March** is the first day of classes. **Sunday 16 March** is the last day you can enrol in Session 1 courses. The last day for students to discontinue without financial penalty and academic penalty is **Monday 31 March**.
1. Note that **Friday 21 March** and **Monday 24th March** are public holidays, as is **Friday 25th April**.
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 where these are known. Be aware that your final examination may fall at any time during the session's examination period. The scheduling of examinations is controlled by the University administration. No early examinations are possible. The examination period for Session 1, 2008 falls between **11 and 27 June**.
4. When the provisional examination timetable is released (**in May**), ensure that you have no clashes or unreasonable difficulty in attending the scheduled examinations.
5. Note that some schools schedule a common date for any **supplementary exams** that may be required – it is your responsibility to check the school websites and ensure that you are available to take the exam on the scheduled date.
6. You keep the University informed of all changes to your contact details.
7. 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>

THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF ACCOUNTING
ACCT3708 AUDITING AND ASSURANCE SERVICES

Course Introduction
Introduction to Audit, Assurance and Professional Framework

WEEK 1 LECTURE: Tuesday, March 11, 2008

NOTE: There are not tutorials this week

READING GUIDE

Please note:

It is recommended that students familiarise themselves with the key references prior to each week's lecture. It is essential that students are familiar with the key references before attending the tutorial.

Textbook Reference:

Gay and Simnett, Chapters 1 and 2

Standards:

AUS 108	Explanatory Framework for Assurance Engagements
ASA 200	Objective and General Principles Governing an Audit of a Financial Report
ASA 220	Quality Control for Audits of Historical Financial Information

Lecture Discussion Questions:

1. Discuss the concept of “assurance” in an audit setting.
2. Describe the objective of an independent audit.
3. Distinguish between management’s and the auditor’s responsibility for the financial reports being audited.
4. Explain the meaning of “true and fair”/“fairly presented” in the audit report.

THE UNIVERSITY OF NEW SOUTH WALES

SCHOOL OF ACCOUNTING

ACCT3708 AUDITING AND ASSURANCE SERVICES

Introduction to the Audit Process - Understanding the Entity and Assessing Risk

WEEK 2 LECTURE: Tuesday March 18, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 6 (pp. 252-265)

Roebuck & Martinov, Chapter 9, Practice Examination 1, Question 1, part (i): (p. 158) and Solution (p. 164)

Standards:

ASA 240	The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report
ASA 300	Planning
ASA 320	Materiality and Audit Adjustments
ASA 315	Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Lecture Discussion Questions:

Roebuck & Martinov
Chapter 10A, Question 4 (p. 186).

TUTORIAL QUESTIONS

NOTE: Groups will be formed during this tutorial. Ensure you and your group members complete group assignment allocation forms for each group member – Refer page XX of course outline.

1. Roebuck & Martinov
Chapter 10A, Question 5 (p. 186).
2. Roebuck & Martinov
Chapter 9, Practice Exam No. 2, Question 3, part (a) (p. 170).

THE UNIVERSITY OF NEW SOUTH WALES

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ACCT3708 AUDITING AND ASSURANCE SERVICES

Analytical Procedures, Risk Assessment and Materiality

WEEK 3 LECTURE: Tuesday April 1, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 6 (pp. 266-275) and Chapter 7 (pp 313-319)
Roebuck and Martinov, Chapter 9, Revise from last week Practice Examination 1, Question 1 (p. 158) and Solution (p. 164)

Standards:

ASA 520 Analytical Procedures
ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 300 Materiality and Audit Adjustments

Lecture Discussion Question:

1. Your audit senior has provided you, the audit partner, with a memo on the results of the preliminary analytical procedures analysis for your client. The highlights are as follows:
- a) Depreciation expense has been about 2% of total assets for several years. This year it was only 1% of total assets.
 - b) Interest expense has been about 6% of total debt; this year it was 8%.
 - c) Average days payable decreased from 35 days to 29 days.

Required:

NOTE:

Present your answer in the following format:

Normal business explanation	Audit risk explanation
-----------------------------	------------------------

For each of these material changes in the client's ratios provide:

- (i) one (1) explanation consistent with this change being a normal consequence of your clients' business; and
- (ii) one (1) explanation consistent with this change suggesting an increase to audit risk.

2. 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:

	<u>2006</u>	<u>2007</u>
Current ratio	1.3	1.9
Liquid ratio	0.8	0.6
Days debtors outstanding	40 days	54 days
Inventory turnover	63 days	118 days

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.

3. WGRS Ltd manufactures electrical components. In the economy, inflation is coinciding with a recession, and interest rates for WGRS have increased from 8% at the beginning of the year to 14% at the end of the year. There has also been an increase in overseas competition due to recent government tariff reductions. The company has tried to boost sales by relaxing its credit policy.

Consider the following extracts from the financial statements of WGRS Ltd

	(\$'000s) 2007	(\$'000s) 2006	% change
Sales	2,000	1,700	+18%
Cost of goods sold	1,050	1,000	+5%
Gross margin	47.5	41.2	+15%
Interest expense	132	128	+3%
Long term liabilities	1,600	1,600	–
Interest rate (at 30 June)	14%	8%	n/a
Inventory	500	250	+100%
Accounts receivable	670	480	+40%
Provision for doubtful debts	14	10	+40%
Current ratio	1.94	2.39	-19%
Quick ratio	1.23	1.78	-31%
Inventory turnover (times per year)	2.1 times	4 times	-48%
Debtors turnover (times per year)	3.05	3.62	-16%

Required:

Identify the concerns (if any) you have with the following accounts or ratios, and their implications for the audit.

- Interest Expense/Long-term Liabilities
- Accounts Receivable/Provision for Doubtful Debts
- Current Ratio/Quick Ratio and associated balances.

TUTORIAL QUESTIONS

1. Roebuck & Martinov, Chapter 9, Practice Examination 2, Question 1 (p. 168).
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. You are the audit senior on the audit of BeanBag Pty Ltd, a large manufacturer of comfortable BeanBag Chairs. BeanBag Pty Ltd has a wide range of BeanBag styles, including single and double BeanBags, and an extensive choice of fabric, including denim and fur. Their main market lies with 18 to 24 year olds.

This year (2006) is the second year in which your firm has performed the audit. As part of the planning work, you have performed analytical procedures in order to compare the unaudited results for the current year to last year’s (2005) audited financial information, as well as to the relevant industry averages. The results are given below:

Ratio	Industry average		BeanBag Pty Limited	
	2005	2006	2005	2006
1 Current ratio	2.84	2.97	2.89	3.44
2 Receivables turnover ratio	4.9	4.6	5.5	4.3
3 Inventory turnover ratio	3.8	3.7	4.5	3.2
4 Return on total assets	7%	5%	9%	11%
5 Net profit ratio	0.06	0.06	0.07	0.09
6 Gross margin	0.21	0.20	0.22	0.26
7 Times interest earned	3.4	3.3	3.5	4.2

In addition, you note the following:

- (i) Informal discussions with the production manager revealed that the initial interest in the revival of the bean bag chair has declined during the year;
- (ii) Management has bulk purchased a supply of leopard print fabric to attempt to re-ignite demand for their product;
- (iii) A review of lifestyle magazines has indicated renewed interest in cane furniture;
- (iv) During the last few months of the financial year a growing number of BeanBags were returned due to faulty zipper components;
- (v) Additional loans were negotiated during the year.

Required:

- (a) Using the analytical procedures results and additional information noted above, identify four (4) accounts that the auditor might assess to be at risk of misstatement.

(b) For each account noted in (a) justify the risk assessment by the auditor by reference to both the ratios and the additional information provided.

4. 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 gathering, 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.

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ACCT3708 AUDITING AND ASSURANCE SERVICES
Internal Controls Evaluation and Mitigating Controls

WEEK 4 LECTURE: Tuesday, April 8, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 8 (pp. 335-361) and Chapter 9 (pp. 404-425)
Roebuck and Martinov, Case 2-2 (p. 26), 2-6, and Solution (p. 198)

Standards:

ASA 315 Understanding the Entity and its Environment and Assessing the Risk of Material Misstatement

Lecture Discussion Question:

For the following business risks outline an internal control that would address the risk.

- (i) risk of non-collectibility 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.

TUTORIAL QUESTIONS

1. Roebuck and Martinov, Case 2-1 (p. 26).
2. (a) Roebuck and Martinov, Chapter 9, Practice Examination 3, Question 1, part 1 (p. 174).
(b) For the factors identified in part (a), consider whether there are any controls that would/could address the risks identified.
3. Roebuck and Martinov, Chapter 9, Practice Examination 2, Question 2 (p. 169).

THE UNIVERSITY OF NEW SOUTH WALES
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ACCT3708 AUDITING AND ASSURANCE SERVICES
Audit Evidence and the Audit Assertions

WEEK 5 LECTURE: Tuesday, April 15, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 5 (pp. 190-198), Chapter 8 (pp. 346-348, 360), Chapter 10
Roebuck and Martinov, Cases 3-1 part 2 (p. 38), 3-5 (p. 42), 3-8 (p. 45),
and Solutions (pp. 200-202; 203; 203-204)
Roebuck and Martinov, Chapter 9, Practice Examination 1, Question 1 (p. 158) and Solution (p. 164)

Standards:

ASA 500 Audit Evidence

Lecture Discussion Questions:

1. 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. Pilfering 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.
2. Roebuck and Martinov, Chapter 10D, Question 31 p.190.

TUTORIAL QUESTIONS

- 1. Roebuck and Martinov, Chapter 9, Practice Examination 2, Question 4 (pp. 172-173).
- 2. Roebuck and Martinov, Chapter 3, Case 3-9 part A (p. 46).

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ACCT3708 AUDITING AND ASSURANCE SERVICES

Auditors Response to Risks

WEEK 6 LECTURE: Tuesday, April 29, 2008

READING GUIDE

Textbook References:

Gay and Simnett Chp.7 (pp.313-319).
Roebuck and Martinov, Cases 3-5 (p.42) and Solutions (p.203).

Standards:

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

Lecture Discussion Questions:

1. XYZ Ltd is an infrastructure company. It owns several liquefied natural gas (LNG) pipelines, which it leases to gas distribution companies, at fixed rates per cubic metre of gas that is transported through the pipelines. Maintenance is contracted out to an engineering contractor for a fixed annual fee. The two major expenses are depreciation on the pipelines and interest on the debts that were incurred to raise the cash to buy the pipelines. Profits are high and showing a slow but constant growth rate. The industry is stable, with very little competition. However, there is a risk that the ACCC may intervene to reduce the rates that XYZ can charge its customers. Finally, the risk of interest rate movements has been eliminated by a comprehensive hedging program.

XYZ has a staff of twenty. The accounts department consists of one accountant and two accounts clerks. One clerk is responsible for cash receipts and payments, all of which are electronic, while the other records all transactions in the journals, including the calculation and recording of depreciation. The accountant reviews their work regularly and provides assistance with more complex transactions, as well as preparing the financial statements and liaising with the auditors, the CEO and the board of directors. The valuation and useful life of the company's pipelines are reviewed annually by external consultants and these results are reported to the board and are used in the preparation of the financial statements.

Required:

- a) List four business risk factors, which would impact on the accuracy of depreciation? Overall, is the business risk for accuracy of depreciation high medium or low?
- b) List two mitigating controls that would reduce the risk of error in the accuracy of depreciation?
- c) For each control, list one test of control that could be performed to determine the control operates effectively.
- d) Once the mitigating controls are taken into account, what is the residual risk of error in the accuracy of depreciation (high medium or low)?

- e) How much substantive analytical procedures and tests of detail should be performed to reduce the risk of errors, in the accuracy of depreciation, to an acceptable amount?
 - f) List two substantive procedures that should be performed to test the accuracy of depreciation for XYZ Ltd.
2. ABC Ltd owns a chain of computer retail stores. The company is suffering from strong competition from major department stores and online computer retailers. In addition, the mix of products that consumers buy is constantly changing, with more demand for personal digital music players, such as iPods, and digital cameras, and less demand for personal computers. Because of this, the company's profits have fallen in recent years and cash flow is weak. While the company is still able to pay the interest on its debts, it is in danger of violating the debt covenant, which requires it to maintain a certain level of return on equity and a certain gearing ratio. Furthermore, it is likely to struggle to make large loan principal repayments, which are due at the end of the year. To overcome this, the company has engaged an investment bank to try and find investors for a private equity capital raising.

As inventory is a major asset class, ABC has several controls in place for it. All inventory is stored in a central warehouse, which is guarded by a major security firm. The company's stores are all in shopping centres and are protected by the shopping centre security systems. Once a month, an inventory stocktake is conducted at the warehouse and at all stores, to check for missing or damaged inventory and adjusting entries are posted to the journal to deal with any problems? Furthermore, the purchasing manager reviews the sales of all inventory liens on a monthly basis and only orders new stock of the exiting stock is selling well and the quantity on hand is falling.

Required:

- a) List five business risk factors, which would impact on the valuation of inventory? Overall, is the business risk, for valuation of inventory high medium or low?
- b) List two mitigating controls that would reduce the risk of error in the valuation of inventory?
- c) For each control, list one test of control that could be performed to determine the control operates effectively.
- d) Once the mitigating controls are taken into account, what is the residual risk of error in the valuation of inventory (high medium or low)?
- e) How much substantive analytical procedures and tests of detail should be performed to reduce the risk of errors, in the valuation of inventory, to an acceptable amount?
- f) List three substantive procedures that should be performed to test the valuation of inventory assertion for ABC Ltd?

TUTORIAL 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. RST Ltd is a medium sized manufacturer of luxury furniture. Rises in the Australian dollar have affected RST's ability to compete with luxury furniture makers from Italy and the USA. Raw materials prices have also been increasing, as have the wages of the skilled workers that RST employs. These factors have meant that RST has made increasing losses over the last two year and the business is experiencing cashflow problems. Because of this, the directors are looking to sell the business and they have retained a merchant banking firm to advise them.

RST buys its raw materials from a large number of local and international suppliers. Raw materials purchases account for about 75% of trade creditors, with the rest being sundry services such as electricity, advertising and insurance. Over the last two years, trade creditors have been increasing and it has been taking longer to pay them. In addition, RST has received a number of formal complaints from creditors, for late payment, though the firm has been able to pay them eventually and there have been few instances of suppliers refusing to do further business with RST.

When raw materials shipments arrive at RST's warehouse, they are immediately counted and checked for damage and stored. The warehouse manager signs the delivery dockets and keeps them till the end of the week when the accounts payable clerk collects them and enters them into the purchases journal. Due to the tight labour market, RST has had three clerks working in the accounts payable area over the course of the year and sometimes has had to use staff from other accounting areas to fill in when there has been no accounts payable clerk. Once a week, the chief accountant checks the clerk's work and authorises payments to individual creditors. Once this has been done, the clerk sends cheques and electronic remittances to creditors and enters the cash payments transactions into the cash payments journal. At the end of each month, the clerk posts all the entries, from both the purchases journal and the cash payments journal, into the accounts payable sub-ledger. Once this is done, the accounts payable sub ledger is reconciled to supplier statements and bank statements by a different clerk, who prepares a list of errors and posts adjusting entries to the ledger.

Required:

- a) List five business risk factors, which would impact on the completeness of accounts payable? Overall, is the business risk, for completeness of accounts payable high medium or low?
- b) List two mitigating controls that RST uses to reduce the risk of error in the completeness of accounts payable?
- c) For each control, list one test of control that could be performed to determine the control operates effectively.
- d) List three control weaknesses that affect the risk of error in the completeness of accounts payable?
- e) Once the mitigating controls are taken into account, what is the residual risk of error in the completeness of accounts payable (high medium or low)?

- f) How much substantive analytical procedures and tests of detail should be performed to reduce the risk of errors, in the completeness of accounts payable, to an acceptable amount?
- g) List three substantive procedures that should be performed to test the completeness assertion for accounts payable for RST Ltd?

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Mid Semester Test

WEEK 7 LECTURE: Tuesday, April 29, 2008.

A mid semester test, worth 25% of your final assessment, will be held during your lecture this week. Further details of the test will be provided in lectures in preceding weeks.

THERE ARE NO TUTORIALS IN WEEK 7

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Auditing in IT Environment — Background and Internal Controls

WEEK 8 LECTURE: Tuesday, May 6, 2008.

NOTE: Your assignment status report must be handed to your tutor at the start of your tutorials this week.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 8 (pp. 362-373), Chapter 9 (pp. 428-433), Chapter 10 (pp. 493-497)
Roebuck and Martinov, Case 4.3 (p. 59) and Solution (p. 208)
Roebuck and Martinov, Cases 4-5 (p. 62), 4.6 (p.64) and 4-8 (pp. 67) and Solutions (pp. 210-213)
Roebuck and Martinov, Chapter 9, Practice Examination 1, Question 2 (pp. 159) and Solution (p. 165)

Standards:

ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
AGS 1056 Electronic Commerce: Effect on the Audit of a Financial Report

Lecture Discussion Questions:

1. 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.

2. 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'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.
- 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.
- 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. 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.
- 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.

TUTORIAL QUESTIONS

NOTE: Your assignment status report must be handed to your tutor at the start of your tutorials this week.

1.
 - (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?
2. Roebuck and Martinov, Case 2-4, Part 2 (p. 58).
3. XYZ Ltd has a computerised payroll system. The payroll file contains the following fields.

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

- (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?

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Auditing in IT Environment — Audit Procedures/CAATs

WEEK 9 LECTURE: Tuesday, May 13, 2008

READING GUIDE

As for week 8

Lecture Discussion Questions

Question One

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 the existing data in the payroll data base and new payroll transactions. The changes to the existing data are additions and deletions of staff to the payroll data base 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 data base and the payroll data base. 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 pay for each employee.
- 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 balances.

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 Two

FGH Ltd maintains its sales transactions in the following file.

01	Invoice Number
02	Customer Number
03	Item Number
04	Quantity
05	Sundry Charges
06	Order Date

- 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?

TUTORIAL QUESTIONS

1. How does the nature of accounting errors differ between a manual and a computerised accounting system? How does this affect the audit strategy?
2. 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:

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

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.

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

Customers Table		Orders Table	
Field No	Field Name	Field No	Field Name
1	Customer Number	11	Order Number
2	Name	12	Customer Number
3	Street Address	13	Date
4	City	14	Item Number
5	State	15	Quantity
6	Post Code	16	Sale Price
7	Phone Number	17	Order Total
8	Credit Limit		
9	Outstanding Balance	Inventory Table	
10	Last Payment Date	Field No	Field Name
		21	Item Number
		22	Item Description
		23	Quantity on Hand
		24	Cost
		25	Last Dispatch Date
		26	Last Receiving Date

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 and Allocation of accounts receivable
 - ii) Occurrence of sales
 - iii) Completeness of inventory
 - iv) Valuation and Allocation 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 and Allocation of Inventory
 - iii) Existence of Accounts Receivable

THE UNIVERSITY OF NEW SOUTH WALES

SCHOOL OF ACCOUNTING

ACCT3708 AUDITING AND ASSURANCE SERVICES

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

WEEK 10 LECTURE: Tuesday, May 20, 2008.

**NOTE: YOUR ASSIGNMENT IS DUE THIS WEEK.
IT MUST BE SUBMITTED TO YOUR TUTOR AT THE BEGINNING
OF YOUR TUTORIAL**

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 8 (pp. 374-376), Chapters 15 and 16

Roebuck and Martinov, Chapter 9, Practice Examination 1, Question 4 Part A (p. 161) and Solution (p. 164)

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 806	Performance Auditing
AUS 904	Engagements to Perform Agreed-upon Procedures

Lecture Discussion Question:

1. 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.

2. Roebuck and Martinov, Chapter 10F, Question 45, p.191.

3. Roebuck and Martinov, Chapter 10F, Questions 43 and 44, p.191.

TUTORIAL QUESTIONS

**NOTE: YOUR ASSIGNMENT IS DUE THIS WEEK.
IT MUST BE SUBMITTED TO YOUR TUTOR AT THE BEGINNING
OF YOUR TUTORIAL**

1. 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.

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SCHOOL OF ACCOUNTING

ACCT3708 AUDITING AND ASSURANCE SERVICES

Completing the Audit Process and Audit Reporting

WEEK 11 LECTURE: Tuesday, May 27, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapters. 12, 13 and 14

Roebuck and Martinov, Cases 3-1 Parts 1 and 3 (p. 34), 5-2 (p. 71), 5-7 (p. 76); 5-8 (p. 77), and Solutions (pp. 200; 214-216)

Roebuck and Martinov, Chapter 9, Practice Examination 1, Question 4 Part C (p. 161) and Solution (p. 167)

Standards:

ASA 560	Subsequent Events
ASA 570	Going Concern
ASA 700	Audit Report on a General Purpose Financial Report
ASA 701	Modifications to the Auditor's Report
ASA 720	Other Information in Documents Containing Audited Financial Reports
ASA 800	The Audit Report on Financial Information Other than a General Purpose Financial Report
AGS 1006	Expressions of Opinion on Internal Control
AGS 1016	Audit and Review Reports - Half Year Accounts and Consolidated Accounts
AGS 1066	Reporting by Auditors on Compliance with International Financial Reporting Standards

Lecture Discussion Questions:

1. Turbo audited Charge Ltd. For the year ended 30 June 2007. Turbo is aware that certain events and transactions that took place after 30 June 2007, but before he issues his report dated 31 August 2007, may affect the company's financial statements.

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

- (a) On 15 July 2007, the company settled and paid a personal injury claim to a former employee as the result of an accident that occurred in September 19X7. The company had not previously recorded a liability for the claim.
- (b) On 25 July 2007, the company agreed to purchase for cash the outstanding shares of Electronic Fuel Injection Ltd. The acquisition is likely to double the sales volume of Charge Ltd.
- (c) On 1 August 2007, a plant owned by Charge Ltd was damaged by a flood resulting in an uninsured loss of inventory.
- (d) On 5 August 2007, Charge Ltd. issued and sold to the general public \$2 million in convertible notes.

Required:

- (a) 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.
- (b) Determine the action(s), if any, that the auditor needs to take in relation to each of the above events.

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

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

- (i) Your client has intangible assets, being trademarks, which are recorded in the accounts at \$4,500,000. The value is the same as in the prior year. During the year, your client commissioned an independent valuation of the trademarks. This valued them at \$2,850,000. Management refuses to adjust the financial statements to reflect the revised valuation.

The materiality for the client has been set at \$1,200,000.

- (ii) 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.
- (iii) A company loses most of its accounting records due to a fire in its accounts department. Although it is able to reconstruct its financial statements due to an asset stocktake, third party confirmation procedures and inquiries from creditors, there is no documentation to support transactions for the year.
- (iv) 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.
- (v) 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.

TUTORIAL QUESTIONS

1. Explain how this situation should be dealt with in the financial statements. Justify your decision:

You are the auditor of Codd Ltd. You are about to sign the audit report on the financial statements for the year ended 30 June 2007 when you become aware that the client has received an amended assessment from the Tax Office. The amendment for \$285,000 is a result of tax audit conducted in March 2007. The amount is material and the company has indicated that it will not appeal against the amendment.

2. (i) Explain briefly what is meant by the 'going concern' concept and its significance to the audit.
- (ii) Based on the information provided what would be the value of buildings (a) under the going concern basis, and (b) if the company was not a going concern.

	\$
Buildings at cost	6,000
Accumulated depreciation	500
Current sales value (excl. land)	3,000
Cost of disposal	25

- (iii) Detail three (3) factors that would assist you in determining the 'going concern' basis for a home unit property developer. (Justify the relevance of each of the factors chosen.)

NOTE: You may wish to present your answer in the following format:

Factor	Relevance to going concern

3. Roebuck and Martinov, Chapter 10G, Questions 49, 50, 52, and 53 (p. 192).

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Legal Liability/Ethics

WEEK 12 LECTURE: Tuesday, June 3, 2008.

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapters 3 and 4
Roebuck and Martinov, Cases 6-2 (p. 85), 6-9 (p. 91) and Solutions (pp. 216 and 219)
Roebuck and Martinov, Chapter 9, Practice Examination 1, Question 4B (p. 161) and
Solution (p. 166)

Standards:

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

Lecture Discussion Questions:

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. Outline the significance of the AWA Limited v Daniels (trading as Deloitte, Haskins and Sells) and others decisions for the auditing profession.
3. Roebuck and Martinov, Case 6-8 (p.90).

TUTORIAL QUESTIONS

Ethics:

1. The following each involve a possible violation of APES 110: Code of Ethics for Professional Accountants. For each situation, identify relevant applicable sections of APES 110 and whether they are 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 2,500 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.
 - (c) 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.
2. Audit independence has been described as the cornerstone of the auditing profession.
 - (a) Define actual and perceived independence;
 - (b) Do you believe audit partner rotation every 5 years is an effective means to achieve auditor independence?

Law:

3. What is the 'proximity test' with regard to auditor's liability to third parties? Support your explanation with relevant legal cases.
4. Roebuck and Martinov, Case 6-3 (p.86).

ANSWERS TO MULTIPLE CHOICE EXAM QUESTIONS

NOTE: Due to changes in the auditing standards, students should not attempt to do exam questions from papers prior to session 1 2005. Staff will not answer questions about material from these earlier exam papers.

Session 1, 2005: 1d, 2a, 3c, 4c, 5d, 6d, 7b, 8d, 9a, 10c, 11c, 12d, 13b, 14d.

Session 2, 2005: 1b, 2c, 3a, 4d, 5b, 6c, 7d, 8b, 9c, 10c, 11c, 12b, 13d, 14c, 15a, 16c, 17c, 18d, 19b, 20a, 21d, 22a, 23a, 24b, 25b

Session 1, 2006: 1c, 2d, 3a, 4d, 5d, 6a, 7d, 8b, 9a, 10c, 11b, 12c, 13d, 14d.

Session 2, 2006: 1b, 2d, 3a, 4d, 5c, 6c, 7d, 8b, 9c, 10b, 11d, 12d, 13c, 14c, 15c, 16d, 17d, 18b, 19a, 20c, 21a, 22c, 23c, 24b, 25b

Session 1, 2007: 1a, 2d, 3a, 4a, 5a, 6b, 7a, 8c, 9b, 10b, 11c, 12c, 13b, 14d, 15b, 16d, 17a, 18b, 19c, 20d, 21d, 22c, 23d, 24c, 25d, 26a, 27b, 28c, 29b, 30b.

Session 2, 2007: 1a, 2b, 3d, 4b, 5c, 6b, 7c, 8a, 9d, 10a, 11a, 12a, 13a, 14c, 15a, 16c, 17a, 18c, 19a, 20c, 21c, 22b, 23d, 24b, 25d, 26c

