

THE UNIVERSITY OF
NEW SOUTH WALES



Australian School of Business
School of Accounting

ACCT3708
AUDITING AND ASSURANCE SERVICES

COURSE OUTLINE
SEMESTER ONE, 2009

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1. STAFF CONTACT DETAILS

Contact details for course coordinator

Teaching Staff	Room Number	Telephone	Email
Lecturer-in-charge			
Dr. Stuart Taylor	Quad 3092	9385 5826	stuart.taylor@unsw.edu.au
Lecturing Staff			
Robert Morley	Quad 3109	9385 5907	r.morley@unsw.edu.au
Other Teaching Staff			
Shan Zhou	Quad 3089	9385 6283	s.zhou@unsw.edu.au
Joel Hankinson	Quad 3089	9385 6283	z3188423@student.unsw.edu.au
Honours Program			
Lecturer-in-charge			
Dr. Wendy Green	Quad 3094	9385 5805	w.green@unsw.edu.au

2. COURSE DETAILS

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	Tue	10:00 – 12:00	Science Theatre
	Or Lect B	Tue	18:00 – 20:00	CLB 6
Tutorials (start in week 1)	T20A	Tue	20:00 – 21:00	Gold G02
	W09A	Wed	9:00 – 10:00	ASBus 219
	W10A	Wed	10:00 – 11:00	ASBus 219
	W11A	Wed	11:00 – 12:00	ASBus 118
	W11B	Wed	11:00 – 12:00	RedC 3037
	W12A	Wed	12:00 – 13:00	Gold G02
	W12B	Wed	12:00 – 13:00	ASBus 118
	W14A	Wed	14:00 – 15:00	Web 250
	W15A	Wed	15:00 – 16:00	Gold G02
	W15B	Wed	15:00 – 16:00	Quad G053
	W17A	Wed	17:00 – 18:00	Sqhouse 214
	F09A	Fri	9:00 – 10:00	Quad G053
	F10A	Fri	10:00 – 11:00	ASBus 219
	F11A	Fri	11:00 – 12:00	Quad 1045
	F12A	Fri	12:00 – 13:00	Gold G07
F13A	Fri	13:00 – 14:00	Gold G02	
ACCT3718 Honours Seminar				
(additional seminar for all honours students – starts in week 2)	T12A	Tue	12:00 – 13:00	ASBus 219

2.2 Units of Credit

ACCT3708 Auditing and Assurance Services has a total of 6 units of credit.

2.3 Summary of Course

This course examines the practice of auditing and the underlying concepts, auditors responsibilities and the audit environment. Although the focus of attention is on audits carried out under the provisions of the Corporations Law, reference is also made to other forms of audit. The course is intended to provide an overview of the audit process as it exists in Australia. Both CIS and computer-assisted audit techniques are an integral part of this course.

2.4 Course Aims and Relationship to Other Courses

This course differs from previous financial accounting courses. In those courses students are taught to prepare financial statements and interpret them. This course is about providing assurance that the information can be relied upon. This assurance is provided through the process of auditing. Both the process of auditing and the rationale for assurance will be studied, in their legal and ethical context. This course is of a obvious importance to those students who will be employed as auditors but it also important to any student who needs to rely on the information provided in audited financial statements.

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.

2.5 Student Learning Outcomes

By the end of this course you should be able to:

1. Understand the reasons for independent assurance of financial information and the different levels of assurance provided by an audit and a review,
2. Understand the role of auditing standards and the *Corporations Act 2001* in the conduct of an audit,
3. Understand the risk based approach to auditing,
4. Assess business risk, evaluate materiality and evaluate the internal controls of the audit client,
5. Develop an audit strategy involving tests of controls, substantive analytical procedure and substantive tests of detail,
6. Understand auditing in a computerised accounting system,
7. Choose the appropriate audit report to issue, based on the audit evidence,
8. Understand the legal and ethical responsibilities of the auditor,
9. Work as a team to analyse a company and prepare planning information for an audit.

Graduate Attributes

This course contributes to your development of the following Australian School of Business Graduate Attributes, which are the qualities, skills and understandings we want you to have by the completion of your degree.

Course Learning Outcome	ASB Graduate Attribute
1, 4, 5, 9	1. Critical thinking and problem solving
9	2. Communication
9	3. Teamwork and leadership
8	4. Social Ethical and global perspectives
3, 4, 5, 6, 7	5. In-depth engagement with relevant disciplinary knowledge
9	6. Professional skills

3. LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

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.

3.2 Learning Activities and Teaching Strategies

The course consists of lectures and tutorials.

Lectures

Lectures (two hours per week) will be held each Tuesday. 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 1 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. ASSESSMENT

4.1 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 **Monday 29th June**.

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.

4.2 Assessment Details

Assessment Task	Weighting	Learning Outcome Assessed	ASB Graduate Attribute Assessed	Length	Due Date
Group Assignment	20%	3, 4, 9	2, 3, 5 and 6	10 Pages	Week 10 Tutorial
Mid Semester Test	25%	1, 2, 3, 4, 5	2 and 5	1 Hour	2 nd May
Final Examination	55%	1, 2, 3, 4, 5, 6, 7, 8	2 and 5	2 Hours	TBA

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, submission details and marking criteria are provided in **Appendix B**, at the back of this course outline.

Mid Semester Test (25%)

The mid semester test will be held on **SATURDAY 2nd May from 10:30 a.m. – 11:30 a.m.** This test will assess material covered in the first seven weeks of the course through short answer and multiple choice questions. 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. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW's policies, penalties, and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE tutorial for all new UNSW students: <http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

6. COURSE RESOURCES

6.1 Course resources

1. Prescribed Textbooks

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

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, 2009.

Note: The standards can be downloaded from the following site
http://www.auasb.gov.au/standards_new_AuASB.htm#Standards

3. 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.

6.2 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.

6.3 Library

The UNSW library contains useful resources for this course.

<http://info.library.unsw.edu.au/web/services/services.html>

7. COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students about the courses offered in the School and continual improvements are made based on this feedback. In this course, we will seek your feedback through the University CATEI student evaluations. Previous student feedback indicated a desire for tutorial solutions to be placed on WebCT. It has been decided that this will not be done, as students gain more from working through questions in tutorials than from having access to a sample answer.

8. STUDENT RESPONSIBILITIES AND CONDUCT

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

Information and policies on these topics can be found in the 'A-Z Student Guide': <https://my.unsw.edu.au/student/atoz/ABC.html>. See, especially, information on 'Attendance and Absence', 'Academic Misconduct', 'Assessment Information', 'Examinations', 'Special Consideration', 'Student Responsibilities', 'Workload' and policies such as 'Occupational Health and Safety'.

8.1 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 exercises and problems, 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.

8.2 Attendance

Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

8.3 Special Consideration and Supplementary Examinations

You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress. If you apply for a special consideration and it is granted, your original exam paper will not be marked and you will automatically be given a supplementary exam.

For advice on UNSW policies and procedures for granting special consideration and supplementary exams, see:

‘UNSW Policy and Process for Special Consideration’:
<https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

The ‘ASB Policy and Process for Special Consideration and Supplementary Exams in Undergraduate Courses’ is available at:
<http://wwwdocs.fce.unsw.edu.au/fce/current/StudentSuppExamProcedure.pdf> .

Further information for undergraduate students is on the ASB website (see ‘[Policies and Guidelines for Current Students](#)’).

8.4 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

8.5 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <https://my.unsw.edu.au/student/atoz/OccupationalHealth.html>.

8.6 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. It is also your responsibility to keep the University informed of all changes to your contact details.

9. ADDITIONAL STUDENT RESOURCES AND SUPPORT

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

- **ASB Education Development Unit (EDU)** (www.business.unsw.edu.au/edu)
Academic writing, study skills and maths support specifically for ASB students. Services include workshops, online and printed resources, and individual consultations. EDU Office: Room GO7, Ground Floor, ASB Building (opposite Student Centre); Ph: 9385 5584; Email: edu@unsw.edu.au
- **UNSW Learning Centre** (www.lc.unsw.edu.au)

Academic skills support services, including workshops and resources, for all UNSW students. See website for details.

- **Library training and search support services:** <http://info.library.unsw.edu.au>
- **UNSW IT Service Desk:** Technical support for problems logging in to websites, downloading documents etc. Library, Level 2; Ph: 9385 1333.
Website: www.its.unsw.edu.au/support/support_home.html
- **UNSW Counselling Service** (<http://www.counselling.unsw.edu.au>)
Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as 'Coping With Stress' and 'Procrastination'.
Office: Level 2, Quadrangle East Wing ; Ph: 9385 5418
- **Student Equity & Disabilities Unit** (<http://www.studentequity.unsw.edu.au>)
Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning.
Office: Ground Floor, John Goodsell Building; Ph: 9385 4734

10. COURSE SCHEDULE

Week	Date:		<i>Lecture and Tutorial Topic</i>
1	Mar	10	Introduction to the Audit Function, Assurance Framework, Professional Standards and Structure of the Profession.
2	Mar	17	Introduction to the Audit Process – Understanding the Entity and Assessing Risk.
3	Mar	24	Analytical Procedures, Risk Assessment and Materiality.
4	Mar	31	Internal Controls Evaluation and Mitigating Controls.
5	Apr	7	Audit Evidence and the Audit Assertions.
MID SEMESTER BREAK: 10th April – 19th April			
6	Apr	21	Auditors Response to Risks.
7	Apr	28	Audit Process Overview Lecture
	May	2	MID SEMESTER TEST
8	May	5	Auditing in an IT Environment – Background and Internal Controls. Assignment Status Report due
9	May	12	Auditing in an IT Environment – Audit Procedures/CAATs.
10	May	19	Using the Work of Others, Internal Audit and Public Sector Auditing. Assignment Due
11	May	26	Completing the Audit Process and Audit Reporting.
12	June	2	Legal Liability/Ethics

Specific readings, lecture discussion questions and tutorial questions, for each week, are provided on the following pages.

Semester 1 2009 Key Dates and Student Responsibilities

It is your responsibility to ensure that:

1. You are recorded by the University as being correctly enrolled in all your courses.
2. You have successfully completed all prerequisite courses. Any work done in courses for which prerequisites have not been fulfilled will be disregarded (unless an exemption has been granted), and no credit given or grade awarded.
3. You abide by key dates:
Monday 9 March is the first day of Semester1 classes. **Sunday 15 March** is the last day you can enrol in Semester 1 courses, and the due date for Semester 1 payment of fees.
Monday 31 March is the last day for students to discontinue without financial penalty (and the last date to finalise arrangements for HECS-HELP and FEE_HELP).
Sunday 26 April is the last day to discontinue without academic penalty.
4. 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 semester's examination period. The scheduling of examinations is controlled by the University administration. No early examinations are possible. The examination period for Semester 1, 2009, falls between **12 June and 27 June**.
5. When the provisional examination timetable is released, ensure that you have no clashes or unreasonable difficulty in attending the scheduled examinations. The final examination timetable for Semester 1 is released in May (date TBA).
6. 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.

A full list of UNSW Key Dates is located at:

<https://my.unsw.edu.au/student/resources/KeyDates2.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 10th 2009

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:

ASA 100	Preamble to AUASB Standards
ASA 200	Objective and General Principles Governing an Audit of a Financial Report
ASA 220	Quality Control for Audits of Historical Financial Information

TUTORIAL 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.

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

WEEK 2 LECTURE: Tuesday, March 17th 2009

READING GUIDE

Textbook Reference:

Gay and Simnett, Chapter 6 (pp. 252-265)
Roebuck & Martinov, Chapter 9, Practice Examination1, 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).

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Analytical Procedures, Risk Assessment and Materiality

WEEK 3 LECTURE: Tuesday, March 24th 2009

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.

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>2007</u>	<u>2008</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) <u>2008</u>	(\$'000s) <u>2007</u>	<u>% change</u>
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.

- (a) Interest Expense/Long-term Liabilities
- (b) Accounts Receivable/Provision for Doubtful Debts
- (c) 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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SCHOOL OF ACCOUNTING
ACCT3708 AUDITING AND ASSURANCE SERVICES
Internal Controls Evaluation and Mitigating Controls

WEEK 4 LECTURE: Tuesday, March 31st 2009

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, Chapter 9, Practice Examination 3, Question 1, part 1 (p. 174).
2. Roebuck and Martinov, Chapter 9, Practice Examination 2, Question 2 (p. 169).

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

WEEK 5 LECTURE: Tuesday, April 7th 2009

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).

THE UNIVERSITY OF NEW SOUTH WALES
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ACCT3708 AUDITING AND ASSURANCE SERVICES

Auditors Response to Risks

WEEK 6 LECTURE: Tuesday, April 21st 2009

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 manger 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 sales and receipts cycle indicates that controls over cash receipts are excellent, but controls over accounts receivable cannot be considered effective. The client lacks dispatch reports, a policy as to the proper timing to record sales and policies for bad debt recovery/write-offs. When you review the general ledger, you observe that there are many adjusting entries to correct accounts receivable.

Required:

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

- Inventory.
- Accounts receivable (Debtors).

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?

THE UNIVERSITY OF NEW SOUTH WALES
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ACCT3708 AUDITING AND ASSURANCE SERVICES

Audit Process Overview Lecture

WEEK 7 LECTURE: Tuesday, April 28th 2009

READING GUIDE

There are no prescribed readings for this week

Lecture Discussion Question:

Question One

For the two risks identified below, provide the following:

- (i) A brief explanation as to why this risk represents a significant risk to the auditor.
- (ii) The key account affected.
- (iii) The prime assertion at risk.

Risk 1. ABC bought a large number of HD-DVD movies at the end of 2007. In February 2008, all manufacturers of HD-DVD players ceased production, making the HD-DVD movies obsolete. ABC is selling the movies at substantial discounts to clear their stock.

Risk 2. XYZ Ltd is a furniture removals company. Its major asset is its removal trucks, some of which are owned and some of which are leased under operating leases from the finance division of a major truck manufacturer. Your analytical review shows a large increase in the balance of the property plant and equipment account despite the fact that revenue has remained constant.

Question Two

For the following accounts and financial report assertions, detail **one (1)** appropriate specific substantive test of detail.

- Accounts Receivable: Existence
- Accounts Receivable: Completeness
- Accounts Receivable: Valuation and Allocation
- Accounts Receivable: Rights & Obligations

Question Three

Items (a) through (e) are examples of internal controls you have documented for the Interest Bearing Liabilities and Interest Expense Area.

Required:

For each of the items below state the primary audit assertion being fulfilled if the control is in effect.

Interest Expense

- a) Before the interest expense is calculated, for an interest bearing liability, the accountant confirms the interest rate with the financial institution that lent the money, to ensure that the correct rate is used.
- b) After the interest expense has been calculated, the accountant reconciles the interest expense account to the interest bearing liabilities sub-ledger, to check that all interest bearing liabilities have an entry in the interest expense account.

Interest Bearing Liabilities

- c) Before the preparation of the trial balance, the accountant checks that the foreign currency loans are translated into Australian dollars at the correct exchange rate.
- d) All ledger entries, for interest bearing liabilities, include the name of the lender and the identity number from the loan contract.
- e) At the end of the financial year, the accountant reconciles the interest bearing liabilities sub-ledger to the loan contracts to ensure that there is a ledger entry for each loan contract.

Question Four

You are a new graduate on the assignment of Frame Limited and have received the audit plan for the accounts listed below. This plan shows the account and the detailed procedure to be performed. The audit senior has asked you to identify the primary financial report assertion that each of the procedures addresses before you perform the procedures.

Tax Payable

- Check that the tax payable account only includes amounts that are payable to the Tax Office as at balance date.

Wages Expense

- Take a sample of employee timesheets and check that, for every timesheet, there is an entry in the Wages Expense account.

Segment Disclosures (In the notes to the accounts)

- Check that the profit totals for each segment are correct and add up to the overall profit figure for the firm.

Sales

- Check that the sales account does not include any proceeds from the disposal of fixed assets.

TUTORIAL QUESTIONS

Question One

For the two risks identified below, provide the following:

- (iv) A brief explanation as to why this risk represents a significant risk to the auditor.
- (v) The key account affected.
- (vi) The prime assertion at risk.

Risk 1. ABC's major asset is a large block of land in western Sydney, which it intends to subdivide and develop. However, recent tests have indicated that the land is contaminated with excessive amounts of lead, which will have to be cleaned up before the council will approve the subdivision. This will be very expensive and will delay the project by two years.

Risk 2. XYZ manufactures and sells BigView plasma TVs. Your market research indicates the BigView TV has a high rate of defects. XYZ has no current stock of BigView TVs.

Question Two

For the following accounts and financial report assertions, detail **one (1)** appropriate specific substantive test of detail.

- Sales: Occurrence
- Sales: Completeness
- Sales: Accuracy
- Sales: Cut-Off

Question Three

Items (a) through (e) are examples of internal controls you have documented for the Property Plant and Equipment and Depreciation area.

Required:

For each of the items below state the primary audit assertion being fulfilled if the control is in effect.

Property Plant and Equipment (PP&E)

- a) An annual PP&E stocktake is carried out and any damaged items (including the nature and extent of the damage) are noted in the stocktake report.
- b) All ledger entries, for items of PP&E, include the purchase invoice number.
- c) At the end of the financial year, the accountant compares the fixed asset register to the lease contracts that the firm has entered into, to see that no leased assets are included in the register.

Depreciation

- d) Before the depreciation is calculated, for an item of PP&E, the accountant checks that the useful life of the PP&E item is reasonable.
- e) After the depreciation expense has been calculated, the accountant reconciles the depreciation expense account to the fixed asset register, to check that all depreciable items have an entry in the depreciation expense account.

Question Four

You are a new graduate on the assignment of Frame Limited and have received the audit plan for the accounts listed below. This plan shows the account and the detailed procedure to be performed. The audit senior has asked you to identify the primary financial report assertion that each of the procedures addresses before you perform the procedures.

Purchases

- Check that the purchases account does not include any costs from the purchase of property plant and equipment.

Controlled Entities Disclosures (In the notes to the accounts)

- Check that all the controlled entities, listed in the note, are actually controlled by the company.

Interest Payable

- Check that the tax payable account only includes amounts that are payable to lenders as at balance date.

Repairs and Maintenance Expense

- Take a sample of repairs invoices and check that, for every invoice, there is an entry in the Repairs and Maintenance Expense account.

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ACCT3708 AUDITING AND ASSURANCE SERVICES

Auditing in IT Environment — Background and Internal Controls

WEEK 8 LECTURE: Tuesday, May 5th 2009

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.

<i>Field</i>	<i>Description</i>
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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ACCT3708 AUDITING AND ASSURANCE SERVICES

Auditing in IT Environment — Audit Procedures/CAATs

WEEK 9 LECTURE: Tuesday, May 12th 2009

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.

<i>Customers Table</i>		<i>Orders Table</i>	
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		
10	Last Payment Date		
		<i>Inventory Table</i>	
		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

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ACCT3708 AUDITING AND ASSURANCE SERVICES

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

WEEK 10 LECTURE: Tuesday, May 19th 2009

**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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ACCT3708 AUDITING AND ASSURANCE SERVICES

Completing the Audit Process and Audit Reporting

WEEK 11 LECTURE: Tuesday, May 26th 2009

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

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

Legal Liability/Ethics

WEEK 12 LECTURE: Tuesday, June 2nd 2009

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. APES 110: Code of Ethics for Professional Accountants s100.4 lists five key fundamental principles that an accountant should have. They are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. For each situation identify the fundamental principle that is involved and discuss whether it has been breached.
 - (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).

APPENDIX A

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 2006. Staff will not answer questions about material from these earlier exam papers.

Session 1, 2006: 1c, 2d, 3a, 4d, 5d, 6d, 7b, 8d, 9a, 10d, 11d, 12c, 13d, 14c, 15d, 16a, 17d

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, 4c, 5c, 6a, 7b, 8a, 9c, 10b, 11b, 12c, 13c, 14a, 15b, 16d, 17b, 18d, 19a, 20b, 21c, 22d, 23d, 24c, 25d, 26c, 27d, 28a, 29b, 30c, 31b, 32b

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

Session 1, 2008: 1c, 2d, 3a, 4c, 5b, 6c, 7d, 8c, 9c, 10c, 11d, 12a, 13c, 14d, 15a, 16b, 17a, 18b, 19a, 20c, 21d, 22b, 23a, 24a, 25b, 26b, 27c, 28c

Session 2, 2008: 1b, 2a, 3a, 4b, 5c, 6a, 7c, 8c, 9a, 10c, 11c, 12a, 13c, 14b, 15a, 16b, 17d, 18a, 19d, 20d, 21b, 22b, 23a, 24d, 25d, 26c, 27d

APPENDIX B

GROUP ASSIGNMENT DETAILS

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 Bluescope Steel Ltd (ASX code: BSL) and is to be submitted at the commencement of your tutorial in week 10, as per the Course Outline, (p.13). The successful completion of this assignment requires extensive research on Bluescope's internal and external environments, operations, strategies and an analysis of the annual report including financial information. 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 2009 audit engagement. You have been assigned to gather relevant background information and prepare a report for an audit committee meeting in relation to the audit for 2009. Your report should include:

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

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 Bluescope. 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

[4 marks]

3. An analytical review **based on the Bluescope 2008 Annual Report**. This review should consider Liquidity, Profitability and Efficiency ratios. **[3 marks]**
4. The five key business risks which would impact on the audit of Bluescope. 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: 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.

The ten page length includes the body of the assignment, footnotes and any appendices. It excludes the cover sheet, title page, executive summary (optional), and list of references.

Additional Information

1. A Group Assignment Work Plan is included in Section A.2 to assist your completion of this assignment.
2. An Assignment Group Allocation Form is included in Section A.3. You will be supplied with an additional form in Tutorial 2 to complete and return to your tutor in tutorial 3.
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. Each assignment must have a title page, in addition to the cover sheet. The title page should clearly indicate the names of your team members and their student numbers, your tutor's name and the time and location of your tutorial. **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).

A.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.

A.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

A.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.



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School of Accounting

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:

