

THE UNIVERSITY OF NEW SOUTH WALES



Faculty of
Commerce and Economics

School of Accounting

ACCT 3708
AUDITING AND ASSURANCE SERVICES

COURSE OUTLINE

Session 2, 2002

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THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF ACCOUNTING
ACCT3708 AUDITING AND ASSURANCE SERVICES
SESSION 2, 2002
COURSE OUTLINE AND STUDY GUIDE

1. Description of Course:

This course examines the practice of auditing and the concepts which underlie the practice. Although the focus of attention is on audits carried out under the provisions of the Australian Corporations & Securities Legislation, 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. Although the auditing course is broken into a number of segments, students should recognise that each segment forms part of the audit process.

2. Course Objectives:

- (a) To develop students' understanding of the audit function and of the reasons for an audit.
- (b) To familiarise students with the professional, legal, commercial and regulatory constraints within which audits are carried out.
- (c) To examine techniques used by auditors including risk analysis, evidence collection and evaluation, and audit reporting.
- (d) To familiarise students with current developments in audit practice and research.

3. Prescribed Textbooks, and References:

- (a) Prescribed Textbooks:

CPA Australia and the Institute of Chartered Accountants in Australia, Auditing Handbook, 2002, Vol. 2 of the Accounting and Auditing Handbook, Prentice-Hall.

Gay G., & R. Simnett "Auditing and Assurance Services in Australia" (1st Ed) McGraw-Hill, Sydney 2000.

Trotman K, & P. Roebuck "Case Studies in Auditing" (2nd Ed.) Butterworths, 1998.

- (b) 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.

4. Course Arrangements:

Instruction in this course consists of a three-hour workshop each week. It should be emphasised that attendance at classes is a necessary but not sufficient condition for adequate examination preparation. All students should keep up to date with recommended references and participate in workshop discussions. (Note: Workshop solutions will not be made available either on the Web or in open reserve.)

5. Assessment:

Subject to a satisfactory result in the final examination, the weighting of the final (composite) mark will be as follows:

Mid-Session Test	25%
Final Examination	60%
Assignment	10%
Workshop Quiz	5%
	<u>100%</u>
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NB: Students who do not obtain a satisfactory result in the final examination may still obtain a composite mark in excess of 50 and fail the subject. In such instances a UF grade will be recorded - which means that there has been unsatisfactory performance in an essential component of the course.

Date of Mid-Session

The mid-session test will be held during Week 7 and will cover all material up to and including week 6. Location and timing of the Exam will be finalised during session.

NO SUPPLEMENTARY TESTS WILL BE HELD FOR THE MID-SESSION TEST.

The final examination will cover the whole semester's work.

Except in exceptional circumstances, **no supplementary examinations** will be given if requests (for special consideration) are received more than ten days after the final examination in this subject.

Students should note that there will be only one supplementary examination.

6. Staff:

Staff participating in this course are:

	Room	Telephone
Wendy Green (Lecturer-in-charge and Honours Co-ordinator)	Quad Room 3092	9385 5805
Elisabeth Hicks	Quad Room 3116	9385 5833
Fiona Foster	Quad Room 3116	9 385 5833
Tatjana Lovelady	Quad Room 3091	9385 5811

Staff consultation hours will be advised in workshops. Note that consultation in person is the recommended consultation mode. Email consultations **WILL NOT** be provided by staff. Any problems with the course should be directed in the first instance to your workshop leader.

7 CASS star web site:

The following information is provided to you by the Chartered Accountants Students Society (CASS):

The STAR is the Students and Teachers Accounting Resource created for students and teachers at UNSW to support internet based learning and research. STAR will provide students with course outlines, links to secondary research material, AASB summaries, current accounting news, discussion forums, and information about careers in Chartered Accounting. The STAR is accessible at <http://www.cassunsw.org.au> - use STAR as your starting point to accounting research.

NOTE: This service is a student initiative. Whilst recommended to students, auditing staff will not be involved with the site other than to provide the auditing course outline and Workshop program details.

8 In addition, a web site for prescribed text book Gay & Simnett "Auditing and Assurance Services in Australia" is available should you wish to use it (this is not mandatory):

The web site is accessible at <http://www.mcgraw-hill.com.au/mhhe/acc/gay>. The site contains information for students such as an On-line Learning Centre, Weblinks and an Auditing News Centre. Access requires a password, which can be purchased on-line.

ACCT 3708/ACCT3718
AUDITING AND ASSURANCE SERVICES
Provisional Workshop Schedule

Week	Week Beginning		Topic
1	July	29	Lecture : Introduction to Audit Function, Assurance Framework, Professional Standards and Structure of the Profession.
2	August	5	Introduction to the Audit Process, Risk and Audit Planning.
3	August	12	Control Risk Evaluation and Tests of Controls.
4	August	19	Evaluation of Detection Risk and Substantive Testing.
5	August	26	Analytical Procedures. Class Quiz
6	September	2	Assessment of Materiality and Development of the Audit Strategy.
7	September	9	MID-SESSION EXAM
8	September	16	Auditing in a CIS Environment — Internal Control.
9	September	23	Auditing in a CIS Environment — Substantive Testing.
Sept 28 -		Oct 6	RECESS
10	October	7	Using the Work of Others/Internal Audit. Public Holiday 7th October
11	October	14	ASSIGNMENT PRESENTATIONS
12	October	21	Legal Liability/Ethics.
13	October	28	Completing the Audit Process and Audit Reporting.
14	November	4	Public Sector Auditing and Current Issues

READING GUIDE

LECTURE: INTRODUCTION TO THE AUDIT FUNCTION, ASSURANCE FRAMEWORK, PROFESSIONAL STANDARDS AND STRUCTURE OF THE PROFESSION.

Textbook Reference:

Gay and Simnett, Chapter 1, Chapter 2 and Chapter 15

Standards:

AUS 202: Objective and General Principles Governing an Audit of a Financial Report.

AUS 210: Irregularities, Including Fraud, Other Illegal Acts and Errors.

WORKSHOP 1: INTRODUCTION TO THE AUDIT PROCESS, RISK AND AUDIT PLANNING

Textbook Reference:

Gay and Simnett, Chapter 5 (pages 150-157, 164-185)

Gay and Simnett, Chapter 6 (pages 200-221)

Standards:

AUS 302: Planning.

AUS 304: Knowledge of the Business.

AUS 402: Risk Assessments and Internal Controls.

WORKSHOP 2: CONTROL RISK EVALUATION AND TESTS OF CONTROLS

Textbook Reference:

Gay and Simnett, Chapter 8 (pages 300-328)

Gay and Simnett, Chapter 9 (pages 368-371)

Trotman and Roebuck, Case 2-8 and Solution

Standards:

AUS 402 Risk Assessments and Internal Controls.

AGS 1006: Expression of an Opinion on Internal Control.

WORKSHOP 3: EVALUATION OF DETECTION RISK AND SUBSTANTIVE TESTING

Textbook Reference:

Gay and Simnett, Chapter 5 (pages 157-164)

Gay and Simnett, Chapter 9 (pages 371-373)

Trotman and Roebuck, Case 3-6 and Solution.

Standards:

AUS 502: Audit Evidence.

WORKSHOP 4: ANALYTICAL REVIEW

Textbook Reference:

Gay and Simnett, Chapter 6 (pages 221-230)
Trotman and Roebuck, Case 1-4 and Solution

Standards:

AUS 512 Analytical Procedures.

WORKSHOP 5: ASSESSMENT OF MATERIALITY AND DEVELOPMENT OF THE AUDIT STRATEGY

Textbook Reference:

Gay and Simnett, Chapter 7

Standards:

AUS 306: Materiality.

AUS 402: Risk Assessments and Internal Controls.

AASB1031: Materiality.

WORKSHOPS 6 AND 7: AUDITING IN A CIS ENVIRONMENT

Textbook Reference:

Gay and Simnett, Chapter 8 (pages 328-337) and Chapter 12
Trotman and Roebuck, Case 4-9 and Solution.

Standards:

AUS 214: Auditing in a CIS Environment.

AGS 1018 CIS Environments - Stand-alone Microcomputers.

AGS 1020: CIS Environments - On-line Computer Systems.

AGS 1022: CIS Environments - Database Systems.

WORKSHOP 8: USING THE WORK OF OTHERS/INTERNAL AUDIT

Textbook Reference:

Gay and Simnett, Chapter 8 (pages 337-340)
Gay and Simnett, Chapter 16
Trotman and Roebuck, Case 4-12 and Solution.

Standards:

AUS 602: Using the Work of Another Auditor.

AUS 604: Considering the Work of Internal Auditing.

AUS 606: Using the Work of an Expert.

WORKSHOP 9: ASSIGNMENT PRESENTATION

(No prescribed readings)

WORKSHOP 10:LEGAL LIABILITY AND ETHICS

Textbook Reference:

Gay and Simnett, Chapter 3 and Chapter 4
Trotman and Roebuck, Case 6-2 and Solution

Standards:

AUS 204 Terms of Audit Engagements.
Joint code of Professional Conduct, Sections A,B,D,F1,F3,F5,F6 and F7.
AUS 206: Quality Control for Audit Work.
APS 4: Statement of Quality Control Standard.
APS 5: Quality Control Policies and Procedures General Guidelines.

WORKSHOP 11: COMPLETING THE AUDIT PROCESS AND AUDIT REPORTING

Textbook Reference:

Gay and Simnett, Chapter 13
Gay and Simnett, Chapter 14
Trotman and Roebuck, Case 5-9 and Solution.

Standards:

AUS 212: Other Information in Documents Containing Audited Financial Reports.
AUS 702: Audit Report on a General Purpose Financial Report.
AUS 706: Subsequent Events.
AUS 708: Going Concern.
AUS 802: 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.
ED 66: Reporting on the Credibility of Information.

WORKSHOP 12:PUBLIC SECTOR AUDITING AND CURRENT ISSUES

Textbook Reference:

Gay and Simnett, Chapter 17

Standards:

Introductory Statement of Applicability of Auditing Standards and Statements of Auditing Practice to Auditing in the Public Sector.

ED 30: Audit Exposure Draft, Compliance Auditing.
AUS 806: Performance Auditing.
AUS 808: Planning Performance Audits.

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**Introduction to the Audit Function, Assurance Framework,
Professional Standards and Structure of the Profession**

LECTURE: Week beginning 29 July 2002

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Introduction to the Audit Process, Risk and Audit Planning

WORKSHOP 1: Week beginning 5 August 2002

1. Trotman & Roebuck
Chapter 9, Questions 5 and 6.
2. Gay and Simnett
Questions 6.7 and 6.8 p.235.
3. Identify the types of information in the client's minutes of the board of directors' meetings that are likely to be relevant to the auditor. Explain why it is important to read the minutes early in the engagement.
4. When an auditor has accepted an engagement from a new client who is a manufacturer, it is customary for the auditor to tour the client's plant facilities. Discuss the ways in which the auditor's observation made during the course of the plant tour will be of assistance as he/she plans and conducts the audit.

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Control Risk Evaluation and Tests of Controls

WORKSHOP 2: Week beginning 12 August 2002

1. Gay and Simnett 8.15, p.344.
2. The University recently opened a parking station on its lower campus area for the benefit of the students. A guard has been engaged to patrol the lot and to issue parking stickers to University students who submit an application for and show evidence of enrolment. When the sticker is affixed to the car, the student may park in the lot for six hours by placing a dollar in the parking meter. The guard inspects the stickers on all parked cars to determine that only students are parking in the lot and also looks at the time gauges to see that the meter reflects the necessary fee has been paid. The completed application forms are maintained in the guard's office.

By using the master key, the guard empties the meters weekly and delivers the cash to the University central store department where a clerk opens it, manually counts the coins, puts the cash in a safe, and records the total on a weekly cash report. This report is sent to the University's accounting department. The day following the cash count, the University cashier picks up the cash and manually recounts it, prepares the deposit slip, and makes the deposit at the bank. The deposit slip, authenticated by the bank teller, is sent to the accounting department where it is filed with the weekly cash report.

Required:

Describe weaknesses in the existing system. Recommend for each weakness at least one improvement to strengthen the internal accounting control over the parking station cash receipts.

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Evaluation of Detection Risk and Substantive Testing

WORKSHOP 3: Week beginning 19 August 2002

1. Gay and Simnett
Question 5.16, p.189.
2. The auditor should obtain sufficient appropriate audit evidence to enable him/her to draw reasonable conclusions therefrom on which to base his/her opinion on the financial information.

Required:

- (a) What factors influence the auditor's judgement as to what is sufficient appropriate audit evidence?
 - (b) What are the primary methods of obtaining audit evidence?
3. For the following material transactions describe:
 - (a) What the transaction represents.
 - (b) The financial report assertions contained in the transaction which would be of prime interest to the auditor.
 - (c) The evidence the auditor will seek in order to verify these assertions.

Transaction 1

DR	Accumulated depreciation	10,000	
DR	Cash	250,000	
CR	Buildings		150,000
CR	Extraordinary profit		110,000

Transaction 2

DR	Investments in unlisted securities	500,000	
CR	Asset revaluation reserve		500,000

4. Several audit procedures are listed below that were performed in the audit of inventory to satisfy specific audit objectives as listed below. The audit procedures assume the auditor has obtained the inventory count sheets that list the client's inventory.

Audit procedures	Financial report assertions (as per AUS 502)
1. Test extend unit prices times quantity on the inventory list, test foot the list and compare the total to the general ledger 2. Trace selected quantities from the inventory list to the physical inventory to make sure it exists and the quantities are the same 5. Question operating personnel about the possibility of obsolete or slow-moving inventory 6. Select a sample of quantities of inventory in the factory warehouse and trace each item to the inventory count sheets to determine if it has been included and if quantity and description are correct 7. Compare the quantities on hand and unit prices on this year's inventory count sheets with those in the preceding year as a test for large differences 8. Examine sales invoices and contracts with customers to determine if any goods are out on consignment with customers. Similarly, examine vendors' invoices and contracts with vendors to determine if any goods on the inventory listing are owned by vendors. 9. Send letters directly to third parties who hold the client's inventory and request they respond directly to us.	Occurrence Existence Rights and Obligations Completeness Valuation Measurement (Cut-off) Disclosure

Required:

Identify the financial report assertion(s) satisfied by each audit procedure.

5. For each of the three (3) 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) Cold and Frosty Limited is a manufacturer of refrigerators. The government has passed environmental legislation to become effective in the next eighteen months which will require Cold and Frosty to substantially modify and replace its current manufacturing process and equipment.
- (c) 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.

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Analytical Procedures

WORKSHOP 4: Week beginning 26 August 2002

CLASS QUIZ TO BE HELD IN THIS WORKSHOP

1. Trotman and Roebuck
Question 35, 36 and 38, Chapter 9.
2. Analytical procedures are increasingly being used by the auditing profession as a substantive technique in its own right.
 - (a) explain why analytical review procedures are considered to be substantive tests.
 - (b) Discuss the criteria which would determine whether an account balance could be substantiated entirely by the use of analytical review procedures.
3. Gay and Simnett
Question 6.24 and 6.25, p.238.

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Assessment of Materiality and Development of the Audit Strategy

WORKSHOP 5: Week beginning 2 September 2002

1. 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:

- (i) Briefly describe what is meant by the independent auditor's concept of materiality, and its relevance during the different stages of the audit process.
 - (ii) Discuss the process of setting audit materiality.
2. What effect does the assessment of inherent and control risk have on detection risk and the weighting of tests between tests of control, analytical procedures and substantive tests of detail in design of the audit plan (approach)?
3. The following are three situations in which the auditor is required to develop an audit strategy:
 - (i) The client has inventory at 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.
 - (ii) 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.
 - (iii) You are doing the audit of a small loan company with extensive receivables from customers. Controls over granting loans, collections, and loans outstanding are considered effective, and there is extensive follow-up of all outstanding loans weekly. You have recommended a computer system for the past two years, but management believes the cost is too great, given their low profitability. Collections are an on-going problem because many of the customers have severe financial problems. Because of adverse economic

conditions, loans receivable have significantly increased and collections are less than normal. In previous years, you have had relatively few adjusting entries.

Required:

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

- (1) Inventory
- (2) Accounts payable
- (3) Outstanding loans.

Justify your answer in relation to each situation above.

- 4. Gay and Simnett
Question 7.14, p.287.
7.19, p.288.

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MID-SESSION EXAMINATION

WEEK BEGINNING 9 September 2002

A Mid-Session Examination worth 25% will be held during this week. No workshops will be conducted.

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Auditing in a CIS Environment

WORKSHOP 6:

Week beginning 16 September 2002

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 a CIS environment? Identify the major categories of general controls and application controls.
 - (c) What controls will be found in a batch processing system which will not be found in an on-line processing system.
 - (d) What special problems exist in auditing microcomputer systems.
2. 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 486 machine 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 diskettes for all applications are done on a regular basis, appropriately labeled and maintained in a "back-up" case next to the PC.

As a security measure, the keyboard to the microcomputer 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.

A monthly profit and loss and balance sheet is prepared as part of the roll-forward procedure. Monthly reconciliations are also prepared by Margaret for all balances on the balance sheet, however the directors concentrate their review on the P&L account.

Required:

Identify major weaknesses in the general CIS control environment and suggest remedies for each weakness.

3. 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 CIS function is under the overall control of the Finance Director. However the day to day operations are the responsibility of the CIS Manager who has had significant CIS 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 CIS Manager.
- A few days after the dismissal, the Systems Analyst returned to A's CIS 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 CIS department staff are allowed access to the CIS 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 terminal 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:

- (a) From the information above, identify four (4) key general control weaknesses.
- (b) For each weakness identified in (a) above, specify your recommendation to overcome these problems

You may wish to present your answer to parts (a) and (b) in your answer book in the form of a table, as indicated below.

Weakness	Recommendation

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Auditing in a CIS Environment

WORKSHOP 7:

Week beginning 23 September 2002

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

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

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

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

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

Required:

- (a) Evaluate the control risk as low, medium or high in the above payroll system. Justify your evaluation.

- (b) Assume that inherent risk and control risk in relation to the payroll expense account have been both evaluated as high for occurrence and measurement assertions. Determine the most appropriate audit strategy for the payroll expense account. Categorise the extent of work to be undertaken under each type of testing (ie tests of control/substantive tests of detail/substantive analytical procedures) as either none, small, medium or extensive. Justify your answer.
- (c) 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.
- (d) 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.
- (e) 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?
2. In accordance with your firm's partner rotation policy you have been newly appointed as signing partner of Knocked Down Ltd, a building construction firm with a head office in Sydney. Following an extensive cost review during the year Knocked Down now gets 80% of its timber supplies from a Solomon Islands supplier of low cost rainforest timber. The audit manager has informed you that in previous years significant reliance was placed on the work performed by the client's internal audit staff. The client was required to make significant adjustments last year because your firm detected several errors concerning valuation of inventory. Your initial planning meeting with the client's financial controller has revealed the following information about the purchases and inventory system:
- When goods are received, the goods are counted and inspected and a pre-numbered Goods Received Note (GRN) is prepared. After counting and inspection, the goods are moved directly to a locked storage area. The storeman only releases the goods upon receipt of a materials requisition form signed by an authorised employee.
 - The Goods Received Note is sent to the Purchasing Department where it is matched with a supplier's order and then batched and sent to the Computer Information Systems (CIS) Department for input and processing.
 - The company has recently purchased a very advanced computer system and purchased software specially for the construction industry which has been developed by Bits'n'Bytes Pty Ltd, a small organisation headed by the General Manager's nephew.
 - The CIS Department consists of manager, programmer and two data processing operators. The programmer is not involved in data entry and any programming changes are reviewed and approved by the Manager. A password system

restricts the access of the data processing operators to only the applications software that they are using. The CIS department input the batch of transactions and update the Inventory Master File. The Inventory Master File contains inventory number, description, approved suppliers, quantity on hand, invoice price, total cost, sales price, sales year to date and last sale date.

- The updated inventory master file is reconciled to the old master file and the transaction data by the CIS Manager and is sent back to the user department for review. The system automatically produces a number of exception reports which are reviewed by the user department.
- The inventory balance has remained constant over the last year while the accounts payable balance has increased by 40% as the client is suffering from a severe cash shortage brought on by the recession. Many suppliers' accounts have remained unpaid for several months and the client is under pressure from several to pay.
- At the beginning of the year, the client decided to retrench its internal audit department as part of its cost cutting programme.

Required:

- (a) From the information provided above, outline factors that would affect your assessment of inherent risk for Knocked Down. Assess this level of risk as Low/Medium/High.
- (b) From the information provided above:
 - (i) Outline factors that influence your evaluation of general controls for Knocked Down.
 - (ii) Identify application controls that exist in the inventory/accounts payable system.
 - (iii) Assess the level of control risk for the inventory/accounts payable system. Assess this level of risk as Low/Medium/High.
- (c) Determine the most appropriate audit strategy for the inventory/accounts payable system. Categorize the extent of work to be undertaken under each type of testing (i.e., test of controls/substantive tests of details/substantive analytical procedures) as either none, small, medium or extensive. Justify your answer.
- (d) Describe three (3) specific tests of control that would be undertaken for application controls identified in (b) (ii) above.
- (e) Identify three (3) exception reports that could be generated by audit software that would assist you in the verification of the valuation assertion for inventory.

3. XYZ Limited is a large public company involved in the retail distribution industry. The three key audit risk areas and the relevant prime assertions at risk to be addressed during the audit are:

- (i) Debtors (existence and valuation in terms of collectibility only)
- (ii) Inventories (existence and valuation)
- (iii) Fixed assets (valuation)

The following information has been gathered for these three areas:

(i) **Debtors**

The debtors' ledger consists of 400 individual customer balances. Most balances are individually immaterial. The debtors' master file contains the following information in respect of each debtor's balance:

- Customer number (each customer receives a unique customer number)
- Customer name
- Contact address
- Total outstanding balance
- Aged balance (current, 30 days, 60 days, 90 days, 90 days +)
- Last payment amount
- Last payment date
- Total sales to customer this year

(ii) **Inventories**

The company has a large number of inventory lines. Most inventory items have very small per unit value. The inventory master file contains the following information in respect of each inventory line:

- Inventory line number (each inventory line is allocated its own unique identification number)
- Inventory quantity in units
- Cost per unit
- Inventory line value (inventory quantity times cost per unit)
- Inventory sales in units for current year
- Date of last inventory movement
- Last sales price per unit

(iii) **Fixed assets**

The company maintains its fixed asset register on its computer system. There are a large number of assets with a wide range of values. For each asset the system provides the following information:

- Asset number (each item is allocated a unique identification number)
- Asset description
- Acquisition date
- Cost of acquisition
- Basis of depreciation
- Depreciation rate
- Opening accumulated depreciation
- Depreciation charge for the period
- Closing accumulated depreciation
- Proceeds on disposal
- Profit/(loss) on disposal

Required:

The audit partner has decided that the audit should utilise the firm's general audit software (GAS) to assist in the audit of the three key audit risk areas.

- (a) Prepare a brief memorandum to the audit partner specifying what conditions would need to be met before considering the use of GAS. Provide a brief explanation why these conditions are necessary.
- (b) With reference to the file information given, for each of the three risk areas and assertions identified describe in detail the contents of a report that can be produced using GAS that will assist the auditor in gathering substantive evidence.

NOTE: You may wish to present your answer for part (b) in the following format:

	Assertion(s)	GAS report
Debtors	Existence	
	Valuation (collectibility only)	
Inventories	Existence	
	Valuation	
Fixed assets	Valuation	

THE UNIVERSITY OF NEW SOUTH WALES
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ACCT 3708 AUDITING AND ASSURANCE SERVICES

Using the Work of Others/Internal Audit

WORKSHOP 8: Week beginning 7 October 2002

Note : Monday, 7th October is a public holiday. You are advised to attend an alternate class if your workshop falls on this day.

1. Trotman and Roebuck
Case 4-13.
2. 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.
3. Gay and Simnett
Questions 16.4 and 16.5, p.704.

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Workshop 9: Week beginning 14 October 2002

Assignment Presentation

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Legal Liability / Ethics

WORKSHOP 10: Week beginning 21 October 2002

1. In his comprehensive judgment in Pacific Acceptance Corporation v Forsyth, Moffit J. set out the duties of the auditor. Briefly outline these duties. Consider also the relationship between these common law duties and the auditing standards.
2. What is the 'proximity test' with regard to auditor's liability to third parties?
3. Describe the implications for auditors of the Esanda High Court ruling.
4. Gay and Simnett
Question 4.6, p.141.
5. The following each involve a possible violation of the professional bodies ethical rules. For each situation, state any applicable rules of conduct and whether it is a violation.
 - (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 inter firm 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.
 - (d) Bill Wendal, a Chartered Accountant, set up a casualty and fire insurance agency to complement his auditing and tax services. He does not use his own name on anything pertaining to the insurance agency and has a highly competent manager, Sandra Jones, who runs it. Wendal frequently requests Jones to review the adequacy of a client's insurance with management if it

seems underinsured. He feels that he provides a valuable service to clients by informing them when they are underinsured.

6. Many of the 'Big 5' audit firms are undertaking internal audit engagements. For some clients they may also conduct the financial statement audit. Discuss whether or not engaging in such activities impinges on the audit firms' independence both 'in-fact and appearance'. (Your discussion should focus on the latest auditing standards, legislation, and community attitudes).

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Completing the Audit Process and Audit Reporting

WORKSHOP 11: Week beginning 28 October 2002

1. Gay and Simnett
Questions 13.11, p.593.
2. Gay and Simnett
Questions 13.12, p593.
3. Turbo audited Charge Ltd. For the year ended 30 June 19X8. Turbo is aware that certain events and transactions that took place after 30 June 19X8, but before he issues his report dated 31 August 19X8, may affect the company's financial statements.

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

- (a) On 15 July 19X8, 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 19X8, 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 19X8, a plant owned by Charge Ltd was damaged by a flood resulting in an uninsured loss of inventory.
- (d) On 5 August 19X8, Charge Ltd. issued and sold to the general public \$2 million in convertible notes.

Required:

- (i) For each of the events or transactions described above, indicate the audit procedures that should have brought the item to the attention of the auditor.
 - (ii) Determine the action(s), if any, that the auditor needs to take in relation to each of the above events.
4. The following are independent situations:
 - (a) 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, 1997 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 1997. The amount is material and the company has indicated that it will not appeal against the amendment.

- (b) Trade debtors at year end have been verified by audit as \$1,500,000, before provision for doubtful debts of \$95,000. Just prior to signing the accounts you learn that a major customer was placed into liquidation. On information currently available the likely repayment to unsecured creditors is zero. The customer owed \$170,000 at year end and the doubtful debt provision includes a specific provision for 10% of this amount.

Required:

Explain how each of the following situations should be dealt with in financial statements. Justify your decision.

- 5. Gay and Simnett
Questions 14.6, p.640.
- 6. Gay and Simnett
Questions 14.14, p. 641.
- 7. 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 in 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.

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Public Sector Auditing and Current Issues

WORKSHOP 12: Week beginning 4 November 2002

1. Gay and Simnett
Questions 17.26, p738-739.
2. 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.
3.
 - (a) The private sector auditor must be “independent and seen to be independent”. Is the same true of the public sector auditors?
 - (b) Discuss the main independence features prevalent in a public sector audit.
4. You are asked to conduct an operational/performance audit of the purchasing department for a government department.
 - (a) List five (5) indicators of performance that you would include in planning the audit.
 - (b) What particular problems are associated with measuring performance?
5. Discuss the concept of Corporate Governance. Include in your answer what Corporate Governance is, what its objective is and why it is seen to be important.

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ASSIGNMENT

Due Date: Workshop 11 - Week Beginning 14 October 2002

Percentage contribution to final mark: 10% (i.e. 10 marks).

Note: This assessment should be completed in groups of four (4)
(NB: Students will be allocated to groups during the first workshop i.e. week 2)

Required:

You are required to monitor the Australian news media during Semester 2, 2002 (from 30 June – 14 October) and to maintain a scrapbook of news items relating to the Auditing Profession. You are required to select one of the issues identified in the news items and to present a report to your audit manager on the issue. The report should indicate a brief background relating to the issue, developments noted during the session, and potential implications to the auditing profession.

Each group will be required to:

1. Present their findings to the workshop. A minimum of 2 group members must be involved in the presentation. A strict time limit of 8 minutes per group will apply.
2. Submit their scrapbook as well as a written report of their findings. The maximum report length is 8 pages of double-spaced size 12 font type.

Marks will be awarded for both the classroom presentation and the written report. Exceeding either the maximum report length or the presentation time limit will be penalised.

The University of New South Wales



School of Accounting

ACCT 3708 – Auditing and Assurance Services Session 2, 2002

GROUP ASSIGNMENT PEER EVALUATION FORM

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

You should take care to complete this form honestly.

Individual responses will be kept confidential.

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

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

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

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

Workshop Details:

Workshop Day and Time:.....

Tutor:.....

Group Details: Group Name (Optional):

Your Name and Student Number:.....

Group Members:

Student Names:	Student Numbers:	Mark out of 10:
1.....		
2.		
3.		
4.		

PLEASE HAND THIS FORM TO YOUR TUTOR DURING YOUR WORKSHOP IN WEEK 11

THE UNIVERSITY OF NEW SOUTH WALES

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PAST FINAL EXAM – MULTIPLE CHOICE ANSWERS

PAST FINAL EXAM - MULTIPLE CHOICE ANSWERS					
YEAR	2000	2000	2001	2001	2002
SESSION	1	2	1	2	1
Question					
1	c	c	b	b	a
2	a	c	b	a	b
3	d	d	c	c	a
4	c	d	c	d	b
5	a or b	b	b	a	d
6	b	a	b	b	d
7	c	b	d	b	b
8	c	b	a	b	c
9	c	d	a	c	a
10	d	a	b	d	b

What is WebCT?

WebCT (Web Course Tools) is a Web-based software application used at UNSW for online learning and teaching activities. When you log on to your *myWebCT* account you will see a list of all the courses you are registered in, which have WebCT components. If a course doesn't have a WebCT component then it won't be listed. Your lecturers will advise you how they are intending to use WebCT in their courses.

What do I need to access WebCT?

To view your WebCT courses you will need to have:

- a username and password
- a computer with Internet access
- a Web browser installed with Java, JavaScript and cookies enabled in the browser settings, and with the cache set to display a new version of a page every time it is visited.

You will find more details about configuring your browser settings at <http://www.webctsupport.unsw.edu.au>. Go to the Help Desk menu in the student area of the site.

Internet Explorer is the preferred browser as it performs much more reliably than Netscape. Specific browser versions that work with WebCT are:

- Microsoft Internet Explorer version 5.0 or higher, including 6.0 (version 5.5 SP1 has a bug and is not supported, but 5.5 SP2 is supported)
- Netscape 4.76 and 6.2.1 (4.78, 4.79, 6.0 and 6.01 have bugs and are not supported).

Logging on to myWebCT

You can enter WebCT using the following Web address:
<http://www.webct.unsw.edu.au>

Click on *Log on to myWebCT* and enter your username and password.



Your **WebCT username** is the same as your UNSW Student ID. Student IDs are seven digits preceded by a lower case 'z'. Make sure you do not enter a capital 'Z'.

Your **WebCT password** is the same UniPass that you use for other UNSW online services, such as accessing your NSS enrolment record. It is also case sensitive so make sure *Caps Lock* isn't turned on.

Logging out of WebCT

It is important to fully log out of WebCT so that others who use the same computer can't access your personal data and grades etc. To do this, click on the *Logout* link that appears in the navigation bar at the top of each screen.

What should I do if I have a problem with my password?

Passwords are managed by the DIS><Connect office. If you don't have a UniPass, or you have forgotten your UniPass, or if you are having problems logging into your WebCT account because your password is invalid, you may ask DIS><Connect for assistance:

Phone: +61-2-9385-1777
Fax: +61-2-9385-1262
Email: disconnect@unsw.edu.au
Web: <http://www.disconnect.unsw.edu.au>

Location: The DIS><Connect Help Desk shop front is located on Level 1 of the UNSW Library Building. The entrance is on Library Road which is the southern (rear) side of the Library.

If you can't log on to your WebCT account perhaps you have not agreed to the rules for using UNSW Online Services. Before you can access any password protected online service at UNSW, including WebCT, you must first agree to the rules. To do this, you must go to the UNSW Communications Unit services website at
<http://www.services.comms.unsw.edu.au>.

Go to the link called 'Agree to the Rules' and click on the text. This will take you to the Rules Page. Once you have read and understood the rules, click on the button titled 'I understand & accept the conditions'. You only need to agree to the rules once during your period of study at UNSW.

Changing your password

You can only change your UniPass via the **Do-it-Yourself** pages on the DIS><Connect website at
<http://www.disconnect.unsw.edu.au>. Remember to keep your password secure.

myWebCT course listing

myWebCT is a portal or gateway to your WebCT courses. When you have logged onto WebCT, you will see a list of all the WebCT courses to which you have access. This will be a personalised list, specific to you. Click on the title of a course to view it.

Navigating within a WebCT course

When you enter a WebCT course, you will see a number of icons. You can navigate within a WebCT course by clicking on these icons which will lead you either to information, WebCT tools or more pages of icons.

At the top of every WebCT page you will see a navigation bar. Click on *MYWEBCT* on the top line of the navigation bar to return to the full list of your WebCT courses.

Student Learner Guide: Introduction to WebCT

Home » Learner Guide » How will I be assessed?

Immediately below the course title a trail of *breadcrumbs* is shown highlighting the steps you have taken from the home page to the current page. You can always return to any point along the path by clicking on the appropriate title in the *breadcrumbs*. Click on *Home* if you want to return to the course home page.

What do the icons mean?

The number of icons you see will vary from one WebCT course to the next. Some of the icons you are likely to see are explained below, although your lecturers may have replaced these standard WebCT icons with different images.



[Course Content and Related Materials](#)



[Communication Tools](#)



[Study Tools](#)



[Evaluation Tools](#)

The four icons above are commonly found in WebCT courses. Each icon leads to a new screen of icons, grouping related options together.



[Content Module](#)



[Course Outline](#)

The two icons above lead to course material. Clicking on the Content Module will take you to a Table of Contents page with a list of links to the course notes. Clicking on the single page tool, shown on the right above, will take you directly to a page of information.



[Mail](#)



[Discussions](#)



[Chat](#)



[Whiteboard](#)

The four icons shown above lead to what are known as communication tools. The Mail tool is similar to email but restricted to a particular WebCT course. The Discussions tool is like an online bulletin board where notices can be posted and where organised discussions can take place. The Chat tool allows for real-time debate. The Whiteboard provides real time drawing and reviewing of diagrams uploaded by the lecturer.

Using a Content Module

On entering a Content Module you are presented with a table of contents. The example below illustrates a table of contents with two hyperlinks.

Table of Contents

1. [The Internet and Setup](#)
2. [Learning Objectives](#)
3. [What is the Internet?](#)

Clicking on a blue triangular *twisty* will expand, or collapse, a section of the list. Clicking on an underlined hyperlink will display the corresponding page of content.

Table of Contents

- ▼ 1. Writing Learning Outcomes
 - 1.1. [Introduction](#)
 - 1.2. [Learning Outcomes](#)
 - 1.3. [Examples of aims and outcomes](#)
 - 1.4. [How to write aims and learning outcomes](#)
- ▶ 2.. The Place of Learning Outcomes in Planning a Subject
- ▶ 3.. Bloom's Taxonomy
- ▶ 4.. References

An action menu appears at the top of each page of content.

ACTION MENU: [Previous](#) [Next](#) [Contents](#) [Retrace](#) [Refresh](#)

Click on *Previous* and *Next* to move around the topic and sub-topic notes. Click on *Contents* to return to the Table of Contents described above. Clicking *Retrace* will take you back along the path you followed to get to the present page.

Using the Discussions tool

In some courses, you may see a *Discussions* tool:



[Discussions](#)

This tool will allow you to post and read messages to and from other students in the course. If you click on the icon, you will first see a list of discussion topics:

Topic	Unread	Total	Status
All	1	1	
Main	1	1	public, unlocked
Notes	0	0	public, unlocked

Click on a topic (usually main) to see the messages posted. A list of posted messages will appear. Your lecturer may add many other topics to your Discussion area.



Discussion messages: Student Lounge

[Return to Discussions](#)

[Compose Discussion Message](#) [Search](#) [Mark All As Read](#) [Update Listing](#)

Select topic: [Student Lounge](#) [Show all](#) / [Show unread](#) [Threaded](#) / [Unthreaded](#)

Select all [Select none](#) Apply to selected message(s) below [Compile](#) [Go](#)

Subject	Author	Date	Status	Attachment
▶ Student Lounge	Gwenda van der Merwe	Fri May 17, 2002 10:36		
▶ Bridge Climb	Kirsten Black	Fri May 17, 2002 10:39		

To read a message, click on its hyperlink. The message will then be displayed. To read all messages in a thread, click on the magnifying glass  next to the triangular *twisty*. To create a new discussion thread, click on *Compose Discussion Message*. To check for new messages click on *Update Listing*.



Subject Student Lounge

[Previous Thread](#) [Next Thread](#) [Close](#)

[Reply](#) [Quote](#) [Download](#)

Message no. 1

Posted by **Gwenda van der Merwe** on Fri May 17, 2002 10:36

Feel free to discuss topics not related to the course in the Student Lounge.

[Previous Message](#) [Next Message](#)

[Previous Thread](#) [Next Thread](#) [Close](#)

Click on *Reply* or *Quote* to post your reply on a particular sub-topic or *thread*.

Reporting problems

In the event that you experience problems using WebCT, please report them to your lecturer or course coordinator. If they can't answer them, they will pass them on to someone who can.

Alternatively you may submit an online form requesting help in the student area of the WebCT support website for the University, at <http://www.webctsupport.unsw.edu.au>.

Learning more about WebCT

An expanded version of this guide with a short tutorial, plus a full range of help documents is available online at the student support site <http://www.webctsupport.unsw.edu.au>. Please bookmark this address and check it regularly as new resources will continue to be developed and made available.

WebCT@UNSW



Getting Started

with Online Courses at UNSW

A Student's Mini-guide to WebCT
June 2002

Produced by
Educational Development & Technology Centre
(EDTeC)
The University of New South Wales
www.webctsupport.unsw.edu.au