



SCHOOL OF BUSINESS AND ECONOMICS

Department of Accounting and Finance

Semester 2, Year 2025

FINAL EXAMINATION PAPER

ACC304: AUDITING AND ASSURANCE SERVICES

INSTRUCTIONS:

1. Read the questions and the instructions carefully and answer the questions.
2. You are allowed an **extra 10 minutes reading time** (during this time, you are not allowed to write with a pen) and **180 minutes (3 Hours) to complete this paper**.
3. Silent, non-programmable calculator is allowed, but not supplied. Electronic Devices are not permitted.
4. Write all your answers in the answer booklet provided. If you need extra sheets, please ask the supervisor.
Write your name, course code and student identification number on the answer booklet.
5. This Examination Paper is worth **100 marks** and **contributes 40%** towards the total assessments. You are required to score at least 40 marks in this exam and an overall of 50% to pass this course.
6. This paper contains **Seven Questions**, and all questions are compulsory to answer.
7. State all your assumptions clearly and provide relevant examples where applicable.
8. Write all your answers legibly. The marker has the right to award zero for answers that are not legible.
9. This is a **Closed Book Examination**. The University views cheating and dishonest practices as serious offences, and if found, disciplinary action will be taken as per the University policies.

Examination Format:

<u>Question</u>	<u>Content</u>	<u>Marks</u>	<u>Suggested Time</u>
1	Design of Substantive Procedures	15	27 Minutes
2	Reporting Weaknesses	10	18 Minutes
3	Using the Work of Internal Auditors	15	27 Minutes
4	Sample Stratification	10	18 Minutes
5	Accounts Payable – Substantive Testing	15	27 Minutes
6	Auditor's Legal Liability	15	27 Minutes
7	Audit Assurance and Scope	20	36 Minutes
	TOTAL	100	180 Minutes

QUESTION 1: DESIGN OF SUBSTANTIVE PROCEDURES (15 MARKS)

(Suggested Time: 27 Minutes)

Ashika Chand is an audit senior planning the audit of ExpandWell Limited, an importer of hydroponic equipment for the market garden industry. The owners of ExpandWell complained to the partner on the audit engagement that the audit fee was too high. The audit partner, Shivik Devi, was concerned about losing this client, so she decided to cut 15% off the audit fee, amounting to \$3000. Shivika decided that the amount of work performed on the client would have to be reduced to cover this discount. Still, she felt this was reasonable because the inherent and control risks had always been acceptable.

Shivika calls Ashika into her office and says that she wants to avoid performing debtors and creditors circularisations as they have done in previous years. Her reason is that following up on non-responses is an expensive and time-consuming task, and that it would be more efficient to use alternative audit procedures. She also tells Ashika that the sample size for selecting debtors and creditors balances for testing should be reduced, given that they have had few problems in those parts of the audit in previous years.

REQUIRED:

- A. List what factors Shivika should have considered in changing the nature and extent of the substantive audit testing. (8 Marks)
- B. Discuss any special considerations in relation to the audit procedures that should be performed in auditing debtors and creditors. (7 Marks)

QUESTION 2: REPORTING WEAKNESSES (10 MARKS)

(Suggested Time: 18 Minutes)

Shayal Kumar is the auditor of Strong Spanners Limited. At the planning stage of the audit, the internal controls were documented, and the preliminary assessment suggested they were effective. The audit strategy was established, requiring the performance of tests of controls followed by reduced substantive testing. When the tests of control were completed, it became clear that some internal controls did not operate as recorded during the period, and significant control weaknesses existed. As a result, the audit strategy needs to be amended to extend substantive testing in those areas where no evidence has been obtained from the tests of controls.

REQUIRED:

- A. What are Shayal's obligations for reporting detected weaknesses in the internal control system of Strong Spanners Limited? (5 Marks)
- B. Do you agree with the changes in the strategy adopted by Shayal? Discuss in some detail. (5 Marks)

QUESTION 3: USING THE WORK OF INTERNAL AUDITORS (15 MARKS)

(Suggested Time: 27 Minutes)

UFC is a listed limited liability company with a year-end of 30 June. UFC's main activity is selling home improvement or 'do-it-yourself' (DIY) products to the public. Products sold range from nails, paints and tools to doors and showers. Additionally, some stores also sell garden tools and furniture. Products are purchased from approximately 200 different suppliers. UFC has 105 stores in 10 different countries.

UFC has a well-staffed internal audit department that reports regularly to the audit committee. Areas where the internal and external auditors may carry out work include:

1. Attending the year-end inventory count in 30 stores annually. All stores are visited on a rotational basis.
2. Checking the internal controls over the procurement systems (e.g. ensuring a liability is only recorded when the inventory has been received).
3. Reviewing the operations of the marketing department.

REQUIRED:

For each of the above three areas, discuss how the external auditor may use the work of the internal audit function of UFC during the external audit. A thorough explanation is required, considering the objective of the external audit on the three areas mentioned above. (15 marks)

QUESTION 4: SAMPLE STRATIFICATION (10 MARKS)

(Suggested Time: 18 Minutes)

Geoffrey Sawan, an audit senior, is conducting the inventory audit and has selected a sample of inventory lines to recheck their costings. The population was stratified as follows:

Stratum:	Number of lines:	\$ range:	\$ total
1	10	>7000	120,000
2	34	2000 to <7000	153,000
3	230	<2000	76,000
			<u>\$349,000</u>

The auditor decided to test all of the first stratum and a random sample of 10 of the second stratum. The third stratum was tested by using analytical procedures.

REQUIRED:

- A. Discuss any two risks associated with this approach. (5 Marks)
- B. Comment on the work performed by Geoffrey. (5 Marks)

QUESTION 5: ACCOUNTS PAYABLE – SUBSTANTIVE TESTING (15 MARKS)

(Suggested Time: 27 Minutes)

You are the audit senior for the audit of Sugar Limited and have been given the audit file to review. The reporting date is 30 June 2025, and the materiality for the client has been set at \$200,000. You obtained the information listed below from your review of the audit file.

1. The balance noted for accounts payable in the general ledger at 30 June 2025 is \$165,000, which compares with a balance as at 30 June 2024 of \$360,000.
2. The audit assistant noted in the file: "Because the accounts payable balance is immaterial in the current year, only limited work is necessary".
3. The only work performed by the audit assistant was to select the five largest payables from the client's detailed purchases ledger (which had been compared with the general ledger) and compare the balances with photocopies of supplier statements.
4. The client has a total of sixty payables (individual creditors' accounts with a different range of account balances).

REQUIRED:

- A. Outline any five queries you would raise with the audit assistant and why. (7.5 Marks)
- B. Discuss any three additional audit procedures that need to be performed, considering the risk associated with accounts payable in general. (7.5 Marks)

QUESTION 6: AUDITOR'S LEGAL LIABILITY (15 MARKS)

(Suggested Time: 27 Minutes)

Viliame Satala performed an audit of Dream Supermarket Limited for the year ended 31 December 2024 and issued an unqualified opinion. The audit was performed in accordance with the generally accepted auditing standards and code of professional conduct, with an emphasis on due care. The audit was completed on 25 March 2025. On 10 April 2025, the Company's loan application for \$50,000,000 was approved by the Friendly Commercial Bank of Fiji.

On 5 June 2025, it came in the newspaper that the Chief Executive Officer (CEO) of Dream Supermarket Limited was stealing small amounts of inventory for personal consumption. The stolen inventory amount was material compared to the overall inventory of Dream Supermarket Limited. The next day, Mona Singh, the Chief Financial Officer (CFO) of Dream Supermarket Limited, visited Satala's office and demanded that the audit fees be refunded. Singh claimed that Satala was negligent in conducting the audit because he was unable to discover the inventory fraud. She even stated that due to Satala's carelessness, the financial statements of Dream Supermarket for 2024 were not fairly presented. As a result, the bank has demanded that the company pay the full amount of the loan immediately.

REQUIRED:

- A. Based on the given information, discuss whether Satala has acted with due care. (5 Marks)
- B. Do you think the action taken by the CFO of Dream Supermarket Limited is appropriate? Explain your answer. (10 Marks)

QUESTION 7: AUDIT ASSURANCE AND SCOPE (20 MARKS)

(Suggested Time: 36 Minutes)

PART 1: Auditors' opinion adds credibility to the financial statements even though an absolute assurance is not provided by the auditor (Leung et al. 2011, p.36).

REQUIRED:

Write an essay of 300 to 350 words to discuss any four reasons why an auditor cannot provide absolute assurance. Use appropriate examples in your discussion. (10 Marks)

PART 2: Assume that you have been interviewed by one of the accounting firms for the 2025 Graduate Recruitment program. One of the questions asked was to explain the term "scope" in the context of financial statement audits.

REQUIRED:

Write an essay of 300 to 350 words to discuss with examples, what influences an auditor's determination of the "scope" of a financial statement audit. (10 Marks)

ALL THE BEST
