



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART II FIRST SEMESTER EXAMINATION

AUDIT SKILLS [BAC2103]

APRIL 2024

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin your answer to each question on a new page.
3. Please indicate the study format (Conventional/Block) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of five (5) printed pages including the cover page

QUESTION 1 [30 MARKS]

1. An internal check is meant for:
 - A. Prevention of frauds.
 - B. Detection of frauds.
 - C. Helping audit in depth.
 - D. Detection of errors.

[2 Marks]

2. An internal auditor is appointed by:
 - A. The management.
 - B. The shareholders.
 - C. The government.
 - D. The statutory body.

[2 Marks]

3. When issuing an unqualified opinion, the auditor who evaluates the audit findings should be satisfied that the :
 - A. Amount of known miss-statements is documented in working papers.
 - B. Estimates of the total likely misstatements are less than the materiality level.
 - C. Estimate of the total likely misstatements is more than materiality level.
 - D. Estimates of the total likely misstatements cannot be made.

[2 Marks]

4. In an audit of financial statements, substantive tests are procedures that:
 - A. Maybe eliminated for an account balance under certain conditions
 - B. Are designed to discover subsequent events
 - C. Will increase proportionately when the auditor decreases the assessed level of control risk.
 - D. Maybe risk of transactions, test of balance and analytical procedures.

[2 Marks]

5. Which of the following is most important in determining the appropriateness of audit evidence
 - A. The reliability of audit evidence and its relevance in meeting the audit objective
 - B. Objectivity and integrity of auditor
 - C. Quantity of audit evidence
 - D. The independence of the source of evidence.

[2 Marks]

6. Which of the following is not a limitation of audit?
 - A. Objectivity of auditors judgement
 - B. Selective testing
 - C. Persuasiveness of evidence
 - D. Limitation of internal control.

[2 Marks]

7. In determining the level of materiality for an audit. What should not be considered?
 - A. Prior year's errors
 - B. Auditor's remuneration
 - C. Adjusted interim financial statements

- D. Prior year's financial statements. **[2 Marks]**
8. Analytical procedures issued in the planning stage of an audit generally
- A. Help to determine the nature, timing and extent of audit procedures
 - B. Directs attention to potentially risk areas
 - C. Indicates important aspects of business
 - D. All of the above. **[2 Marks]**
9. Of the following, which one is the least persuasive type of audit evidence?
- A. Bank statement obtained directly from the client
 - B. Documents obtained by auditor from 3rd parties directly
 - C. Carbon copies of sales invoice inspected by auditor
 - D. Computation made by auditor. **[2 Marks]**
10. When is evidentially matter generally considered sufficient
- A. When it constitutes the entire population
 - B. When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
 - C. When it is objective and is relevant
 - D. When auditor collects and evaluates it independently. **[2 Marks]**
11. Knowledge of entity's business does not help the auditor to
- A. Reduce inherent risk
 - B. Identify problem areas
 - C. Evaluate reasonableness of estimate
 - D. Evaluate appropriateness of GAAP. **[2 Marks]**
12. The main objective of an audit is
- A. To ensure that final accounts are prepared
 - B. Expression of an opinion on true and fair view of accounts
 - C. To ensure the future viability of the enterprise
 - D. Detection and prevention of fraud and errors. **[2 Marks]**
13. An audit programme is prepared
- A. Before commencement of an audit
 - B. After completion of an audit
 - C. After submission of an audit report
 - D. During the conduct of an audit. **[2 Marks]**
14. The scope of internal audit is decided by
- A. Shareholders

- B. Management
- C. Government
- D. Lawyers

[2 Marks]

15. Which of the following best describes the primary purpose of audit programme preparation
- A. To detect errors or fraud
 - B. To comply with GAAP
 - C. To gather sufficient appropriate evidence
 - D. To assess audit risk.

[2 Marks]

QUESTION 2 [20 MARKS]

You are a manager in the audit firm of Ali & Co; and this is your first time you have worked on one of the firm's established clients, Stark Co. The main activity of Stark Co is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. Stark is regulated by the relevant financial services authority.

You have been asked to start the audit planning for Stark Co, by Mr. Son, a partner in Ali & Co. Mr. Son has been the engagement partner for Stark Co, for the previous nine years and so has excellent knowledge of the client. Mr. Son has informed you that he would like his daughter Zoe to be part of the audit team this year; Zoe is currently studying for her first set of fundamentals papers for her ACCA qualification. Mr. Son also informs you that Mr. Far, the audit senior, received investment advice from Stark Co during the year and intends to do the same next year.

In an initial meeting with the finance director of Stark Co, you learn that the audit team will not be entertained on Stark Co's yacht this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the yacht and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing Stark Co in a dispute regarding the amount of sales tax payable to the taxation authorities.

Required:

(a)

(i) Explain the ethical threats which may affect the auditor of Stark Co. **[6 Marks]**

(ii) For each ethical threat, discuss how the effect of the threat can be mitigated. **[6 Marks]**

(b) Discuss the benefits of Stark Co establishing an internal audit department. **[8 Marks]**

QUESTION 3 [25 MARKS]

a. Explain the ethical requirements of the audit profession that govern the independence of the auditor. **[18 Marks]**

b. In presenting the annual financial statements, management implicitly makes assertions about classes of transactions. State and explain any 3 assertions. **[7 Marks]**

QUESTION 4 [25 MARKS]

ISA 210 *Agreeing the terms of audit engagement* explains the contents and use of engagement letters. Discuss the items that should be included in the engagement letter. **[25 Marks]**

END OF EXAMINATION PAPER