
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.5: AUDITING

WEDNESDAY: 10 JUNE 2015

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- a) Define the term 'Expectation Gap' (2 Marks)
- b) Briefly describe five assertions about classes of transactions and events for the period under audit used by the auditor (10 Marks)
- c) Information technology poses risks to the internal control system of a business and to the auditor.

REQUIRED:

- Identify the risks that are associated with computerized accounting systems (8 Marks)
- (Total 20 Marks)

QUESTION TWO

- a) What are the main objectives of an internal control system? (5 Marks)
- b) What are the disadvantages of rigidly adhering to a system of internal control? (5 Marks)
- c) Explain the matters that have to be considered in respect of a system of internal control for cash sales in a service station that sells petrol and repairs motor vehicles. (10 Marks)
- (Total 20 Marks)

QUESTION THREE

- a) With respect to the code of ethics for professional accountants, explain the importance of the following fundamental principles:
- (i) Integrity (2 Marks)
 - (ii) Objectivity (2 Marks)
 - (iii) Confidentiality (2 Marks)
 - (iv) Professional competence and due care (2 Marks)
 - (v) Professional behavior (2 Marks)
- b) Explain five circumstances that could create threats to an auditor's independence. (10 Marks)
- (Total 20 Marks)

QUESTION FOUR

- a) The purpose of ISA 500 is to establish standards and provide guidance on what constitutes audit evidence in audit of financial statements, the quantity and quality of audit evidence to be obtained, and audit procedures to that auditors use for obtaining that evidence. Having in mind that audit evidence should be **sufficient**, **relevant** and **reliable**, discuss those terms in relation of audit of financial statements. (6 Marks)
- b) Define a "test of control" and "substantive procedures" (2 Marks)
- c) State one test of control and one substantive procedure in relation to investment properties. (2 Marks)
- d) The key assertions relating to fixed assets are existence, completeness, valuation and rights and obligations.

REQUIRED:

Describe five tests to audit tangible non-current asset assets and explain the reason of each test.

**(10 Marks)
(Total 20 Marks)**

QUESTION FIVE

The directors of one of your growing clients have decided to create an internal audit function in their organizational structure.

REQUIRED:

- a) List and briefly describe the duties you would expect the internal audit staff to perform. **(5 Marks)**
- b) List and explain the criteria which you would consider before deciding to rely on the work of the internal audit function. **(10 Marks)**
- c) Determine whether, in which areas, and to what extent the work of the internal audit function can be used. **(5 Marks)**

(Total 20 Marks)

QUESTION SIX

- a) Identify and explain basic elements of the statutory auditor's report. **(8 Marks)**
- b) Discuss limitations of an audit of financial statements. **(6 Marks)**
- c) Identify and briefly explain situations under which an auditor would consider to modify his report. **(6 Marks)**

(Total 20 Marks)

QUESTION SEVEN

State the nature and purpose of:

- (i) Letter of representation **(10 Marks)**
- (ii) Letter of engagement. **(10 Marks)**

(Total 20 Marks)

End of question paper

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