

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**DEPARTMENT OF ACCOUNTING**  
**FIRST SEMESTER EXAMINATION – APRIL 2009**  
**AUDIT SKILLS CAC 2103**  
**TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS**

- 1) Answer all questions from Sections A and sections B
- 2) A quarter mark will be deducted for each incorrect answer in Section A.
- 3) Indicate the best answer by writing the appropriate letter in your answer sheet for each of the multiple choice questions.
- 4) Return your question paper to the invigilator - Section A only.

---

**SECTION A – TOTAL 15 MARKS**

**SECTION B – TOTAL 85 MARKS**

<b>QUESTION</b>	<b>TOPIC</b>	<b>MARKS</b>
1	SCOPE OF AUDITING	30
2	INTERNAL CONTROLS	30
3	AUDIT OPINION	25

1) For effective internal control purposes, which of the following individuals should be responsible for mailing signed cheques?

- A Payroll Clerk.
- B Creditors Clerk.
- C Treasurer.
- D Receptionist.

2) In properly designed internal accounting control systems, the same employee should not be permitted to:

- A) Sign cheques and cancel supporting documents.
- B) Receive merchandise and prepare a receiving report.
- C) Prepare disbursement vouchers and sign cheques.
- D) Initiate a request to order merchandise and approve merchandise.

3) In auditing, the materiality concept implied that;

- A) The auditor should concentrate on information that is important.
- B) The auditor should concentrate on financial information that if important and put less emphasis on the less significant accounts and transactions.
- C) The auditor should only look at items which are likely to contain errors.
- D) The auditor should only look at items which he is likely to include in his sample.

4) To gather evidence regarding the balance per bank in a bank reconciliation, an auditor would examine all of the following except;

- A) Cut off bank statements.
- B) Year end bank statements.
- C) Bank confirmation.
- D) General ledger.

5) Unrecorded liabilities are most likely to be found during the review of which of the following documents.

- A) Unpaid bills.
- B) Shipping records.
- C) Bills of landing.
- D) Unmatched sales invoices.

6) The roles and responsibilities to provide an effective system of risk management and internal control differ amongst different parties throughout a company in day to day activities. Indicate who is mainly responsible to design and implement effective systems of internal control to manage the risk of the business and to ensure that all the control aspects are addressed;

- A) Board of directors.
- B) Management.
- C) Audit committee.
- D) Internal auditors.

7) Those procedures specifically outlined in an audit programme are primarily designed to;

- A) Gather evidence.
- B) Detect errors or irregularities.
- C) Test internal systems.
- D) Protect the auditor in the event of litigation.

8) If a company's external auditor issues an unqualified audit opinion, readers of the audit report can assume that;

- A) The external auditor found no irregularities.
- B) The company is financially sound.
- C) All disagreements between the company and the external auditor were resolved to the satisfaction of the external auditor.
- D) Internal accounting control is strong.

9) In an audit made in accordance with the International Standard on auditing, an auditor;

- A) Has a responsibility to discover all material errors and irregularities.
- B) Has a responsibility to search for material errors or irregularities.
- C) Has a responsibility to detect errors but not irregularities.
- D) Guarantees the discovery of all material errors or irregularities.

10) Of the following statements about an internal control system which one is not valid?

- A) Not one person should be responsible for the custodial responsibility and the recording responsibility for an asset.
- B) Transactions must be properly authorized before such transactions are processed.
- C) Control procedures reasonably insure that collusion among employees cannot occur.
- D) Because of the cost/benefit relationship, a client may apply control procedures on a test basis.

11) One of the following is not a proper condition that supports the need for an independent audit of financial statements

- A) Conflict of interest between management and the ICA (Z).
- B) Complexity of the financial statements.
- C) Remoteness of users from the accounting records.
- D) Consequence of the financial statements in the user's decision.

12) When an audit examination provides evidence that material errors or irregularities may exist, the auditor should;

- A) Withdraw from the engagement and present such evidence to appropriate regulatory authorities.
- B) Immediately extend his audit procedures to determine if material errors or irregularities for, in fact exist.
- C) Refer the matter to the board of directors with the recommendation that it be pursued to a conclusion.
- D) Discuss the matter and the extent of any further investigation with an appropriate level of management, after which his suspicions have not been

eliminated, he should communicate with board of directors and if practicable, extend his audit procedures.

13) Objectivity of an independent auditor is impaired in the following:-

- a) Where one has a personal relationship.
- b) Where one owns the majority interest in the company.
- c) Where one receives gifts of a nominal nature.
- d) Where one is granted a loan by a financial institution on the terms as the general public.
- e) e) A and B only.

14) Integrity is.....

- a) a) Conducting business fairly.
- b) b) Being honest, trustworthy and truthful in conducting business.
- c) c) Absolute bias in conducting business.
- d) d) Biased state of mind.
- e) e) None of the above.

15) Independence is.....

- a) a) Biased state of mind.
- b) b) Unbiased state of mind.
- c) c) Ability no to allow prejudice to prevail in fact and appearance.
- d) d) Holding shares in a client company.
- e) e) Doing whatever one likes.

**SECTION B**

**ANSWER ALL QUESTIONS**

**QUESTION 1** (Total 30 Marks)

- (a) Distinguish external auditing and internal auditing and accounting and their relationships. **(15 Marks)**
- (b) Draft an audit engagement letter to Magpie Ltd. **(15 Marks)**

**QUESTION 2** (Total 30 Marks)

- (a) Define the concept “Internal Control”. (5 Marks)
- (b) Distinguish statutory audits, private audits, internal audits and management audits.

**(25 Marks)**

**QUESTION 3** (Total 25 Marks)

Describe the factors that contribute to a situation where an auditor is not in a position to provide “absolute assurance” after auditing financial statements.

**(25 Marks)**