



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION: 2013/2014

DATE : DECEMBER 2013

SUBJECT : AUDIT SKILLS, THEORY AND PRACTICE CAC 4103

TIME ALLOWED : THREE (3) HOURS

MARKS : 100

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

QUESTION 1 [25 Marks]

‘The International Federation of Accountants (IFAC) was established in 1977 to set international standards of auditing, ethics, education and training’

Required:

- (a) Discuss the potential advantages of international harmonization of auditing standards. **[15]**
- (b) Discuss the difficulties that stand in the way of harmonization. **[10]**

QUESTION 2 [25 Marks]

The ISA 240 ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’ distinguishes fraud from error, sets out the auditor’s responsibilities with respect to fraud, and provides additional guidance related to earnings management.

Required:

- (a) Compare and contrast the auditor’s responsibility for the detection and reporting of fraud and of error. Your answer should distinguish fraud from error. **[10]**
- (b) Explain the term ‘professional skepticism’ and comment on its role in the detection of fraud. **[5]**
- (c) Comment on the difficulties which ‘earnings management’ presents to the auditor. **[5]**
- (d) What is meant by expectation gap? Is there any expectation gap relating to detection of fraud? How can it be reduced? **[5]**

QUESTION 3

ISA 530, Audit Sampling, establishes concepts applicable to both statistical and non-statistical sampling but does not explicitly endorse either approach as being superior. The standard states that audit risk is a combination the three following factors:

1. The risk that a material error will occur during the accounting process
2. The risk that control procedures will not prevent or detect a material error
3. The risk that material error will not be discovered by the auditor

The third factor of audit risk is controlled, to a degree, by the auditor’s quality of performance in conducting substantive tests of details of transactions and balances and analytical review procedures. The quality of substantive tests is affected by both sampling and non-sampling risk.

Required:

- (a) Distinguish between sampling and non-sampling risk and give two examples of non-sampling risk. **[8]**
- (b) Explain under what conditions audit sampling would be considered an appropriate alternative to a 100% examination of all the items in the balance of an account or a class of transactions. **[7]**
- (c) Identify three factors that should be considered in determining sample size for substantive tests. For each factor identified, explain what conditions should lead to a smaller sample size. **[10]**

QUESTION 4 (25 Marks)

When implementing controls, management should address both general and application controls.

Required:

- (a) Discuss why management should address both general and application controls. **[10]**
- (b) Briefly describe how and why weak general controls negatively affect application controls and **[8]**
- (c) How weak application controls can affect the accounting system. **[7]**

END OF EXAMINATION PAPER