

EXAMINATION NO. _____



2015 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC7: AUDITING

WEDNESDAY 2 DECEMBER 2015

TIME ALLOWED : 3 HOURS

2.00 PM - 5.00 PM

INSTRUCTIONS

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. **FIVE** questions **ONLY** to be answered.
4. **Question one** is compulsory.
5. Each question carries 20 marks.
6. Begin each answer on a fresh page.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 5 pages

This question paper must **not** be removed from the examination hall.

SECTION A

This question is compulsory and MUST be attempted

1. A manufacturing company has a computerized system with an integrated system comprising sales ledger, purchases ledger and nominal ledger. Access to the system is through terminals for retrieving information such as suppliers balances on the purchases ledger which is available on real time basis and transactions posted to the system. Edit checks are also performed on real time basis. Standing data and transaction files are updated overnight on real time basis.

Required:

- (a) State the benefits and risks of using an integrated computerized accounting system. **10 Marks**
- (b) Describe the controls that you would expect to see over:
- (i) Access to the purchases system from terminal in relation to the retrieval of information. **5 Marks**
- (ii) Updating of the transaction files and updating the standing data files containing suppliers names and addresses. **5 Marks**
- (TOTAL: 20 MARKS)**

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SECTION B

FOUR questions ONLY to be attempted from this section

2. Kasinde Limited was formed on 1 January 2015. The directors of the company do not know the provisions of the Companies Act with regard to their responsibilities and relationship with the shareholders on the one hand and external auditors on the other.

Required:

- (a) Explain to the directors why there is need for an audit. **5 Marks**
 - (b) Explain how an auditor of a limited company may be appointed under the Companies Act. **9 Marks**
 - (c) State any **three** eligibility criteria for a person or a firm to be appointed auditors, under the Companies Act. **6 Marks**
- (TOTAL: 20 MARKS)**

3. Chikhulupiliro and Chikaiko Chatha are brothers who have been in partnership doing retail business for many years. After a significant growth they decided to incorporate their business into a company known as CCC Limited under the Companies Act. However, they have been informed that the business will not be bound by some requirements such as submitting an audited set of financial statements to the office of the Registrar of Companies every twelve months of trading, within six months of their reporting date.

Required:

- (a) Compare and contrast a statutory audit with a non-statutory audit. **4 Marks**
- (b) State any **four** other services that an individual or firm of professional accountants may be engaged to carry out, apart from audit. **8 Marks**
- (c) You are engaged as auditors of a client, but you discover that the client's financial statements do not contain a statement of cash flow. Upon enquiry, the directors contend that because all of the company's business transactions have been done on cash basis, there is basically insignificant difference between the statement of comprehensive income and the statement of cash flows.

Required:

- (i) State any concerns that you might have with the above situation and advise management accordingly. **4 Marks**
- (ii) Assuming the directors ignore your advice, state the type of audit opinion that you would give in your report and the basis or reason for such an opinion. **4 Marks**

(TOTAL: 20 MARKS)

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4. (a) The Companies Act guarantees an auditor the right of access to any of the company's records, documents or to enquire into any of the companies' business information. However, if an auditor does not properly handle such information, the client's confidential information might be exposed. To mitigate such risk the IFAC Code of Ethics has laid down provisions on confidentiality to protect the client.

Required:

(i) State the provisions under the confidentiality principle. **3 Marks**

(ii) Explain exceptions to these general provisions. **5 Marks**

(b) Explain the other **four** principles in the code. **12 Marks**
(TOTAL : 20 MARKS)

5. ISA 500: Audit Evidence, requires auditors to gather evidence on which to base their opinion of financial statements.

Required:

(a) Define audit evidence and mention any **four** factors that enhance its usefulness. **4 Marks**

(b) Mention **four** reasons why it is important to document audit work. **4 Marks**

(c) List **four** types of information that should be retained in the permanent file and state why it should be placed in that particular file. **8 Marks**

(d) Comment on the desirability of using standardized working papers. **4 Marks**
(TOTAL: 20 MARKS)

6. You are a member of the audit team that is currently carrying out a final audit of a client company.

Required:

State how you would verify the following items appearing in the financial statements of the company.

(a) Land and buildings **8 Marks**

(b) Long term loans **4 Marks**

(c) Share capital **4 Marks**

(d) Reserves **4 Marks**

(TOTAL : 20 MARKS)

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7. ISA 700: on audit reporting, requires auditors to state in their audit report whether or not financial statements show a true and fair view of the state of an entity's affairs in the period under review.

Required:

- (a) Explain the term "true and fair view". **2 Marks**
- (b) State the circumstances under which an auditor may issue a modified or qualified opinion and their respective types of opinions. **8 Marks**
- (c) During one of your audit assignments you encounter the following situations:
- (1) Included in the receivables balance of K580,000 is a debt of K45,000 owed by a customer company which went into liquidation. The company in liquidation is unlikely to pay the debt. However, the directors are not prepared to provide for this debt. Your client's income statement for the year shows a pre-tax profit of K89,500. **4 Marks**
- (2) Financial statements of a client company do not disclose that one of the directors was indebted to the company for over half a year. He has since paid off the K250,000 that he owed the company, hence the directors have thought it unnecessary to disclose the issue in the books.

Required:

Comment on and state the suitable report to be issued in each of the above situations. **8 Marks**

(TOTAL : 20 MARKS)

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