

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2021

PRINCIPLES OF AUDITING

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)
ATTEMPT ALL QUESTIONS

Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions/statements

1. Which of the following assertions is **NOT** correct about the reliability of Audit Evidence?
 - A. Original documents are more reliable than photocopies
 - B. Evidence in the form of written representation is more reliable than oral representation
 - C. Audit evidence directly obtained from the entity's record is more reliable than that obtained from external source
 - D. Audit evidence directly obtained by auditor is more reliable than that obtained by or from the entity
 - E. Client generated computation is less reliable than auditors re-performance of the same

2. A review of an audit by the Engagement Partner should be carried out
 - A. After the audit report is signed, and after a similar review by the audit senior
 - B. After a similar review by the audit senior, but before the audit report is signed
 - C. After the audit report is signed, and before a similar review by the audit senior
 - D. Before a similar review by the audit senior, and before the audit report is signed
 - E. After the completion of the audit by the audit staff assigned to it

3. Which of the following should **NOT** be included in the audit working papers?
- A. Information about the organisation being audited, including its recent history
 - B. Evidence of work done in the course of the audit
 - C. Curriculum vitae of Directors of the client's company
 - D. A means of planning the subsequent year's audit
 - E. Schedules in support of the accounts audited and summaries of the client's books
4. Which of the following provides the highest level of assurance?
- A. Limited assurance engagement
 - B. Review
 - C. Compilation
 - D. Audit
 - E. Investigations
5. Which of the following is **NOT** an example of assurance engagements?
- A. A statutory audit
 - B. Reports of corporate social responsibility performance
 - C. Reports on environmental performance
 - D. Reports for lenders and other investors
 - E. Reports on statements of accounting policies
6. Which of the following confirmations describes a review of financial statements?
- A. Limited assurance provided, Positive opinion expressed
 - B. Limited assurance provided, Negative opinion expressed
 - C. Reasonable assurance provided, Positive opinion expressed
 - D. No assurance provided, Positive opinion expressed
 - E. No assurance provided, Negative opinion expressed

7. Which of the following should be included in an audit engagement letter?
- I. Objective and scope of the audit
 - II. Results of previous audit
 - III. Management responsibilities
 - IV. Need to maintain professional scepticism
- A. I and II
 - B. I and III
 - C. I, II and III
 - D. II and III
 - E. III and IV
8. Which of the following is **NOT** among the content of Auditors reports?
- A. The heading
 - B. Period covered
 - C. Details of fees charged
 - D. Work done
 - E. Name of the Auditor and the date the report was signed
9. Which of the following can assist the Auditor in obtaining an understanding of the Internal Control System by way of computer documentation?
- A. System flow charts
 - B. System control
 - C. System narrative
 - D. Record count
 - E. Program listing
10. Apart from the statutory qualifications, which of the following qualities and traits should an auditor **NOT** possess?
- A. Intelligence and tactfulness
 - B. Familiarity with the latest developments affecting audit
 - C. Diligence
 - D. Intimate relationship with the client
 - E. Confidentiality

11. Which of the following is **NOT** an application controls?
- A. Input control
 - B. Output control
 - C. Operators control
 - D. Processing control
 - E. Master-file control
12. If an audit engagement is accepted but the Auditor does not have knowledge about the client's operations, he should
- A. Obtain a legal advice on what to do
 - B. Transfer the audit work to a big and experienced audit firm
 - C. Employ a joint Auditor who is experienced in the nature of the client's business
 - D. Obtain knowledge on matters relating to client's business by hiring an expert
 - E. Reject the appointment outright
13. Which of the following is **NOT** a reason for establishing a system of internal controls by a company?
- A. Control management spending
 - B. Prevent loss of resources by fraud and other means
 - C. Help achieving its performance and profitability goals
 - D. Ensure reliable financial reporting
 - E. Compliance with laws and regulations
14. Which of the following may **NOT** impair the going-concern of a business organisation?
- A. Failure of proper control mechanism and insider abuse
 - B. Management incompetence
 - C. Fraudulent practices by management
 - D. Political unrest
 - E. Ability to meet creditors bill as at when due

15. Test of the extent to which rules, policies and laws are followed by an entity being audited is called
- A. Operational audit
 - B. Government audit
 - C. Statement of Financial Position audit
 - D. Compliance audit
 - E. Forensic audit
16. Computation of ratios, the use of statistics and studying of trends is known as
- A. Hot review
 - B. Analytical review
 - C. Compliance review
 - D. Parallel review
 - E. Substantive review
17. An attitude of mind, that is characterised by objectivity and integrity in the approach to audit work is
- A. Confidentiality
 - B. Competence
 - C. Consistency
 - D. Independence
 - E. Honesty
18. An Auditor may disclose client's confidential information for the following reasons, **EXCEPT**
- A. Disclosure is required by a court of law
 - B. Information is required by the Auditor for a similar client in the same industry
 - C. There is a public duty to disclose
 - D. The Auditor wants to protect his own interest
 - E. The client is involved in criminal activities

19. How many years is an auditor advised to retain the audit working papers before destruction?
- A. 5 Years
 - B. 6 Years
 - C. 7 Years
 - D. 8 Years
 - E. Keep for ever
20. The circumstances under which Auditors may issue exception report include the following, **EXCEPT** if
- A. Proper accounting records have not been kept
 - B. Proper returns have not been received from branches not visited by them
 - C. The Directors threatened termination of the audit
 - D. The financial statements are not in agreement with the records and returns
 - E. The Auditor failed to obtain information and explanation necessary for the audit
21. Which of the following is **NOT** a threat to objectivity?
- A. Independence
 - B. Self-review
 - C. Advocacy
 - D. Intimidation
 - E. Self interest
22. What is the main reasons for Auditors' independent?
- A. To ensure users of the audit report can place reliance on it and have faith
 - B. To ensure the financial statement give a true and fair view
 - C. To provide more regulations for Auditors, so it looks like audit is of higher quality
 - D. The law requires it
 - E. To ensure professional pride

23. Which of the following is **NOT** an objective of auditing the accounts of Government Parastatals?
- A. To ascertain whether proper accounting records are kept
 - B. To evaluate the professional competence of the accounting staff of the Parastatals
 - C. To ascertain whether all revenue items are duly collected and properly accounted for
 - D. To ascertain whether adequate controls exist to ensure the safety and proper use of the Parastatal's fund and assets
 - E. To ascertain whether the Parastatal's Management comply reasonably with the general level of probity and public accountability
24. What is the examination of documentary evidence in support of transactions called?
- A. Vouching
 - B. Observation
 - C. Verification
 - D. Physical inspection
 - E. Analytical review
25. Which of the following is **NOT** considered a fraud?
- A. Recording of transactions without substance
 - B. Misappropriation of assets or theft
 - C. Misinterpretation of accounting policies
 - D. Manipulation or alteration of records
 - E. Omission of transactions from records

26. Which of the following should be the responsibilities of the audit committee?
- I. Reviewing the independence of the external Auditor
 - II. Making recommendation on the re-appointment of the Auditors
 - III. Reviewing the work of internal audit
 - IV. Report to shareholders on the accuracy of the financial statements
- A. I, II and III
 - B. I, III and IV
 - C. II, III and IV
 - D. I, II and IV
 - E. II and IV
27. Which of the following is a routine audit procedure?
- A. Vouching of transactions
 - B. Analytical procedures
 - C. Risk assessment procedures
 - D. Verification of assets and liabilities
 - E. Risk analysis
28. Which of the following is **NOT** the main reason for preparing audit working papers?
- A. Assistance to the Management to increase company's profitability
 - B. Assistance in audit planning
 - C. Provision of evidence of work done
 - D. Supportive of opinion
 - E. Enabling audit Partners and Managers to review work done by their subordinates
29. The ethical principles which govern Auditors' responsibilities do **NOT** include which of the following?
- A. Integrity
 - B. Consistency
 - C. Objectivity
 - D. Independence
 - E. Professional competence

30. Which of the following are threats to the independence of an Auditor?

- I. Loans between the Auditor and the client
- II. The provision of a non-audit services by the Auditor
- III. Long association between the audit firm and the client
- IV. Using the work of the client's internal audit department

- A. I, II, III
- B. I, III, IV
- C. II, III, IV
- D. I, II, IV
- E. I and IV

SECTION A: PART II SHORT-ANSWER QUESTIONS (20 Marks)

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following questions/statements:

- 1. The monthly accounts submitted to the Accountant-General of your country by a self-accounting unit are known as
- 2. The evaluation of financial and other information and the review of plausible relationship in that information are known as
- 3. Which type of CAATs program compare the original specified program to the current program to detect unauthorised amendment?
- 4. The two important concepts of appropriateness of audit evidence are and
- 5. The two broad categories of Computer Assisted Audit Techniques (CAAT) are..... and

6. The information, written or oral, obtained by the Auditor to support the conclusion on which he based his opinion on the financial statements is called
7. A firm or person possessing special skill, knowledge or experience in a particular field other than accounting or auditing is called an
8. An auditor provides many assurance services. State **TWO** assurance engagement services an auditor can render
9. Who may appoint the first auditors of a company?
10. Qualifications in the Auditor's report can arise on two principal grounds which are and
11. The term given to the risk that the Auditor will draw an invalid opinion or conclusion from his audit work is known as
12. Computer programs used by the Auditor to extract information from a client's computer-based information system for use in the audit is known as
13. Before agreeing to accept a new audit engagement, checking the references provided by the company and its Directors when these are not known to the audit firm is known as
14. A software that performs the types of checks on data that auditor might otherwise have to perform by hand is software.
15. The process of formalising audit arrangement ahead of time of implementing such arrangement is called.....
16. The external auditor is put on..... when in the course of his duty, he has a valid reason to doubt a transaction.

- b. State **FOUR** reasons for preparing audit working papers. (8 Marks)
(Total 12½ Marks)

QUESTION 4

Verification is the process by which auditors seek confirmation of the existence, ownership, cost and appropriate presentation of assets and liabilities.

Required:

- a. State and briefly explain **FIVE** matters of importance in verification of assets. (5 Marks)
- b. Outline the audit programme for the verification of investments. (5 Marks)
- c. Explain **TWO** types of stocktaking. (2½ Marks)
- (Total 12½ Marks)

QUESTION 5

- a. Define “expectation gap” (2 Marks)
- b. State **THREE** examples of expectation gap (1½ Marks)
- c. List limitations of an audit. (4 Marks)
- d. State **FIVE** factors an Auditor should consider when determining the need to use the work of an Expert in the course of his audit. (5 Marks)
- (Total 12½ Marks)

QUESTION 6

- a. State **THREE** advantages of automated working papers. (4½ Marks)
- b. Explain the term “real – time system” (2 Marks)
- c. List the advantages of test data (2 Marks)
- d. List the disadvantages of audit software (4 Marks)
- (Total 12½ Marks)

SOLUTION TO QUESTIONS

MULTIPLE-CHOICE QUESTIONS

1. C
2. B
3. C
4. D
5. E
6. B
7. B
8. C
9. A
10. B
11. C
12. D
13. E
14. E
15. D
16. B
17. D
18. B
19. B
20. C
21. A
22. A
23. B
24. D
25. C
26. A
27. A
28. A
29. B
30. A

SHORT ANSWER QUESTIONS

1. Transcript
2. Analytical procedures
3. 90 days
4. Reliability and Relevance
5. Test data and Audit software
6. Audit evidence
7. Expert
8. Due process
9. Accountants' Disciplinary Tribunal
10. Uncertainty and Disagreement
11. Audit risk
12. Audit software
13. Client screening
14. Audit interrogation software
15. Audit planning
16. Enquiry
17. Qualified Audit Report
18. Peer review
19. Public Accounts Committee
20. Audit Completion Check List

ESSAY QUESTIONS

QUESTION 1

(a) Contents of Engagement Letter

- (i) Objective of the audit of the Financial Statements.
- (ii) Management's responsibility for the Financial Statement
- (iii) The scope of the audit with reference to appropriate legislation.
- (iv) The form of any report or other communication of the result of the engagement.
- (v) Provision of access to the Auditor of all relevant books and records.
- (vi) The Auditor may not discover all material errors.
- (vii) Arrangements for planning the audit.
- (viii) Agreement of Management to provide a representation letter.
- (ix) Request that the client confirms in writing the terms of engagement.
- (x) Description of any letters or reports to be issued to the client.
- (xi) Basis of fees calculation and billing arrangements.

(Any 5 points x 1 mark = 5 marks)

(b) Types of audit evidence.

i) **Inspection**

Examination of records or documents in whatever form e. g. manual, computerized, external or internal

ii) **Observation**

Looking at the process or procedures being carried out by others.

iii) **Inquiry**

Seeking information from knowledgeable persons, both financial and non-financial, either within or outside the entity being audited.

iv) **Confirmation**

The process of obtaining a representation of an existing condition from a third party e.g. a receivable letter.

v) **Recalculation**

Checking the mathematical accuracy of documents or records.

vi) **Reperformance**

This is the Auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control system.

vii) **Analytical Procedures**

Evaluation of financial information made by a study of plausible relationship among both financial and non-financial data.

Stating: $\frac{1}{2}$ mark x 5 = $2\frac{1}{2}$ marks

Explanation: 1 mark x 5 = 5 marks

(Total: $12\frac{1}{2}$ marks)

QUESTION 2

(a) The three main types of audit in the public sector are:-

- (i). Regulatory Audit
- (ii). Financial Audit and
- (iii). Value-for Money Audit.

(4½ marks)

(b) The main objectives of auditing the accounts of Ministries/Departments and Agencies are to ascertain whether:

- i) All receipts of money emanating from the operations of the period under review are collected and properly accounted for.
- ii) The accounting system in operation provides financial information that is reliable and free from material errors to facilitate the preparation of the accounting and financial statements required by law.
- iii) The activities and programmes are conducted and expenditures are made in an effective, efficient and economical manner and in compliance with the requirements of applicable laws and regulations.
- iv) The Ministry/Department or Agency under focus is carrying out only those activities or programmes authorized by the National Assembly and is conducting them in the manner contemplated to accomplish the intended objectives.
- v) The resources of the Ministry/Department or Agency including funds, property and personnel are adequately controlled and utilized in an effective, efficient and economical manner.
- vi) The accounting and financial statements presented to the prescribed authorities, that is, the Accountant-General, disclose properly the information required to various groups of both internal and external users.

(Any 4 points x 2 marks = 8 marks)

(Total: 12½ marks)

QUESTION 3

- (a) The three items an Auditor working papers should provide are:
- i) Information about the organization being audited, including its recent history.
 - ii) Evidence of work done in the course of the audit
 - iii) A means of controlling the current year's audit work and also a means of planning the subsequent year's audit.
 - iv) Schedules in support of the account audited and summaries of the client's books. (Any 3 point x 1½ = 4 ½ marks)

- (b) Reasons for preparing Audit Working Papers are:-

- i) To ensure that the audit work is conducted methodically and systematically. Without properly organized working papers, the auditor can rarely maintain a perfect grasp of the work he carries out. In which case, the audit cannot be carried out in an orderly manner.
- ii) To provide continuity in the case of audit staff leaving mid-way through the audit engagement. Without working papers, it will not be possible to know which aspect of the work have been completed, hence the audit may have to be re commenced from the start.
- iii) To enable an independent review of the audit work. The person who carries out the review of the audit work does not need to be present when the audit exercise is carried out. With the relevant working papers. He can carry out an effective review of the audit work.
- iv) To provide support for the audit opinion expressed. The opinion expressed by the Auditor in his report is based on the work he carried out and this can only be meaningful if documented on working papers.
- v) To confirm that all aspects of work have been completed. Working papers serve as effective checklist that all aspects of the work have been carried out.
- vi) May be used as evidence in the event of litigation against the Auditor. Working papers are valid documents which the Auditor may need to present as evidence of the work he has carried out.

(Any 4 points x 2 marks = 8 marks)

(Total: 12½ marks)

QUESTION 4

(a) Matters of importance in verification of assets.

- i) **Cost:** The auditor must ascertain what the client paid in acquiring or producing the asset. This must be supported by supplier's invoice and receipts; and the payment traced to the bank statement and cash book.
- ii) **Authorisation:** The auditor is concerned with the process of acquiring the asset. The acquisition must have passed through company's procedures for necessary approval and they must be supported by documents as evidence.
- iii) **Valuation:** The auditor must be satisfied that the assets appear in the Balance Sheet at a fair value which may be, of course, different from the original cost. He is also concerned that liabilities are fairly valued i.e. they are stated at amounts at which they are likely to materialize for settlement. Auditors therefore ensure that apart from the correct determination of cost, depreciation or any other fall in value of assets has been fully taken into account on an acceptable basis.
- iv) **Existence:** The auditor should rely on physical verification procedures, wherever practicable, to verify the existence of assets and liabilities. Such physical tests should be carried out on a random selection basis (if 100% inspection is not practicable).
- v) **Beneficial Ownership:** The auditor must conduct test to establish that the client is the beneficial owner of the assets existing and that the liabilities concerned are in fact required to be met by the client. In some instances, it is possible to verify ownership by reference to a document such as leases or deeds in relation to a property; in other case, however, it may be necessary to rely on corroborative evidence or the representations of outside parties.
- vi) **Presentation/Disclosure:** The auditors must verify that the items in the Balance Sheet are appropriately presented and recognition has been given to full disclosure.

(Any 5 points x 1 = 5 marks)

(b) Audit programme for investments verification

- i) Obtain or prepare analysis of investments and test clerical accuracy of the analysis
- ii) Obtain third party confirmation and or make physical inspection of securities listed on the analysis
- iii) Test interest and dividend incomes received and accrued by reference to supporting documents
- iv) Check for additional acquisitions and redemptions during the year
- v) Review the treatments of capital distributions, bonus and rights issue
- vi) Verify quoted prices for listed investments at balance sheet date
- vii) Determine whether unlisted investments at balance sheet date are appropriately valued
- viii) Check whether investments are properly described and classified as current assets or long term investments

(Any 5 points x 1 = 5 marks)

(c) The following are the types of stock taking:

- i) **Full count stocktaking** - Verification of all stock at the year-end or at a selected date before or shortly after the year end, or by means of a count of part of the stocks in which case it may be possible to extrapolate the total statistically. (1 mark)
- ii) **Continuous stock-checking** - As the name implies, verification of stock is done on a continuous basis throughout the year. Some business enterprise use continuous stock-checking methods for certain stocks and carry out a full count of other stocks at a selected date. (1½ marks)

(Total: 12½ marks)

QUESTION 5

(a) Expectation Gap:

Some users of audit reports incorrectly believe that an audit provides absolute assurance that the audit opinion is a guarantee that the financial statements are correct. This and other misconceptions about the role of an Auditor are referred to as the Expectation Gap.

(2 marks)

(b) Examples of Expectation Gap are:-

- i) A belief that Auditors test all transactions and balances. Auditor's test on a sample basis.
- ii) A belief that Auditors are required to detect all frauds. Auditors are required to provide reasonable assurance that the financial statements are free from material misstatements, which may be caused by fraud.
- iii) A belief that Auditors are responsible for preparing the financial statements. This is the responsibility of the Management.

(1½ marks)

(c) Limitations of an audit are:-

- i) Financial Statement includes subjective estimates and other judgmental matters.
- ii) Internal Controls which have their own inherent limitations may be relied on.
- iii) Representations from management may have to be relied upon as the only source of evidence in some areas.
- iv) Evidence is often persuasive, not conclusive.
- v) Auditors do not test all transactions and balances. They only test on sample basis.

(Any 4 points x 1 mark = 4 marks)

(d) When determining the need to use the work of an Expert in the course of his audit, the Auditor should consider the following factors:-

- i) The materiality to the items being examined in relation to the financial statements.
- ii) The nature and complexity of the items including the risk.

- iii) Whether there are alternative sources of audit evidence.
- iv) Whether the work or report of the Expert is readily available.
- v) The cost and time involved in obtaining evidence from the Expert balanced against the benefit of obtaining evidence from this source.
- vi) The reputation, qualification, competence and objectivity of the particular Expert concerned.

(Any 5 points x 1 mark = 5 marks)

(Total: 12½ marks)

QUESTION 6

(a) The advantages of automated working papers are as follows:

- i) The risk of errors is reduced.
- ii) The working papers will be neater and easier to review.
- iii) The time saved will be substantial as adjustments can be made easily to all working papers, including working papers summarizing the key analytical information.
- iv) Standard forms do not have to be carried to audit locations. Forms can be designed to be called up and completed on the computer screen.

(Any 3 points x 1½ marks = 4½ marks)

(b) Real time systems are a further development of on-line systems and permit immediate updating of computer held files. The data input and file update phases are therefore merged and the system accepts individual transactions rather than batches of data.

Real-time systems, which are often referred to as one-write systems, are the computerized equivalent of bookkeeping systems. In those systems, several accounting records are prepared simultaneously by the use of carbon paper between specially aligned sheets of paper, the bottom sheet being, say, a sales day book, followed by the customer's account, then the customer's statement.

(2 marks)

(c) Advantages of Test Data:

- i) Enables the Auditor to test programmed controls which would not otherwise be able to be tested.
- ii) Once designed, costs incurred will be minimal unless the programmed controls are changed, requiring the test to be redesigned

(2 marks)

(d) Disadvantages of Audit Software:

- i) Audit software specific to one client can be expensive to set up.
- ii) Training of audit staff will be required incurring additional cost.
- iii) The audit software may slow down or corrupt the client's system.
- iv) If errors are made in the design of the software, issues may go undetected by the Auditor.

(Any 2 points x 2 marks = 4 marks)

(Total: 12½ marks)