ALL QUESTIONS ARE COMPULSORY

Question 1

1-The ACCA *Code of Ethics and Conduct* requires that an external auditor implement appropriate safeguards to ensure that a conflict of interest is properly managed.
Which of the following actions should?
(1) Inform the audit committees of both entities of the potential conflict of interest and obtain their consent to act for both parties.
(2) Use separate audit teams for each audit with a common independent review partner to determine whether confidentiality has been maintained.
(3) Draw up confidentiality agreements to be signed by the Board of Directors of both parties.
(4) Prevent unauthorized physical access to the information relating to the both company audits.

A 1, 3 and 4
B 1 and 4 only
C 1, 2 and 4
D 1, 2 and 3

2- Which of the following statements correctly describe the auditor's responsibility in respect to misstatements?

A ISA 450 *Evaluation of misstatements identified during the audit* states that the auditor only has a responsibility to accumulate material misstatements identified during the audit.
B Where misstatements are not material the auditor should request that management to correct the misstatements in the following accounting period.
C If management refuses to correct some or all of the misstatements, the auditor should consider the implications of this for their audit opinion.
D A written representation should be requested from management to confirm whether they believe that the effects of the unadjusted misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

3-Which of the following audit procedures would identify subsequent events occurring up to the date of the auditor's report?
(1) Enquire of management whether there have been any unusual accounting adjustments.
(2) Enquire of management whether there have been any issues of shares/debentures, or changes in business structure.
(3) Review management procedures for identifying subsequent events to ensure that such events are identified.
(4) Obtain written representation that all subsequent events requiring adjustment or disclosure have been adjusted or disclosed.

A 1 only
B 2 only
C 1, 3 and 4
D 1, 2, 3 and 4

4- Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?

(1) Ensure disposals are correctly accounted for and recalculate gain/loss on disposal.

(2) Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with IAS 16 Property, Plant and Equipment.

(3) Review the repairs and maintenance expense accounts for evidence of items of a capital nature.

(4) Review board minutes for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register.

- **A** 1 and 2
- **B** 1, 3 and 4
- **C** 2, 3 and 4
- **D** 2 and 3 only

5- Which of the following assertions are relevant to the audit of tangible non-current assets?

(1) Existence.

(2) Occurrence.

(3) Classification.

(4) Presentation.

- **A** 1 only
- **B** 1, 3 and 4
- **C** 2, 3 and 4
- **D** 1, 2, 3 and 4

6- Which of the following is a DISADVANTAGE of recording accounting and control systems using internal control questionnaires?

- **A.** They may contain a large number of irrelevant controls.
- **B.** It can be difficult to identify missing controls.
- **C.** They are time consuming to complete.

7 – The internal control system contain of

- **A.** Environmental control
- **B.** Control procedures
- **C.** Both of them

8 - Which TWO of the following should be included in an audit engagement letter?

(1) Objective and scope of the audit.

(2) Results of previous audits.

(3) Management’s responsibilities.

(4) Need to maintain professional skepticism.

- **A** 1 and 3
- **B** 2 and 3
- **C** 2 and 4
- **D** 4 and 3

9- Which of the following is not included in the agreement obtained by the auditor?

A. Management's responsibility for preparing the financial statements.

B. Management's responsibility for internal control to enable the preparation of financial statements which are free from material misstatement.

C. Management's responsibility to provide the auditor with all information relevant to the preparation of the financial statements.

D. Management's responsibility to prevent and detect fraud.

10- Which of the following must be included in the audit engagement letter?

A. Arrangements concerning the use of experts such as inventory counter.
B. Obligations to make audit working papers available to other parties.
C. Expected form and content of any reports.
D. Basis on which fees are computed.

(TOTAL 20 MARKS 2 MARKS EACH)

Q2

SUN SHINE Company is a specialized company in the manufacture of fabrics and readymade garments. Depends on the work system with three shifts eight hours each. The company employs workers and machine technicians. All workers and technicians are paid by the weekly salary system, which depends on the number of hours produced. You are the auditor responsible for the review of sun shine company The CFO of SUN SHINE company told you that there is a problem in calculating the salaries of workers and technicians. Electronic machine screens and the number of hours paid in the payroll are not matching.

Required:

1- Define a 'test of control' and provide an example of a test of control in relation to the audit of wages and salaries.

(10 marks)

2- Define a 'substantive procedure' and provide an example of a substantive procedure in relation to the audit of wages and salaries.

(10 marks)

(TOTAL 20 MARKS)

Q3

International Standard on Auditing (ISA) 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

This ISA has been revised to conform to the enhanced auditor reporting requirements in ISA 700 (Revised), forming an Opinion and Reporting on Financial Statements. Changes to this ISA relate primarily to how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. ISA 705 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016.

Required:

A. Define the scope of standard 705 revised. **(5 marks)**

B. Give an example of exception paragraph. **(5 marks)**

C. State the objective of standard 705 revised. **(10 marks)**

Q4

ISA 510 Initial Audit Engagements – Opening Balances requires auditors to undertake additional audit procedures for confirming opening balances for new audit engagements. In addition, the ISA gives guidance on audit report implications if auditors are unable to confirm opening balances or if they contain misstatements.

Required:

(a) Describe procedures the auditor should undertake to confirm opening balances for a new audit engagement, and.

(10 marks)

(b) Explain the impact on the audit report if the auditor is unable to confirm the opening balances, or if the Opening balances contain misstatements.

(10 marks)

(TOTAL 20 MARKS)

Q5

Explain the auditors' responsibility and the audit procedures and actions that should be carried out in according to ISA 560 Subsequent Events?

(10 Marks (

<u>Q6</u>

ISA 210 Agreeing the Terms of Audit Engagements requires auditors to agree the terms of an engagement with those charged with governance and formalize these in an engagement letter.

<u>Required:</u>

(a) Identify and explain TWO factors which would indicate that an engagement letter for an existing audit client should be revised.

(4 marks)

(b) List SIX matters which should be included within an audit engagement letter.

(6 marks)

(10 Marks (

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Q 1

D. **B**
E. **D**
F. **D**
G. **A**
H. **B**
I. **A**
J. **C**
K. **A**
L. **D**
M. **C**

Q2

(a) Opening balances
An auditor is required to obtain sufficient appropriate evidence as to whether the opening balances contain misstatements which may materially impact the current year financial statements and whether accounting policies are consistently applied.
(i) The auditor should perform the following procedures:
– Review the most recent financial statements, if any, and the prior year auditor's report, if any, for information relevant to opening balances, including disclosures.
– The auditor shall agree the opening balances to the prior year's financial statement closing balances to confirm whether they have been correctly brought forward to the current year.
– They should determine whether the opening balances reflect the application of appropriate accounting policies.
– They should consider reviewing the prior auditor's working papers to obtain evidence regarding opening balances.
– If this is not possible, then they should consider whether procedures performed in the current period provide evidence over the opening balances.
– In exceptional cases the auditor may need to perform specific audit procedures to obtain evidence regarding the opening balances.
(ii) Impact on the audit report
If the auditor is unable to confirm the opening balances, they will be required to express a qualified or disclaimer opinion as they are unable to obtain sufficient evidence.
If the opening balances contain misstatements and they may materially impact the current financial statements, the auditor should express a qualified or adverse opinion.

b- **Requirements**

Reading Other Information
6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.
7. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable. (Ref: Para. A5)
Material Inconsistencies
8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.
Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report
9. If revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705.[2]
10. If revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance, unless all of those charged with governance are involved in managing the entity;[3] and
(a) Include in the auditor's report an Other Matter paragraph describing the material inconsistency in accordance with ISA 706;[4]
(b) Withhold the auditor's report; or
(c) Withdraw from the engagement, where withdrawal is possible under applicable law or regulation

Q3

Scope of this ISA
1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700,[1] the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

Effective Date
3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:
(a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Q4 Opening balances
An auditor is required to obtain sufficient and appropriate evidence as to whether opening balances contain errors

Which may materially affect the financial statements for the current year and whether accounting policies are applied consistently.
The auditor should perform the following actions:
- Review the latest financial statements, if any, and the auditor's report for the previous year, if any, for information*wages and salaries tests/procedures.*

Impact on audit report
If the auditor is unable to confirm the opening balances, they will be asked to express a reservation or a disclaimer
They are also unable to obtain sufficient evidence.
If the opening balances contain errors, they may materially affect the current financial statements, and
References that express a reserved or harmful opinion.

Q5

SUBSEQUENT EVENTS

ISA 560

Requirements

Reading minutes, if any, of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)

Reading the entity's latest subsequent interim financial statements, if any. If, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

Written Representations

The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with ISA

That all events occurring subsequent to the date of the financial statements and for which the applic able financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Definitions
For purposes of the ISAs, the following terms have the meanings attributed below:
(a) Date of the financial statements – The date of the end of the latest period covered by the financial statements.
(b) Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.
(Ref: Para. A2)
(c) Date of the auditor's report – The date the auditor dates the report on the financial statements in accordance with ISA 700. (Ref: Para. A3)

(d) Date the financial statements are issued – The date that the auditor's report and audited financial statements are made available to third parties. (Ref: Para. A4–A5)
(e) Subsequent events – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Also the auditor should insure that the company comply with IAS 10 and the main requirement of it is as follows;
Summary of IAS 10

Key definitions

Event after the reporting period: An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue. [IAS 10.3]

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. [IAS 10.3]

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period. [IAS 10.3]

Accounting

a- Adjust financial statements for adjusting events - events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. [IAS 10.8]

b- Do not adjust for non-adjusting events - events or conditions that arose after the end of the reporting period. [IAS 10.10]

c- If an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. That is a non-adjusting event. [IAS 10.12]

Going concern issues arising after end of the reporting period

An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. [IAS 10.14]

Disclosure

Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. The required disclosure is (a) the nature of the event and (b) an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made. [IAS 10.21]

A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions. [IAS 10.19]

Companies must disclose the date when the financial statements were authorized for issue and who gave that authorization. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact. [IAS 10.17]

Q6

Engagement letters
Engagement letters for recurring/existing clients should be revised if any of the following factors are present:
– Any indication that the entity misunderstands the objective and scope of the audit, as this misunderstanding would need
to be clarified.
– Any revised or special terms of the audit engagement, as these would require inclusion in the engagement letter.
– A recent change of senior management or significant change in ownership. The letter is signed by a director on behalf
of those charged with governance; if there have been significant changes in management they need to be made aware
of what the audit engagement letter includes

A significant change in nature or size of the entity's business. The approach taken by the auditor may need to change

to reflect the change in the entity and this should be clarified in the engagement letter.

– A change in legal or regulatory requirements. The engagement letter is a contract; hence if legal or regulatory changes

occur, then the contract could be out of date.

– A change in the financial reporting framework adopted in the preparation of the financial statements. The engagement

letter clarifies the role of auditors and those charged with governance, it identifies the reporting framework of the financial

statements and if this changes, then the letter requires updating.

– A change in other reporting requirements. Other reporting requirements may be stipulated in the engagement letter;

hence if these change, the letter should be updated.

(b) Matters to be included in an audit engagement letter

– The objective and scope of the audit;

– The responsibilities of the auditor;

– The responsibilities of management;

– Identification of the financial reporting framework for the preparation of the financial statements;

– Expected form and content of any reports to be issued;

– Elaboration of the scope of the audit with reference to legislation;

– The form of any other communication of results of the audit engagement;

– The fact that some material misstatements may not be detected;

– Arrangements regarding the planning and performance of the audit, including the composition of the audit team;

– The expectation that management will provide written representations;

– The basis on which fees are computed and any billing arrangements;

– A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the

engagement;

– Arrangements concerning the involvement of internal auditors and other staff of the entity;

– Any obligations to provide audit working papers to other parties;

– Any restriction on the auditor's liability;

– Arrangements to make available draft financial statements and any other information;

– Arrangements to inform the auditor of facts which might affect the financial statements, of which management may

become aware during the period from the date of the auditor's report to the date the financial statements are issued.