Course Code: ACC411	**Credit Units: 3**
Course Title: AUDITING II	
Time Allowed: 2 ½ Hrs	

Instructions:

1. Attempt question number one (1) and any other three (3).
2. Question number 1 is compulsory and carries 25 marks while the others carry 15 marks each.
3. Present all your points in coherent and orderly manner.

QUESTION 1

1. An Audit firm should establish a quality control system that is designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

1a) The following are elements of good quality control in a firm of Chartered Accountants:
 i. Independence
 ii. Personnel management
iii. Monitoring
iv. Leadership responsibilities
v. Documentation

Required: Discuss in details each of these elements. **(10 marks)**

1b. Material misstatements may arise from irregularities including fraud. In assessing the risk of material irregularity, the auditor may wish to consider
   i.   The Business Environment
   ii.   The Control Environment

Explain in details these key issues **(10 marks)**

1c. What are the areas that an auditor's judgment is required concerning the procedures adopted by the auditor for the purpose of detecting material errors and misstatements/irregularities during an audit. **(5 marks)**

QUESTION 2

    a) What are the reasons why controls must be placed over auditor's computer systems?

        (5 marks)

    b) An old auditor may not be re-appointed after his tenure for several reasons. What are the factors/reasons that can result to the change of an auditor by an organization? **(5 marks)**

    c) Explain the reasons for the regulation of audit and assurance services.   **(5 marks)**

QUESTION 3

Clarity & Co., a firm of Chartered Accountants, has recently obtained a new audit client, Doxan Ltd, whose year end is 31st December. Doxan Ltd requires its audit to be completed by the end of February; however, this is a very busy time for Clarity & Co and so it intends to use more junior staff as they are available. Additionally, in order to save time and cost, Clarity & Co has not contacted Doxan Ltd previous auditors.

Required:

a. Describe the steps that Clarity & Co. should take concerning Doxan Ltd with respect to:

i. Client Identification   **(5 marks)**

ii. Pre-acceptance condition   **(5 marks)**

b. An audit engagement letter is a contract document which defines the terms and scope of the audit engagement. It is usually written by the auditor and sent to the client for confirmation and accent. Explain the reasons for preparing this document.   **(5 marks)**

QUESTION 4

In order to achieve the overall audit objective which is to obtain assurance that financial statements are free from material misstatements. It requires that the auditor needs to plan and perform the audit with **professional scepticism** and apply **professional judgment**, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Explain in details the following:

    a) Professional skepticism   **(7.5 marks)**

    b) Professional judgment   **(7.5 marks)**

QUESTION 5

    a) Explain the going concern assumption   **(2 marks)**

    b) What are the responsibilities of the auditor with respect to Going concern **(3 marks)**

    c) Explain 5 financial and 5 operational factors that could cast significant doubt in the mind of the auditor about the going concern assumption.   **(10 marks)**

QUESTION 6

    a) Briefly explain the Summary of matters to be expressly stated in the auditor's report.

        (7 marks)

    b) In an auditor's report on financial statements an unqualified opinion is issued when the auditor is satisfied in all material respects. Explain 4 areas in the preparation and presentation of the financial statement that the auditor should be satisfied? **(8 marks)**