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ATD LEVEL III

AUDITING

TUESDAY: 27 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Explain four factors that the board of directors of a company should consider when assessing the need for internal audit. (8 marks)
 - (b) State four non-audit services provided to audit clients. (4 marks)
 - (c) Discuss four procedures for obtaining audit evidence. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) In documenting an internal control system in an organisation, flowcharts could be deployed.
 - (i) In relation to the above statement, define the term “flowchart”. (1 mark)
 - (ii) Argue four cases for and three cases against use of flowcharts in documenting a client’s internal control system. (7 marks)
 - (b) In relation to computerised auditing, differentiate between “parallel simulation” and “program-code analysis”. (4 marks)
 - (c) Distinguish between “error” and “fraud” in auditing. (4 marks)
 - (d) Itemise four conditions that should be met in order to hold the auditor legally liable for negligence in his work. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain four advantages of automated working papers. (4 marks)
 - (b) As an audit assistant engaged in the audit of Zed Ltd., you are considering the use of debtors circularisation to obtain evidence on the company’s trade debtors balances.

Required:

 - (i) Summarise four objectives for carrying out debtors circularisation. (4 marks)
 - (ii) Examine three possible reasons why the client’s customer might disagree with balances stated by the company. (6 marks)
 - (iii) Discuss three alternative procedures you would carry out under circumstances where you are unable to get confirmations from individual debtors. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Audit risk is the risk that the auditor will reach an invalid opinion or conclusion from his audit work.

With reference to the above statement, examine four benefits of audit risk assessment.

(8 marks)

(b) The auditor's report is the end product of any audit assignment.

With reference to the above statement, discuss six elements of the auditor's report.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Inherent risk has been defined as the susceptibility of an assertion to a misstatement that could be material individually or when aggregated with other misstatements assuming that there were no related internal controls.

To assess inherent risk, the auditors use their experience of the entity from previous audits together with professional judgement to evaluate numerous factors.

With reference to the above statement, identify:

(i) Three such factors at the financial statements level.

(6 marks)

(ii) Three such factors at the account balance and class of transactions level.

(6 marks)

(b) Detailed audit work on inventories is imperative in an audit. However, there are other analytical review procedures that are equally important in the audit of inventories.

Required:

Highlight four such analytical review procedures.

(8 marks)

(Total: 20 marks)

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