



**kasneb**

**ATD LEVEL III**

**AUDITING**

**TUESDAY: 24 November 2020.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

- (a) “Any internal control system can only provide the directors of an entity with a reasonable assurance that their objectives are achieved, because of the inherent limitations”.

**Required:**

With reference to the above statement:

- (i) Examine four objectives of setting up an internal control system in an entity. (4 marks)
- (ii) Analyse four inherent limitations of an internal control system. (4 marks)
- (b) In relation to the audit of computer based systems:
- (i) Explain the term “electronic data interchange (EDI) system”. (2 marks)
- (ii) Propose three challenges an EDI system may pose to an auditor. (6 marks)
- (c) In the context of the auditor’s report, examine four circumstances that give rise to disagreement(s). (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) XYZ Accountants have been your external auditors for the past two years. In preparation of the current financial year audit, they have provided for both interim and final audit in their engagement letter.

**Required:**

Analyse six main audit procedures to be undertaken during:

- (i) Interim audit. (6 marks)
- (ii) Final audit. (6 marks)
- (b) Discuss three advantages and three disadvantages of outsourcing the internal audit function. (6 marks)
- (c) Define the term “expectation gap” as used in auditing. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) In the context of errors and fraud:

- (i) Explain the term “teeming and lading”. (2 marks)
- (ii) Highlight five techniques which could be used by an organisation to minimise occurrence of errors. (5 marks)



- (b) Differentiate between the following terms as used in auditing:
    - (i) "Vouching" and "Verification". (4 marks)
    - (ii) "Representation letter" and "engagement letter". (4 marks)
  - (c) List five statutory books which would be of interest to the auditor. (5 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Analyse three types of modified audit opinions. (6 marks)
  - (b) The financial year of Bits Computers Ltd. ends on 30 April. The proprietor who is not a competent accountant has prepared a bank reconciliation as at 30 April 2020. To determine its accuracy, your assistant should review the bank reconciliation.  
**Required:**  
Describe the audit procedures to be followed by the assistant in verifying the bank reconciliation in sufficient detail. (10 marks)
  - (c) (i) Distinguish between "auditing around the computer" and "auditing through the computer". (2 marks)  
(ii) Explain two circumstances when it would be inappropriate for the auditor to rely on auditing around the computer. (2 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss five reasons why it is necessary for the auditors to observe the professional ethics when carrying out the audit work for their clients. (10 marks)
  - (b) Examine five ways the auditors obtain knowledge about the clients business to help them in planning for audit. (5 marks)
  - (c) Summarise five key issues the auditor might consider when evaluating the reliability of audit evidence gathered in the course of audit. (5 marks)
- (Total: 20 marks)**