



**ATD LEVEL III**  
**AUDITING**

**TUESDAY: 22 May 2018.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

- (a) Describe five general responsibilities of the engagement team involved in conducting the audit of a client company. (10 marks)
- (b) Explain five factors that should be taken into consideration by an auditor when setting the sample size for tests of control. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) The auditor must prepare an audit plan that involves the timing of the work to be done.
- With reference to the above statement, highlight five factors that determine the timing of a particular audit. (5 marks)
- (b) Summarise seven matters that an auditor is required to include in his audit report by the Company's Act. (7 marks)
- (c) An auditor must be tactful and honest and should not certify what he does not believe to be true.
- Required:**  
Describe three situations where the above principle is applied when auditing a client. (3 marks)
- (d) Highlight five duties of an auditor with regard to verification of the disposal of a fixed asset reflected in the books of a client. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Summarise six benefits that could accrue to an audit firm as a result of automating their audit procedures. (6 marks)
- (b) Propose five ways an entity could prevent or minimise accounting errors. (5 marks)
- (c) Discuss three components of audit risk. (9 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Argue three cases for and three cases against outsourcing the internal audit function. (6 marks)
- (b) Baraka Enterprises manufactures a fast moving product branded 'EXEL'. Due to the high volume of inventory and customers, the business maintains a continuous inventory checking system.
- Required:**
- (i) Highlight four advantages of using a continuous inventory checking system. (4 marks)
- (ii) Describe five audit procedures to be performed by the external auditor to confirm the accuracy of the continuous inventory checking system. (5 marks)

- (c) Juhudi Hardware Ltd. sells construction materials to its clients both on cash and credit basis. As the external auditor during an interim audit in the month of April 2018, you are assigned to review the company's bank reconciliation for the month of March 2018.

**Required:**

Outline five audit procedures you would deploy to verify bank reconciliation.

(5 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain four factors to be considered when assessing whether to place reliance on internal audit work. (8 marks)
- (b) Your audit firm has been appointed the external auditors for XYZ Ltd. The senior partner is in the process of compiling a team of auditors to gather audit evidence from your new client.

**Required:**

Advise on six methods of gathering audit evidence that the audit team could deploy during the exercise. (12 marks)

**(Total: 20 marks)**

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