

---

---

**CERTIFIED ACCOUNTING TECHNICIAN****LEVEL 2 EXAMINATION****L 2.5 : AUDITING****WEDNESDAY: 11 JUNE 2014**

---

---

**INSTRUCTIONS:**

- 1. Time Allowed : 3 hours 15 minutes (15 minutes reading and 3 hours writing).**
- 2. This examination has seven questions and only five questions are to be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**
- 4. Show all your workings**

## QUESTION ONE

Complex Food Processing Ltd deals in wholesale type of business and offers excellent service to all its customers. Currently it is committed in searching for new potential clients all over the country.

As part of its planning process you have been appointed as an auditor and have been requested to prepare an overall audit strategy, with one of its principal sections being an overview of the complex food processing business and the industry in which it is operating.

### Required :

- Describe **three main benefits** of planning an audit. **(6 Marks)**
- Explain the main responsibilities of the existing auditor and the newly appointed auditor when a company is changing auditors. **(4 Marks)**
- Identify the factors an auditor considers before accepting an appointment as the auditor of a company. **(4 Marks)**
- An auditor needs a complete understanding of the client's business and the industry in which the company operates. Explain three reasons why an auditor may need an understanding of the business and the industry for which the company operates. **(6 Marks)**

**(Total 20 Marks)**

## QUESTION TWO

You are the audit manager in the firm Bright & Big Company, an audit firm with ten national offices. One of your clients, Rocks Forever, purchases diamond jewellery from three manufacturers. The jewellery is then sold from Rocks Forever's four shops. This is the only client your firm has in the diamond industry.

You are planning to attend the physical inventory count for Rocks Forever. Inventory is the largest account on the statement of financial position with each of the four shops holding material amounts. Due to the high value of the inventory, all shops will be visited and test counts performed. With the permission of the directors of Rocks Forever, you have employed Discover Ltd, a firm of specialist diamond valuers who will also be in attendance. Discover Ltd will verify that the jewellery is, in fact, made from diamonds and that the jewellery is saleable with respect to current trends in fashion. Discover Ltd will also suggest, on a sample basis, the value of specific items of jewellery. Counting will be carried out by shop staff in teams of two using pre-numbered count sheets.

### Required :

- List and explain the reason for the audit procedures used in obtaining evidence in relation to the inventory count of inventory held in the shops. **(10 Marks)**
- Explain the factors you should consider when placing reliance on the work of Discover Ltd. **(5 Marks)**
- Describe the audit procedures you should perform to ensure that jewellery inventory is valued correctly. **(5 Marks)**

**(Total 20 Marks)**

### QUESTION THREE

The director of one of your growing clients has decided to create an internal audit function in their organizational structure.

**Required:**

- a) List and briefly describe the duties you would expect the internal audit staff to perform. (5 Marks)
- b) Explain to him why the independence of an auditor is important (5 Marks)
- c) List and explain the five main categories of threats to an auditor's independence. (10 Marks)

**(Total 20 Marks)**

### QUESTION FOUR

ISA 315 (Redrafted) "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*" requires auditors to obtain an understanding of the entity and its environment, including its internal control.

**Required :**

- a) What is the importance of segregation of duties as a control procedure? (6 Marks)
- b) In carrying out an audit, the auditor appraises the tests and the system of internal control in order to ascertain that it is capable of processing transactions or determining the quantities and values completely and accurately. The auditor further carries out substantive tests in an attempt to ensure that the transactions, assets and liabilities recorded in the accounting records upon which the figures in the financial statements are based, are completely and accurately recorded.

**Required**

List and briefly explain the substantive tests the auditor would carry out to verify the values attributed to:

- (i) Trade Debtors in a company's financial statements. (5 Marks)
- (ii) Trade Creditors in a company's financial statements. (5 Marks)
- c) Highlight the audit objectives of reviewing subsequent events. (4 Marks)

**(Total 20 Marks)**

### QUESTION FIVE

- a) "ISA 700 *forming an audit opinion and reporting on financial statements*" indicates the basic elements that will ordinarily be included in the audit report.

**Required :**

List the basic elements of an auditor's report. Briefly explain why each element is included in the report. (9 Marks)

- b) "ISA 705 *modifications to the opinion in the independent auditors' report*" sets out the different types of modified opinions.

**Required :**

State three ways in which an auditor’s opinion may be modified and briefly explain each modification.

**(6 Marks)**

- c) ISA 570 going concern provides guidance to auditors in respect of ensuring that an entity can continue as a going concern.

**Required:**

Explain the actions that an auditor should carry out to ascertain whether an entity is a going concern.

**(5 Marks)**

**(Total 20 Marks)**

**QUESTION SIX**

“Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristics of the items selected in order to form or assist in forming the population from which the sample is drawn”

- a) **State factors that influence the sample size used by an auditor.** **(6 Marks)**

- b) Describe the various procedures of obtaining audit evidence giving an example of each by way of illustration. **(10 Marks)**

- c) **State benefits of documenting audit work.** **(4 Marks)**

**(Total: 20 Marks)**

**QUESTION SEVEN**

- (a) Outline **four** roles of International Standards on auditing. **(4 Marks)**

- (b) Explain two distinctions between the respective responsibilities of external auditors and those of client’s management with respect to internal control systems. **(8 Marks)**

- (c) The purpose of ISA 620, *using the Work of an Expert*, is to establish standards and provide guidance on the work of an expert as audit evidence. In the context of this standard:

- (i) Define an expert. **(2 Marks)**

- (ii) Explain three factors one takes into consideration when evaluating the work of an expert.

**(6 Marks)**

**(Total: 20 Marks)**

---

**End of question paper**