

AUDITING

QUESTION ONE

You have received a request from XYZ Ltd. to accept an appointment as their auditor for the financial year ending 31 December 2001.

Required:

- a) Explain the preliminary procedures you would carry out upon your appointment. (7marks) E
- b) List the rights and duties of an independent auditor. (6 marks)
- c) What are the specific needs of the potential users of audited financial statements? (7 marks)

The auditor's operational standard states, "The auditor should obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions thereon".

Required:

- a) What factors would influence the judgment of the auditor with regard to sufficiency of audit evidence? (10 marks)

QUESTION TWO

You have been appointed the auditor of United Millers Company Limited, a medium manufacturing company which is quoted on the stock exchange.

Required:

- a) List the important matters which must be included in the letter of engagement. (14 marks)
- b) Explain the purpose of such a letter. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- a) Explain the meaning of the 'audit evidence'. (4 marks)
- b) Explain the following terms in relation to audit evidence:
- i. Relevance. (2 marks)
 - ii. Reliability. (2 marks)
 - iii. Sufficiency. (2 marks)
- c) Describe the various procedures of obtaining audit evidence giving an example of each by way of illustration. (10 marks)

(Total: 20 marks)

Question four

- a) Write briefly explanatory notes on the following types of audit:
- i. Statutory audit; (2 marks)
 - ii. Private audit; (2 marks)
 - iii. Balance sheet audit; (2 marks)
 - iv. Management audit; (2 marks)
- b) Explain the value derived from the work of external auditors. (5 marks)
- c) Outline the statutory provisions with regard to duties of external auditors. (7 marks)
- (Total: 20 marks)**

QUESTION FIVE

You have been asked by your firm to examine the payment vouchers of a company to establish the level of errors and then decide whether better results can be obtained through statistical techniques.

Required:

- a) State the steps you would take in order to test the vouchers for the errors. (12 marks)
 - b) Why is it not satisfactory to pick vouchers from a limited period? (4 marks)
 - c) State under what circumstances statistical sampling is a good technique. (4 marks)
- (Total: 20 marks)**