



CERTIFIED PUBLIC ACCOUNTANT LEVEL 2 EXAMINATIONS L2.5: AUDITING

THURSDAY: 4 DECEMBER 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

- (a) Briefly explain the meaning of the term "audit" (4 Marks)
- (b) Distinguish between a "statutory audit" and a "private audit." (6 Marks)
- (c) List and briefly explain at least three advantages that would accrue to a business entity as a result of having its books audited. (5 Marks)
- (d) Identify the principal responsibilities of the directors of the company with regard to the company's financial statements. (5 Marks)

(Total: 20 marks)

QUESTION TWO

- (a) Write brief notes on the following:
- (i) Tests of control. (2 Marks)
- (ii) Control risk. (3 Marks)
- (b) Identify five examples of each of the following types of controls:
 - (i) Authorization controls. (5 Marks)
 - (ii) Recording controls. (5 Marks)
 - (iii) Custody controls. (5 Marks)

(Total: 20 Marks)

QUESTION THREE

- (a) The preparation of financial statements is the responsibility of a company's directors.

 List and explain at least seven assertions made by the directors of a company pertaining to the accounts payable appearing in the balance sheet. (7 Marks)
- (b) Audit evidence refers to any information used by the auditor to enable him arrive at a reasonable conclusion necessary for his audit opinion.
- (i) List five factors that influence the auditor's judgement on the sufficiency of audit evidence.

(5 Marks)

- (ii) Identify at least five presumptions used by an auditor in assessing the reliability of audit evidence. (5 Marks)
- (iii) Highlight at least three auditor's limitations in the collection of audit evidence. (3 Marks)

(Total 20 Marks)

QUESTION FOUR

- a) In order to conduct an audit effectively and efficiently, an auditor should properly plan for the assignment:
 - i) Explain at least four matters that an auditor should take into account at the planning stage of an audit exercise. (8 Marks)

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- ii) Outline at least four ways in which an auditor acquires knowledge about the client's business and industry. (4 Marks)
- b) The final stage of an audit includes an overall review of the financial statements. Explain at least four procedures that the auditor should adopt for the final review. (4 Marks)
- c) Highlight at least four qualities required of the final accounts prepared by a client company. (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

- (a) Outline five tasks an external auditor is required to undertake prior to accepting the appointment as an auditor of a new client. (5 Marks)
- (b) State three situations where an auditor may commit a criminal offence under the Companies Act.

(3 Marks)

- (c) Explain how the auditor is remunerated under the Companies Act. (8 Marks)
- (d) Explain two reasons why an auditor of a company may resign. (4 Marks)

(Total: 20 Marks)

QUESTION SIX

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. In most cases therefore, auditors are not expected to carry out a 100% check on clients' records and transactions. Rather, they adopt a sampling approach in the conduct of their audit work.

Required:

- (a) Briefly explain the following terms:
 - (i) Sampling risk. (3 Marks)
 - (ii) Tolerable error. (3 Marks)
- (b) Identify four situations in which a sampling approach would not be appropriate. (4 Marks)
- (c) List and briefly explain five circumstances in which audit sampling would be considered appropriate.

 (10 Marks)

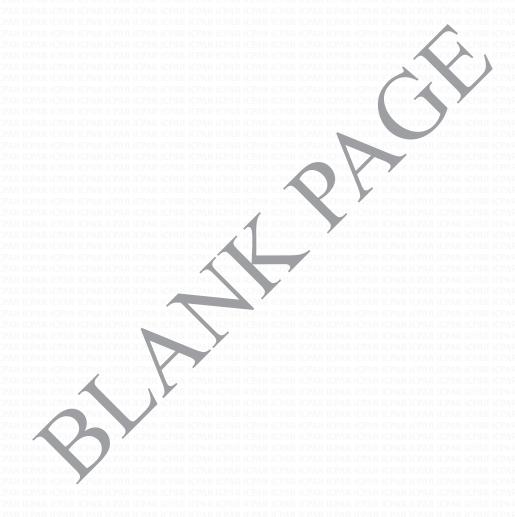
(Total: 20 Marks)

OUESTION SEVEN

In the context of ISA 240 (The Auditor's Responsibility to Consider Fraud and Error in, an Audit of Financial Statements):

- (a) Define:
 - (i) Fraud (3 Marks)
 - (ii) Error (3 Marks)
- (b) Outline the respective responsibilities of an entity's management and the external auditor with respect to the prevention and detection of fraud and error. (8 Marks)
- (c) Outline three procedures an external auditor should follow if he suspects that fraud or error have been perpetrated. (6 Marks)

(Total: 20 Marks)



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