
CERTIFIED ACCOUNTING TECHNICIAN LEVEL 2 EXAMINATIONS

L2.5: AUDITING

FRIDAY: 14 JUNE 2013

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- 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 the 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 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 the 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 the factors that influence the auditor’s judgement on the sufficiency of audit evidence. (5 marks)
 - (ii) Identify the presumptions used by an auditor in assessing the reliability of audit evidence. (5 marks)
 - (iii) Highlight the 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 the matters that an auditor should take into account at the planning stage of an audit exercise (8 marks)
 - ii) Outline the 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 the procedures that the auditor should adopt for the final review. **(4 marks)**
- c) Highlight the qualities required of the final accounts prepared by a client company. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

- (a) Outline five 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)

QUESTION 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 the procedures an external auditor should follow if he suspects that fraud; or error have been perpetrated. **(6 marks)**

(Total: 20 marks)

End of question paper

